



Annual Report 1999



KEB

KOREA  EXCHANGE BANK

www.keb.co.kr

Profile

Korea 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 ₩1,175 billion by successfully attracting ₩350 billion capital participation from Commerzbank.

In January 1999, KEB merged with Korea International Merchant Bank, one of its subsidiaries, increasing its paid-in capital to ₩1,460 billion. The Bank, during April 1999, further increased its capital to ₩2,481 billion through a successful rights offering of ₩1,022 billion, in which Commerzbank increased its stake in the Bank by additionally investing ₩260 billion. 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.

As of December 31, 1999, KEB had 282 branches and 4 subsidiaries in the domestic market and 21 branches, 2 sub-branches and 9 subsidiaries in overseas markets.

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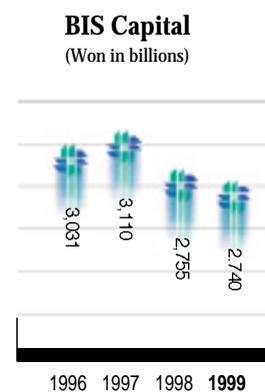
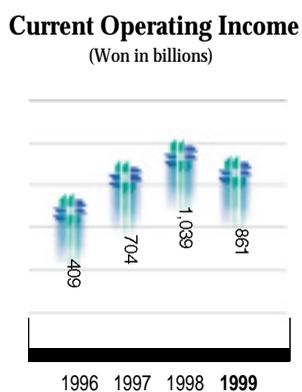
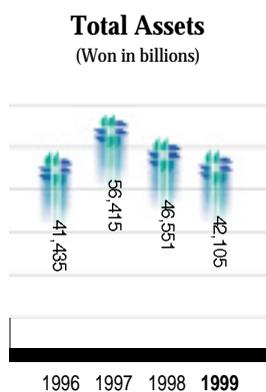
FINANCIAL HIGHLIGHTS

Selected Non-consolidated Financial Data for Korea Exchange Bank

	1999	1998
	Won (billions)	Won (billions)
At Year-end		
Total Assets	42,105 ¹⁾	46,551
Loans	18,558	19,319
Deposits	26,814	22,085
Shareholders' Equity	1,468	1,664
For the Year		
Total Income	4,188	4,387
Total Expenses	4,979	5,225
Current Operating Income ²⁾	861	1,039
Net Income before Income Taxes	(792)	(838)
Net Income (Loss)	(803)	(844)

1) Excluding Customers' Liabilities on guarantees and acceptances.

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



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essage from the President



The bank posted a record operating income of ₩1.1 trillion on a continued decline in general expenses, while total deposits grew 9%, with exceptionally strong increases in demand deposits and savings deposits.

1999 was another challenging year for the Korean banking industry and for Korea Exchange Bank. The Korean economy continued to rebound sharply from the 1997 financial crisis and grew by 10.7%, its highest rate of growth in eleven years, helped by robust external demand and a decline in domestic interest rates. Confidence in the ongoing economic recovery was clearly evidenced by the decision in early 1999 to restore Korea's sovereign credit rating to investment grade, which was swiftly followed by a further fall in borrowing costs in the international capital markets. However, optimism on the economic front was tempered by the mid-year collapse of the Daewoo Group, one of Korea's largest business empires, the full financial implications of which continue to be unclear at time of writing.

While the bank has continued to make progress in many areas, in particular adopting a more rigorous and disciplined approach to credit and risk management, the Daewoo crisis and the introduction of stricter asset classification guidelines severely impacted our 1999 result. Although it is gratifying to report that we achieved a record operating income of ₩1.1 trillion on a continued decline in general expenses, our loan loss provisioning of over ₩1.8 trillion resulted in the bank recording a net loss of ₩803 billion. This is clearly disappointing and I express my profound regret to all shareholders. Please be assured that as the newly appointed President I will exert every effort to swiftly restore the bank's profitability and

in the process build meaningful value for our shareholders.

Despite difficult operating conditions, our total banking & trust deposits grew 9% to ₩37 trillion, with exceptionally strong increases in our demand deposits and savings deposits. Total banking & trust Won loans grew 12%, helped by increased demand from the household and middle-market sectors. During the year we maintained our focus on our traditional areas of strength, and I am pleased to report that we have maintained our position as the dominant player in Korea's treasury, foreign exchange and trade-finance markets, well ahead of all our competitors.

The re-capitalisation process continued in 1999, the highlight of which was a ₩1 trillion domestic rights issue in April. During the second half a sale of treasury stocks and two issues of subordinated convertible bonds further strengthened our financial structure and boosted our capital ratios. Looking ahead, we have already this year successfully raised funds in the domestic debt market, and we continue to closely monitor market conditions and assess capital-raising opportunities on a global basis.

In 1999 we made further progress in the restructuring of our organisation and our operations in order to promote efficiency and enhance long-term profitability. We introduced additional measures to strengthen

corporate governance, implemented a new customer-oriented Business Unit system, and introduced a new branch and personnel evaluation system. At the retail level we continued to focus on efficiency, expanding the use of our call centre and offering a larger range of automated banking services, including online banking via the internet. The technological changes taking place in today's world are having wide-ranging implications on banks and financial services companies, and we shall continue to invest heavily in this area in order to build a competitive edge.

Corporate domestic restructuring in 1999 included our merger in January with Korea International Merchant Bank, the sale of a stake in our investment management subsidiary to Commerzbank, and the introduction of Olympus Capital of the US as a significant shareholder in our credit-card operation. We believe that partnerships and alliances will become increasingly important as the Korean financial services industry sees barriers lowered as we move into the new millennium. During 1999 we became one of the founding shareholders of the Korea Mortgage Corporation ("KoMoCo"), a new financial institution formed to promote the development of a long-term and stable supply of housing finance. KoMoCo's role as issuer of mortgage-backed securities will enhance liquidity and risk management techniques within the financial sector, and we believe this will further assist the development of our retail mortgage business. We signed an agreement with the Korea Post Office, which will enable us to offer selected banking services throughout their 2,800 branches in Korea, and we also entered into several strategic alliances with securities companies, insurance companies, and investment trust companies to further expand our business scope. We shall continue to explore opportunities to further develop partnerships in these and other areas during 2000.

The Daewoo debacle has provided further unequivocal evidence of the urgent need for all banks to implement new and prudent lending and risk management policies. As a result of an extensive internal review led by our Deputy President I am pleased to report that we have substantially overhauled the credit review process, which includes introducing a global total exposure limit system. We have also separated the

marketing and loan approval functions, established a new credit rating system, and over the year reduced by 15% our total exposure to the ten largest Korean groups. In the area of risk management we have continued to work on developing systems which will allow us to track global risk on a daily basis.

We are in the business of providing innovative, value-added services to all our customers, in an efficient, friendly and cost-effective manner. Within a rapidly changing and increasingly competitive environment it is therefore particularly pleasing to be able to report to you that KEB continued to receive high marks in several customer satisfaction surveys undertaken during 1999.

On a final note I would like to confirm for the record that our extensive preparations for the Y2K project resulted in the bank experiencing a smooth transition and we encountered no problems in our IT and systems areas as we entered the new millennium.

There can be little doubt that these last few years have been some of the most testing in the bank's history. However, we have ceaselessly exerted all our efforts to overcome these difficulties, and with the co-operation of our major foreign shareholder have established a solid framework for future growth and profitability. Looking ahead, while technological advances dictate that we must constantly remain innovative and alert to the rapidly changing environment, our focus will remain on strengthening our core businesses, minimising costs and maximising return to shareholders.

I would in closing like to thank all our staff, shareholders and customers for their efforts and continued support during this difficult period.



Kyung-Lim Kim
President and Chief Executive Officer

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trategy of the Bank



In light of the adverse economic developments in Korea beginning in late 1997, KEB has developed a comprehensive strategy intended to address its concerns regarding asset quality, profitability, competitiveness, and its long-term goal of becoming Korea's leading "universal bank." This strategy encompasses eight areas as follows:

Corporate Governance

In order to enhance management accountability and transparency, KEB has reorganized the board of directors. The board now consists of six standing directors and nine non-standing directors, thereby allowing the latter group a significant level of participation in the governance of the Bank. Of the 15 board members, four are nominees of Commerzbank of Germany, the Bank's major private sector shareholder as well as long-time business partner. The Bank has established a Management Development Committee, which includes three Commerzbank nominees, designed to help the Bank to capitalize on Commerzbank's expertise, as well as to allow KEB and Commerzbank to cooperate closely in developing business strategies. The Bank has also established an Audit Committee, a Risk Management Committee and a Steering Committee, which all operate under the auspices of the board.

Business Structure

In addition to revamping its corporate governance, the Bank has realigned its operational management from a function-oriented basis to a system of "business units." Designed to make business units more independent and accountable for their own operations, the new system introduces a business structure more closely aligned to overall customer demands.

Diversifying Income Sources

The Bank seeks to improve profitability by diversifying income sources, bolstering core businesses and adopting new lending policies. Cross-selling of products is increasingly important, helping to satisfy ever-sophisticated

customer needs, but also generating a growing fee income without much of an initial capital outlay. Investment management, custody, mortgage servicing and private banking services are some of the new services being marketed by the Bank. Developing multiple distribution channels is also a key part of the Bank's income diversification strategy. Hence, strategic alliances have been eagerly pursued and consummated with private and public concerns. Enlisting the Korea Post Office 2,800 offices as a new distribution channel was one of the highlights of the year. In addition to diversifying income sources, the Bank remains committed to strengthening its core activities, in foreign exchange and trade finance. The Bank has extensive expertise in these growth areas, built over the years when it was a specialized foreign exchange bank, and this unrivaled edge should continue to serve the Bank's drive to maintain its clear dominance of the two markets.

Meanwhile, the Bank has shifted its lending focus from business conglomerates to small & medium businesses and non-chaebol. The latter two sectors are more open to flexible lending terms and generally viewed as less risky. In contrast, both the volume and the concentration of loans to larger business groups have continued to decrease.

Improving Asset Quality

The Bank is focused on addressing its problem assets and has taken some concrete steps towards improving asset quality: A Workout Team has been put together to restructure credits in workout, and a Special Asset Collection Division and a Special Asset Management Division have also been established to oversee the collection and resolution, respectively, of other problem

loans. The Bank identifies and, where possible, works with borrowers deemed more likely to continue operations by restructuring their loans. Furthermore, in addition to forming troubled loan-dedicated units, the Bank is in the process of implementing a number of advanced risk management systems and policies in order to better screen and monitor the quality of its assets.

Strengthening Capital Ratio

The Bank undertook a series of recapitalization initiatives in 1999, including a ¥1,022bn rights offering in April and the sales of treasury shares totaling ¥170bn in August and September. The Bank's BIS capital ratio stood at 9.76% at the end of the year. The Bank is looking to continue its recapitalization process in 2000 to better accommodate provisioning requirements as well as to expand its overall business activities.

Strengthening Risk Management

The Bank is developing new risk management and control systems similar to those used by many leading international banks. These include the Corporate Credit Risk Management (CCRM) program, the Value at Risk system, and the "Four Eyes" credit-screening system, which separates marketing activities from credit approval. These new policies and systems should result in improved loan rating and monitoring, better risk/reward loan pricing analysis, and improved management information flow.

Meanwhile, the Bank has set risk limits on all of its banking operations, reinforced the management of operational risks, risk-analyzed newly-developed products and adopted an advanced system for measuring foreign currency derivatives.

The Bank's credit review process has been vastly improved. A total exposure limit system is now fully implemented, strictly enforcing maximum exposure limits by business group and company. With an independent credit management unit created, credit origination and approval functions are completely separated, enabling objective and specialized credit evaluation.

The credit committee, headed by Deputy President Mr. Manfred Drost, is fully independent. The committee reviews over 80% of loan volume. Loan application and credit reports are fully standardized and the credit management

process is completely transparent.

Bolstering the IT Infrastructure

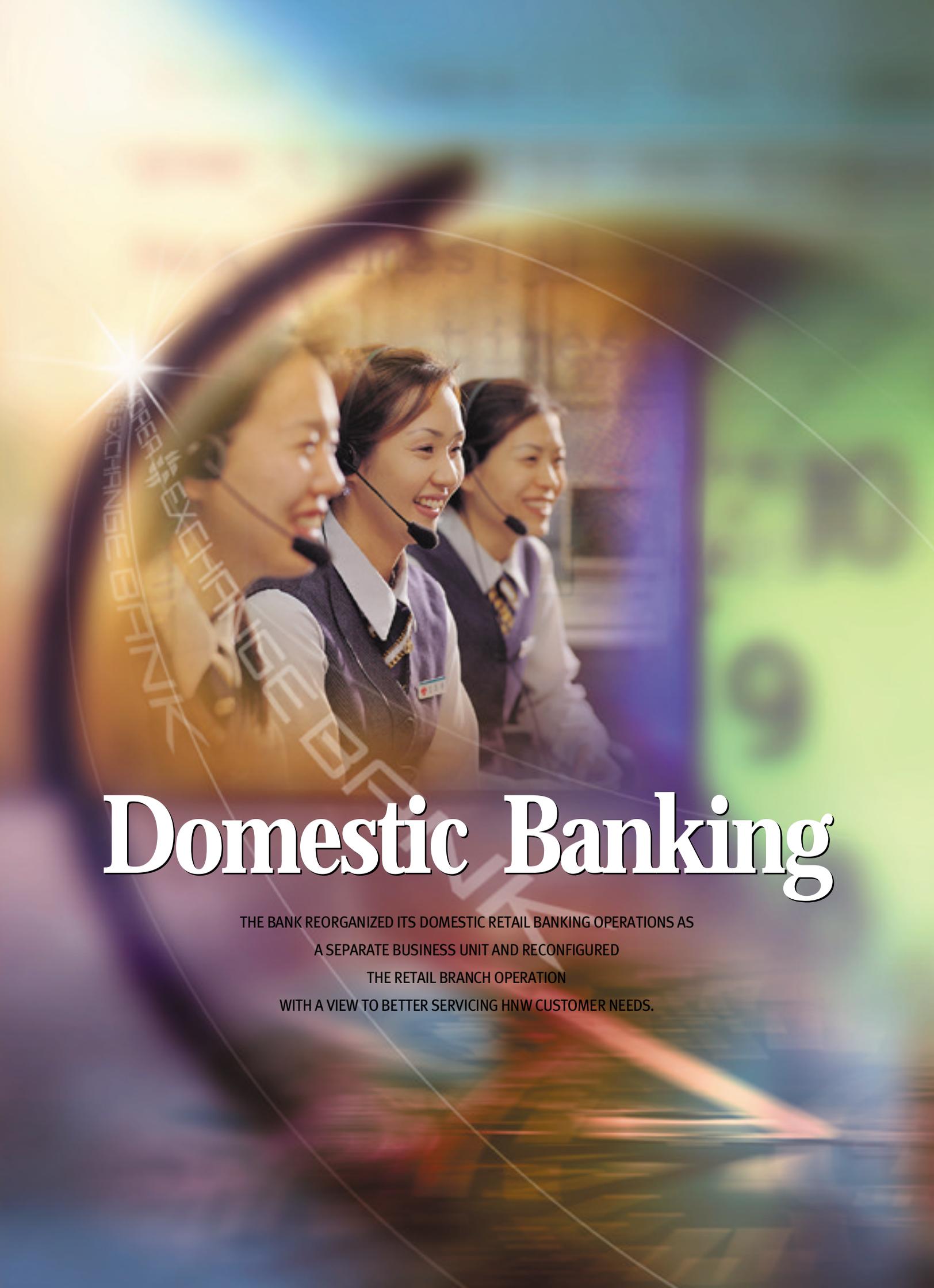
The Bank strongly believes information technology and banking are inseparable, and the Bank has thus made significant investments in computer, communications and other IT systems. Through state-of-the-art IT systems, the Bank seeks to improve its ability to effectively support and utilize sophisticated risk management systems, as well as to better capitalize on new distribution channels such as the internet, make use of advanced business practices such as database-driven marketing, and improve the efficiency and capabilities of its business and back-office operations.

With respect to its accomplishments made during the year, the Bank has improved upon its Customer Relationship Management system for more effective marketing and completed a fully integrated on-line risk management system. In addition, its global network has been updated to have most of its branches and overseas subsidiaries fully linked.

Having firmly committed itself to honing its IT edge, the Bank has been offering various banking services through its information systems, such as PC banking and tele-banking and began internet banking service in August, 1999. Moreover, the Bank is planning to complete an electronic infrastructure for full-blown internet banking and e-business during the first half of 2000.

Improving ties with Commerzbank

The Bank has benefited and will continue to benefit from its strategic relationship with Commerzbank. In addition to equity investments, Commerzbank has contributed senior professionals to serve in various capacities at the Bank and at one of its subsidiaries in order to allow for the sharing of expertise and close coordination of business strategy. In particular, two of the Bank's standing directors and two of the Bank's non-standing directors are nominated by Commerzbank. Commerzbank personnel serve as Chairman of the Bank's Loan Committee, as Managing Director overseeing the Bank's International Banking Unit, and as General Manager of the Bank's Risk Management Team. The Bank looks to expand and deepen co-operation with Commerzbank in marketing and cross-selling to corporate customers, and is also exploring opportunities for further co-operation in a selected range of product areas.



Domestic Banking

THE BANK REORGANIZED ITS DOMESTIC RETAIL BANKING OPERATIONS AS
A SEPARATE BUSINESS UNIT AND RECONFIGURED
THE RETAIL BRANCH OPERATION
WITH A VIEW TO BETTER SERVICING HNW CUSTOMER NEEDS.

Retail Banking



Overview

In 1999, as part of its redefined retail banking strategy of focusing on high-net-worth (HNW) individuals, the Bank reorganized its domestic retail banking operations as a separate business unit and reconfigured the retail branch operation. Branch location and personnel were readjusted with a view to better servicing HNW customer needs. Each branch now has a customer-relationship manager thoroughly trained in marketing services to HNW individuals. Distribution channels have been greatly expanded, making banking services ever more convenient and accessible. The Bank's strong commitment to stay in the forefront of electronic banking resulted in the launch of internet banking services. In addition, the aggressive pursuit of strategic alliances included signing an agreement with the Korea Post Office one of the most trusted institutions with the largest office network.

The Bank's customer-focused marketing is well reflected in business results. Total deposits in Won as of the year-end amounted to ₩28,806 billion, up 9.6% over the year before. Of total deposits, low-cost core deposits and savings-type deposits, which accounted for 27.7% and 55%, rose 5.0% and 82.7%, respectively. Certain new products such as the "Yes Won/Dollar Account," "Yes Dream Loan," and "Mr. Yes Loan" were particularly successful. The former attracted ₩785 billion in the first five months of launch, while the two loan products together increased the Bank's household loans by ₩710 billion.

The Bank is preparing to roll out new services based on the affiliations it has formed with several securities and insurance firms. Scheduled for launch in the first quarter of the year 2000, the new services will include opening securities trading accounts and selling insurance policies. The new services will be a sizable and stable source of low-cost funds as well as growing profits.



Service Delivery Channels

While diversifying its service channels, the Bank streamlined its branch network and reorganized the branch operations. A total of 47 conventional domestic branches were either closed or merged in 1999. The Bank had closed or merged 80 domestic branches in the previous year. As of the end of 1999 the Bank had 282 manned and 181 unmanned domestic branches, most of which are located in Seoul and the surrounding provinces, where 50% of the nation's GDP is produced. The manned domestic branches include new "Compact" branches concentrated in the Seoul metropolitan area. Lightly staffed and located in relatively affluent areas, compact branches have been designed to produce higher returns on investment.

In addition, the Bank regrouped its branches based on the regional characteristics of their locations and reclassified them into retail and corporate groups so as to enable each branch to better focus on its target markets. The Bank is also implementing a "hub and spoke" strategy as well as other measures intended to realize greater efficiencies from its branch network.

Though the number of branches decreased over the year, the bank continued to offer high quality service to retail customers. Cash dispensers and ATMs increased by 362, or 14.7% of the total number, to 2,859 as of the end of the year. In addition to providing convenient services, automated banking machines have helped streamline the workforce, and thus improved efficiency. The Bank also offers retail phone-banking services and PC banking services and commenced internet banking services in August 1999.



Retail Lending

The Bank catered its retail lending operations mostly towards HNW individuals, and this strategy proved to be very effective. Total household loans as of the year-end stood at ₩3,234 billion, which represents a 33.1% increase from the year before, far outpacing the industry-average of 24.4%. Attractive new products with higher loan limits, as well as a floating rate system, contributed to the significant rise.

The impressive growth of household loans was complemented by a sharp fall in the delinquency rate. As of the year-end, the delinquency rate was 3.4%, which represents a significant improvement compared with 7.2% a year ago. The efficient management of distressed loans was the driving force in lowering the delinquency rate. All loans past

due for over three months were brought under the control of regional "Mother Branches" which allowed other branches to concentrate on generating new business.

The delinquency rate is expected to drop further, as the Bank is gearing to implement a Credit Scoring System, which is being developed in consultation with the Bank's Financial Engineering Group.

Trust Business

The Bank's performance in the trust business, although seriously hampered by the Daewoo crisis, managed to turn in impressive results.

The annualized yield of stock investment in Development Trust outperformed the KOSPI by 30% points, while that of its unit type trusts surpassed the KOSPI rate by 9% points.

The performance in the second half of the year was noticeably stronger as a result of the employment of a new team of top-class dealers and the formation of a system to evaluate fund managers' performance and reward them accordingly.

Reflecting its policy toward transparent management, the Bank became the first local bank to publicize fund contents of its unit-type trust, such as a per fund ratio of invested assets, invested items and amounts as of the month-end.

As part of its drive to diversify its income sources, the Bank continued to develop new unit-type trust products. As of the year-end, no problem assets had been found in any of the products launched in 1999.

Credit Card Business

The Bank's 1999 performance in its credit card business area was very satisfactory: Card membership went up 16.4% over the year, while merchants rose by 44.2%, and a new product "Yes Money Card" was particularly successful.

Consistent with its overall retail banking strategy, the Bank placed a priority on attracting affluent credit card customers with good credit ratings. This HNW customer-focused strategy also proved highly effective in this strategic business area. As of the



In 1999 the Bank made great strides in electronic banking. A number of new services were introduced, promising business alliances formed and existing systems upgraded, all contributing to a 23% increase in electronic banking customers.

The logo for Korea Exchange Bank, featuring the text "korea exchange bank" in a stylized, lowercase font with a globe-like background.

year-end, the number of "Gold" and "Platinum" Visa and MasterCard members, was 970,086, or 18.1% of all Bank card members.

The Bank issues Visa and MasterCard credit cards, under its name, through its wholly-owned subsidiary, Korea Exchange Bank Credit Service Co.,Ltd. ("KEBCS"). The Bank was the first to introduce credit cards to Korea, in 1978.

Just prior to the year-end, Olympus Capital, a New York-based investment fund, made public its intention to invest approximately US\$90 million to acquire a substantial stake in KEBCS. Olympus Capital will provide technical support and offer assistance in several key areas, including risk management, marketing and finance, thus enabling KEBCS to continue to play a prominent role in the domestic credit card market.

One further important development in 1999 should be noted, which will have a lasting effect on the domestic card industry. A new system was implemented industry-wide last year that allows banks to share merchant networks and to receive fee income based on the total credit card transactions of their sponsored merchants. In preparation for this new system, the Bank had stepped up efforts to enlist new merchants into the Visa network and begun monitoring the performance of its members. Primarily as a result of these efforts, the total number of Bank-sponsored network members totaled some 6.7million at the end of the year, an increase of 28.8% over the previous year.

Electronic Banking

In 1999 the Bank made great strides in electronic banking. It introduced a number of new services, formed promising business alliances and upgraded its existing systems. The phone banking service is now faster and more customer-friendly. A mobile phone internet banking service, quite possibly the future of retail banking, was introduced in February 2000. In addition, 1999 marked the beginning of the Bank's internet banking service for its retail customers, though via a service provider. The Bank's own internet banking system will be set up during the first half of 2000. Responding to the Bank's all-out efforts to improve the quality of its electronic banking service, the number of customers banking electronically rose 23% to 1,341,000, an increase of 250,000 over the previous year.

Developing new services in the new information era requires close co-operation with telecommunications businesses, and the Bank has signed alliances with



several leading industry participants, including Dacom and Korea Telecom. As the success of electronic banking often hinges on the fate of communications partners, the Bank will continue to look for opportunities to develop long-term relationships within the telecoms industry.

The Bank is also a market leader in electronic banking services designed for corporate customers. A case in point is "KEB-Net PC Service." This service is used by more than 46,000 corporate customers who, through this system, make transaction inquiries, transfer funds, and seek economic and financial information. Another popular service offered by the Bank is an Electronic Data Interchange ("EDI") system which allows the Bank to exchange trade-related documents with corporate customers as well as to process their trade-related business. As of the end of 1999, nearly 800 corporate customers had access to the Bank's EDI system.

Private Banking

Private banking is one of the Bank's services developed for HNW individuals. Though a relatively new banking concept in Korea, the Bank was one of the first banks to initiate private banking in Korea. In 1992 it opened its first Rose Service Center to serve the needs of high net worth customers, advising them on tax matters, legal affairs, and fund and asset management. The Bank is planning to steadily expand its private banking business in 2000.



C Corporate Banking



Overview

1999 was a very difficult year for the Bank's corporate lending operations. The Bank made considerable progress in reducing its exposure to large corporations, but the Daewoo crisis and the government's new loan classification guidelines further inflated the Bank's share of problem loans.

With respect to its corporate banking strategy, the Bank launched an "AIM2000" campaign aimed at expanding its client base to include more sound and promising businesses, including foreign firms. The marketing approach taken was systematic, based on a thorough analysis of the financial needs of prospective clients. By the end of the year, the Bank was able to solicit 1,241 new "target corporates."

In addition to expanding its corporate client base, the Bank focused on maintaining its dominance in core business areas, namely foreign exchange and trade financing, where the Bank has traditionally been a market leader. As a result, foreign exchange business transacted through KEB increased by US\$10 billion in 1999, showing an increase of 25% from the previous year.

Small & Medium-Sized Enterprises ("SME")

In recent years the Bank has striven to diversify its commercial loan portfolio by shifting its target focus from large companies to SMEs. As part of this new strategy, a team was formed last year to exclusively market banking services to SMEs.

The SME banking strategy centers on finding exceptionally sound SMEs and supporting them with preferential rate loans and managerial assistance.

In addition, other business results as shown below indicate that the Bank's SME strategy has made significant progress:

- SME loans in Won increased by 11.4%
- Trade bills bought and L/Cs opened rose by 17.8%
- The number of SME corporate customers increased by 3,000 to 32,000





- The Bank received the Prime Minister award from the Government in recognition of its support for SMEs

For the year 2000, the Bank is targeting a 31% increase in SME loans in Won and aims to increase SME customers by 4,000.

Large Corporate Lending

Asset quality was the focal point of the Bank's corporate lending operations in 1999. Accordingly, the Bank redefined its target market for corporate banking and restructured the corporate loan portfolio.

While supporting new clients with new loans, the Bank strove to reduce its exposure to business conglomerates. As a result, total loans to large corporates declined by 7.6%. This decrease precipitated a substantial change in the loan portfolio mix. Large corporate loans dropped from 40.9% to 36.7%, while SME loans grew from 39.1% to 39.5%, and household loans rose from 15.7% to 20.3%.

In addition to reducing high-risk loans and risk concentrations, the Bank took steps to pre-empt loan defaults, including the implementation of a periodical credit re-evaluation system. The number of corporations and groups whose financial and business statuses were re-evaluated under the new system jumped from 41 in the first half to 241 in the second half of the year.

In 2000 the Bank will continue adopting various measures to reduce non-performing loans and improve asset quality.

Trade Financing and Foreign Exchange

The Bank has long been the leader in the foreign

exchange market and continues to hold the largest market share. The Bank's aggregate foreign exchange transactions totaled US\$52,247 million in 1999, representing an increase of 25% from the previous year and a market share of about 25%. An intensive marketing campaign aimed at overseas travelers and families with students studying abroad was particularly effective.

The Bank also holds the largest share of the trade finance market. Import-export transactions financed by the Bank totaled US\$54,423 million, representing a 17.8% increase and a 20% market share. The Bank's flexible fee system was well-suited for clients' varying transaction needs. By mobilizing its overseas branch network, the Bank was able to solicit business from new Korean traders operating overseas.

Merchant Banking

The Merchant Banking Team was newly created in 1999 as a result of the merger with the Bank's merchant banking subsidiary, Korea International Merchant Bank. The Team focused on preparing new products traditionally associated with merchant banking and assisting other teams with its expertise in short-term financing. In addition, through co-operation with other teams and branches, the Team extended short-term loans to local and foreign enterprises in Korea.



International Banking

IN INTERNATIONAL BANKING, THE BANK FOCUSED ON ENHANCING THE PROFITABILITY AND COMPETITIVENESS OF ITS INTERNATIONAL OPERATIONS BY STREAMLINING ITS OVERSEAS BUSINESS NETWORK AND REDUCING POOR-PERFORMING ASSETS.

I Investment Banking



Overview

In 1999 the Bank, having overcome the financial crisis of late 1997, confirmed its capabilities to establish a new concept of investment banking.

The M&A team strengthened its status as a lead player in the domestic M&A market, while the ABS team expanded its business basis by going beyond the Bank's assets to third party assets in pursuit of new challenges. The Project Finance team played a major role in several domestic SOC projects and acquisition financings for foreign investors. The Corporate Finance team had a busy year arranging and participating in new syndicated loans at home and overseas as the investment needs of Korean companies increased.

In addition to the services mentioned above, the Bank offered other investment banking services including private bond issues, financial advisory services for central and local governments, and securities custody services.

Mergers and Acquisitions (M&A)

1999 marked a new era for the Bank's M&A team. The Team closed its first M&A deal and earned major M&A mandates, thus establishing a firm presence in the solidly growing market. The first M&A deal was in the telecommunications business, where we expect to see further transactions in the future.

In addition to the completion of this deal, the M&A team was involved with various projects of a diverse nature. Included were two privatization deals, involving state-run energy and chemical enterprises, exceeding ₩350 billion in size. The deal for the chemical concern received high marks from various business circles for its successful restructuring of the company through an M&A. The other privatization deal involving



the energy business should further bolster the team's competitiveness in this growing market, as the government plans to step up its privatization drive. Besides the two privatization deals, the M&A team has secured seven more mandates for projects slated to begin in 2000.

Asset-Backed Securities (ABS)

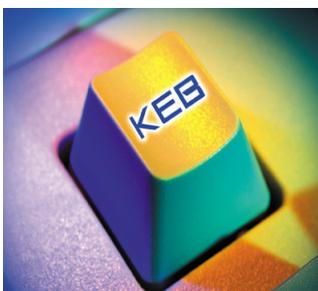
The year 1999 was also a major turning point for local ABS. Spurred by the legislation of the Asset Securitization Act in September, 1998, a total of 26 ABS transactions were successfully completed. The Bank also took an active part in this new development, completing three ABS transactions including a US\$78 million project utilizing aircraft lease loans. Another noteworthy project was the securitization of Hyundai Heavy Industries' ₩46 billion employee loans. By completing this project, the Bank became the first Korean bank to have liquefied a customer's assets using the trust method. The Bank also played a leading role in the settlement of a US\$20 million payment guarantee fund for defunct merchant banks.

In addition, the Bank is in the process of putting together several ABS transactions, some of which involve the Bank's and its subsidiary's assets. Once completed, these deals are expected to significantly boost the asset quality of the Bank, not to mention the Bank's expertise in ABS. Also in process is a trustee business in connection with the securitization of a local bank's ₩100 billion of assets.

Project Finance/Financial Advisory

The Bank has extensive experience in arranging financing deals for overseas infrastructure projects and the expertise accumulated has been the basis of its growing position in the domestic project finance market.

Prompted by the Asian financial crisis in 1997, the Bank has shifted its project finance focus to the domestic market to capitalize on new business opportunities generated by the sweeping trend of industrial restructuring. In particular, foreign investors' increasing acquisitions of local businesses or assets have created a whole new market of considerable size and the Bank's expertise in financial advisory services and domestic syndication capacity proved to be a very competitive tool of trade. In 1999, the Bank lead-managed the financing of acquisition deals totaling ₩500 billion which included deals of Sithe Ichon Power Generation Corp and Mando Machinery Corp.



The Bank was also actively involved in financing a wide variety of SOC projects including tunnels, harbors, telecommunications facilities, and water treatment works.

Financial advisory services continued to be an important source of fee income. By the year-end, 31 public institutions were on the client list, including municipal governments and government-invested companies. One of the clients is Incheon International Airport Corporation, which has been advised by the Bank on suitable ways of raising foreign capital since its founding in 1992. Other clients included the Ministry of Defense and KEPCO.

Corporate Finance

In corporate finance, the Bank focused on arranging US dollar-denominated syndicated loans, guarantees and floating-rate notes. In total, 11 transactions were arranged by the Bank, amounting to US\$600 million.

In addition to US dollar-denominated syndicated loans, the Bank also arranged two Won-denominated syndicated loans, totaling ₩ 250 billion, for PAPCO Chonju (paper manufacturing co.) and Hilton Hotel.

Custody & Fund Administration Services

KEB continues to have a prominent position in the custody business, with the total volume of the Bank's custody assets growing 29% to ₩16.7tr at year-end. In early 1999 the Bank began to provide a wide range of fund administration services to mutual funds and pension funds, including valuation and compliance monitoring, and the Bank has rapidly emerged as a market leader in this field. As portfolio investment continues to expand we anticipate that there will be increasing opportunities for us to capture an even larger share of this business in the future.





Global Banking

G

lobal Banking



Overview

In line with its overall restructuring plan, the Bank last year sought to enhance the profitability and competitiveness of its international operations by streamlining its overseas business network.

In 1999, three overseas offices were closed or merged. As of the year-end, the Bank had a total of 49 foreign branches and subsidiaries in 22 countries. In addition to network reduction, the Bank focused on enhancing the quality of overseas assets by reducing poor-performing assets. As a result, total overseas assets as of the end of 1999 were US\$7.4 billion, down 16.7% from the previous year.

With respect to its international strategy for the year 2000, the Bank has the following plans: First, the Bank intends to improve the efficiency of its branch network by adopting a "hub and spoke" concept. Second, in co-operation with the Korea Trade Association, the Bank will reinforce marketing to small and medium-sized Korean companies operating overseas and local companies involved in trade with Korea. The niche market created by the withdrawal of other Korean banks following the financial crisis of late 1997 will also be a target. Third, the Bank will focus marketing on the financial institution sector in Korea, encouraging both Korean and foreign financial institutions to use the Bank's extensive overseas network for their foreign exchange and trade-related business. Specifically, on-site marketing will be actively pursued, strategic ties sought for product promotion, and incentives offered to those institutions with a higher level of contribution.

The Americas

The Bank's presence in the Americas includes an extensive network that covers major markets throughout the USA, Canada and Latin America. The Bank's network in the region consists of 23 offices, including 5 branches, 2 subsidiaries and 14 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. As part of its restructuring plan, the Bank will convert its Broadway and Chicago branches into a sub-branch of its Pacific Union Bank (formerly California Korea Bank) which is specializing in retail banking. This conversion should contribute to the growth of PUB's retail banking operations by improving business efficiency and promoting economies of scale. Pacific Union Bank is preparing an initial public offering with the aim of becoming a full-fledged local bank.

Europe & Middle East

As of the year-end, the Bank's network in Europe and the Middle East consisted of four branches and four subsidiaries covering major centers in the region. The Bank's business operations in the region principally involve wholesale commercial banking, custody and investment banking activities, including Euromarket financing for Korean corporations. The Bank's branch strategy centers on streamlining branch operations through business specialization. The business strategy includes the development of its Euro currency trading capability, while promoting active trading with compatible customers. In addition, the Bank will focus on EU market activities and on enhancing its branch business strategies.

Asia/Oceania

The Bank maintains a presence in several countries in the region, including Japan, China and Australia. As of the year-end, the Bank's regional network consisted of 16 branches and local subsidiaries. As many economies in the region experienced negative growth beginning in the second half of 1997, the Bank sharply curtailed its commercial lending in the region, as well as its investment banking activities, such as the arrangement of syndicated loans and project financing for Korean as well as Chinese, Southeast Asian and other borrowers. The Bank is now focusing on improving its regional assets and strengthening its credit risk management in emerging markets, while focusing its operations on wholesale commercial banking directed at Korean corporations operating in the region. In particular, the Bank's presence in China is expected to grow at a fast pace, as the Bank plans to expand its business presence there and intends to transact business in Chinese Renminbi, starting with its Tianjin branch, in the near future.





Financial Report

Management Discussion & Analysis
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Overview of Result

The Bank achieved a record operating income of ₩1.1 trillion during 1999, however the collapse of the Daewoo group together with the implementation of more stringent asset classification criteria resulted in the Bank making provision for possible loan losses of over ₩1.8 trillion. As a consequence, the Bank recorded a net loss of ₩803 billion.

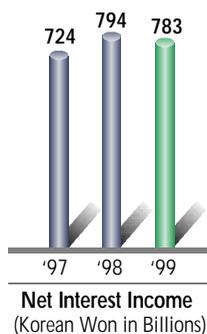
Despite the losses recorded by the Bank during the past two years, the Bank has demonstrated a strong recurring earning power by generating current operating income (excluding gains/losses on asset sales & stock trading) of ₩1,038 billion and ₩861 billion in 1998 and 1999, respectively.

Net Interest Income

The Bank's net interest income in 1999 amounted to ₩783 billion, slightly down from the previous year. An impressive 28% growth in Won lending contributed to a sharp increase in Won net interest income.

Interest Income

	1999			1998		
	Average Balance	Average Interest	Average Rate	Average Balance	Average Interest	Average Rate
Interest-earning Assets						
Loans	24,609	2,183	8.87	22,724	2,285	10.06
Deposits with other banks	3,450	186	5.39	4,404	423	9.60
Securities	9,494	653	6.88	6,606	647	9.79
Other	333	74	22.22	4,696	633	13.48
Total Interest-earning Assets	37,886	3,096	8.17	38,430	3,988	10.38
Interest-bearing Liabilities						
Deposits	23,933	1,404	5.87	23,038	1,877	8.15
Borrowed funds	10,221	849	8.31	14,572	1,296	8.89
Others	2,448	60	2.45	31	21	-
Total Interest-bearing Liabilities	36,602	2,313	6.32	37,641	3,194	8.49
Net Interest Income		783			794	

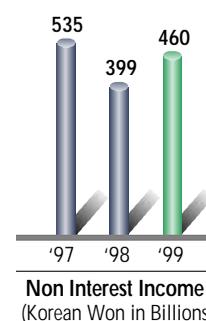


Non-Interest Income

Non-interest income in 1999 rose 15.3% to ₩460 billion. The increase was mainly due to a considerable improvement in trust business, where our loss narrowed by ₩164 billion. Profits from foreign exchange business declined in 1999 as the market stabilised following the exceptionally volatile and profitable conditions experienced in 1998. Fees and commissions increased by 22%, helping to offset the decrease in foreign exchange profits.

The increase in "other non-interest income" was largely due to income generated from merchant banking operations which the Bank engaged in after the merger with Korea International Merchant Bank, one of its subsidiaries, in January 1999. The profit from the merchant banking business amounted to ₩101 billion.

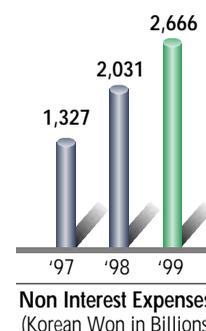
	1999	1998
	Won (billions)	Won (billions)
Fees and commissions	212	174
Gains on foreign exchange transactions	192	436
Trust fees (Net)	(123)	(287)
Other non-interest income	179	76
Total Non-Interest Income	460	399



Non-Interest Expenses

Total non-interest expenses were ₩2,666 billion in 1999, a 31% increase over 1998. The increase was due to the surge in provisioning for loan losses following the collapse of Daewoo, and the implementation of the revised asset classification guidelines set forth by the government.

	1999	1998
	Won (billions)	Won (billions)
General and administrative expenses	435	433
Personnel expenses	287	211
Other G&A expenses	148	222
Provision for loan losses	1,501	248
Provision for severance benefits	42	206
Depreciation & amortization	56	65
Other expenses	632	1,079
Loss on asset sales	-	826
Total Non - Interest Expenses	2,666	2,031



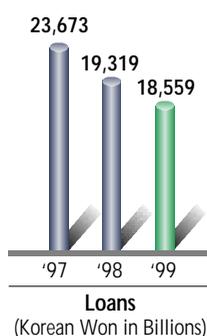
Balance Sheet Analysis

Assets

The Bank's total assets outstanding as at 31st December 1999 amounted to ₩47.42 trillion (including customers' liabilities on guarantees and acceptances of ₩5.32 trillion), representing an increase of 1.9% from the previous year. Won assets increased by 28.6% from the previous year while foreign currency assets decreased by 12.7%. (Note : Excluding customers' liabilities on guarantees and acceptances, the Bank's assets increased by ₩2.47 trillion or 6.2% from the comparable figure of 1998)

Loan Portfolio

Total loans outstanding as at 31st December 1999 totaled ₩18.56 trillion, down 4% or ₩760 billion from the previous year. Outstanding domestic loans were ₩15.07 trillion, an 8% or ₩1.11 trillion increase from 1998. The increase was mainly due to a sharp increase in Won lending which rose by 28% or ₩2.54 trillion, with household loans in particular growing strongly, up 86% from a year earlier. Total foreign currency loans outstanding were US\$6.12 billion, a 22% decline YoY, as the Bank continued its policy of de-emphasizing low-margin business activities.

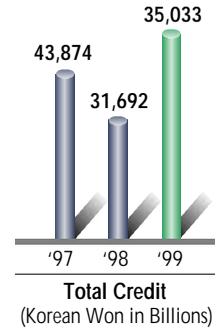


	1999	1998
	Won (billions)	Won (billions)
Loans by Domestic Offices		
Manufacturing industry	6,355	5,711
Banking & insurance	1,296	1,380
Transportation & communication	1,277	1,363
Wholesale and retail trade	1,475	1,064
Construction	687	708
Household loans	2,683	1,444
Others	1,294	2,287
Total Domestic Loans	15,067	13,957
Loans in Overseas Branches	3,492	5,362
Total Loans	18,559	19,319

Credit Classification

The non-performing loan(NPL) ratio(sub - standard and below) as at 31st December 1999 was 16.7%, representing an increase of 12% from the previous year. The NPL amount was ₩5.8 trillion, up ₩4.3 trillion from 1998, due to the collapse of Daewoo and the adoption of the stricter loan classification criteria.

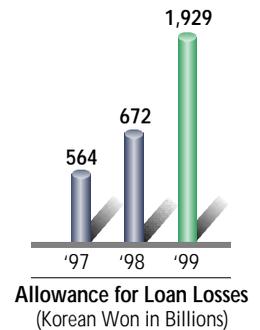
	(Won in billions)		
	1999	1998	1997
Current	27,510	25,206	37,440
Precautionary	1,656	4,978	3,916
Sub - standard	3,780	872	1,889
Doubtful	1,596	567	603
Estimated loss	491	69	26
Total Credit	35,033	31,692	43,874



Allowance for Loan Losses

Due to the increase in NPL and new asset quality guidelines, allowance for loan losses in the banking account increased by a net ₩1.26 trillion to ₩1.93 trillion.

	(Won in billions)		
	1999	1998	1997
Provision for loan losses	1,501	248	291
Charge-offs	(327)	(155)	(187)
Others	83	15	43
Allowance for loan losses	1,929	672	564



Securities

Total securities at the end of 1999 stood at ₩11.15 trillion, an increase of 40% over the previous year. Over 60% of the securities portfolio was invested in Korean Government bonds.

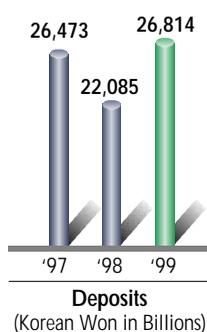
	(Won in billions)		
	Debt	Equity	Total
Trading securities	2,031	-	2,031
Investment securities			
available for sale	6,235	1,035	7,270
held-to-maturity	1,144	-	1,144
investment in subsidiaries	-	701	701
Total Securities	9,410	1,736	11,146

Sources of Funds

The Bank's total funds outstanding at the end of 1999 amounted to ₩42.1 trillion which was mainly comprised of ₩26.8 trillion (63.6%) in deposits, ₩10.93 trillion (25.9%) in borrowings and debentures, and ₩1.46 trillion (3.5%) in shareholders' equity.

Deposits

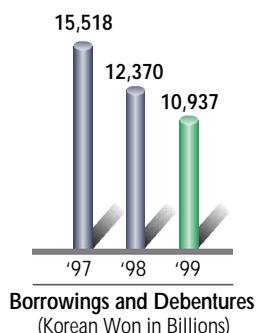
Total deposits increased by 21.4% from 1998, totaling ₩26.81 trillion at the end of 1999. The main reason for the increase was a 37.1% rise in local currency deposits.



	1999	1998
	Won (billions)	Won (billions)
Demand deposits	8,013	1,979
Savings deposits	10,435	10,886
Certificates of deposit	292	803
Deposits in foreign currencies and overseas branches	8,074	8,417
Total Deposits	26,814	22,085

Borrowings and Debentures

Outstanding borrowings and debentures at the end of 1999 totaled ₩10.93 trillion, down 13.1% from a year earlier. The decrease was primarily the result of a 26.8% drop in borrowings in foreign currencies and a 43.9% reduction in borrowings from the Bank of Korea.

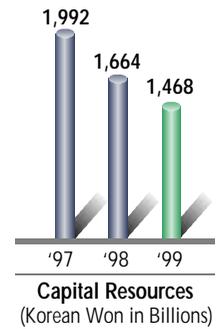


	1999	1998
	Won (billions)	Won (billions)
Borrowings from Bank of Korea	691	995
Borrowings from other banks	835	985
Borrowings in foreign currencies	5,243	6,650
Call money	781	949
Debentures	2,144	2,275
Others	1,243	516
Total Borrowings and Debentures	10,937	12,370

Capital Resources

By the end of 1999, total paid in capital increased to ₩2.48 trillion from ₩1.17 trillion at the end of 1998. This increase was due to the January 1999 merger with Korea International Merchant Bank and a ₩1,022 billion rights offering which took place in April 1999.

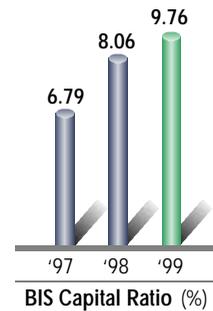
	1999	1998
	Won (billions)	Won (billions)
Paid in capital	2,481	1,175
Surplus & retained earnings	(1,013)	489
Total Shareholders' Equity	1,468	1,664



Risk-adjusted Capital Ratio

The Bank's BIS capital ratio was 9.76% at 31st December 1999, up from 8.06% a year earlier. Tier 1 capital stood at ₩1.44 trillion, falling by ₩30 billion from a year earlier. Despite the ₩1,022 billion infusion of fresh capital from the rights offering, Tier 1 capital decreased due to current losses.

Risk-adjusted assets decreased by 17.9% to ₩28.07 trillion due to the strengthening of the 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).

	1999	1998
	Won (billions)	Won (billions)
Tier		
Paid-in capital	2,482	1,175
Capital surplus	129	230
Retained earnings	(1,144)	(109)
Minority interest in consolidated subsidiaries	150	160
Consolidated-related adjusted account	-	52
Capital adjustment	(176)	(38)
Total	1,441	1,470
Tier		
Reserve for loan losses	286	428
Asset revaluation surplus	94	156
Subordinated debt	721	735
Profit on valuation of securities	10	-
Upper Tier	200	-
Total	1,311	1,319
Investment in Non-consolidated Subsidiary	10	(34)
Total Capital	2,742	2,755
Risk-adjusted Assets		
Balance sheet amount	23,633	28,031
Off-balance sheet amount	4,446	6,176
Total Risk-adjusted Assets	28,079	34,207
Risk-adjusted Capital Ratios		
Tier	5.13%	4.30%
Total	9.76%	8.06%

MANAGEMENT DISCUSSION & ANALYSIS

Five-year Summary of Selected Financial Data

(Won in billions)

	1999	1998	1997	1996	1995
For the year					
Interest income	3,096	3,988	3,143	2,218	1,337
Interest expenses	(2,313)	(3,194)	(2,419)	(1,653)	(1,008)
Net interest income	783	794	724	565	329
Provision for loan losses	(1,501)	(248)	(291)	(135)	(300)
Net interest income after provision for loan losses	(718)	546	433	430	29
Non-interest income	1,092	399	535	377	515
Non-interest expenses	(1,165)	(1,783)	(1,036)	(684)	(423)
Net income before income taxes	(792)	(838)	(68)	123	121
Income taxes	11	6	0	(19)	(21)
Net income(loss)	(803)	(844)	(68)	104	100
At Year-end					
Total assets	42,105	46,551	56,415	41,435	30,003
Loans	18,558	19,319	23,673	18,732	12,999
Securities	11,146	7,941	5,334	4,104	2,919
Deposits	26,814	22,085	26,473	18,732	13,941
Borrowings and debentures	10,937	12,370	15,518	12,189	8,368
Shareholders' equity	1,468	1,664	1,992	2,088	1,640

Note : (1) Excluding Customers' Liabilities on guarantees and acceptances.

NON-CONSOLIDATED BALANCE SHEET (BANKING ACCOUNTS)

December 31, 1999

	In Millions of Korean Won	In Thousands of U.S. Dollars (Note 3)
ASSETS :		
Cash and due from banks (Note 4)	₩ 5,195,155	US\$ 4,535,669
Trading securities (Note 5)	2,030,843	1,773,043
Investment securities (Note 5)	9,115,081	7,957,989
Loans, net of allowance for loan losses (Note 6)	21,945,291	19,159,500
Premises and equipment, net (Note 8)	777,581	678,873
Accrued interest	362,040	316,082
Other assets (Note 9)	2,678,799	2,338,745
Total Assets	₩ 42,104,790	US\$ 36,759,901
LIABILITIES AND SHAREHOLDERS' EQUITY :		
Liabilities :		
Deposits (Note 10)	₩ 26,813,818	US\$ 23,410,003
Borrowings (Note 11)	8,793,042	7,676,831
Debentures (Note 12)	2,144,417	1,872,199
Accrued expenses	625,031	545,688
Other liabilities (Notes 13 and 14)	2,260,810	1,973,817
Total Liabilities	₩ 40,637,118	US\$ 35,478,538
Commitments and Contingencies (Note 18)		
Shareholders equity (Note 1) :		
Capital stock, 1,000 million shares authorized;		
Common stock, ₩ 5,000 par value; 444 million shares issued and outstanding	₩ 2,221,749	US\$ 1,939,715
Preferred stock, ₩ 5,000 par value; 52 million shares issued and outstanding	260,000	226,995
Accumulated deficit (Note 17)	(1,042,668)	(910,309)
Capital adjustments, net (Note 18)	28,591	24,962
Total Shareholders' Equity	₩ 1,467,672	US\$ 1,281,363
Total Liabilities and Shareholders' Equity	₩ 42,104,790	US\$ 36,759,901

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

NON-CONSOLIDATED STATEMENT OF OPERATIONS (BANKING ACCOUNTS)

for the year ended December 31, 1999

	In Millions of Korean Won	In Thousands of U.S. Dollars (Note 3)
Revenue :		
Interest on due from banks	₩ 185,944	US\$ 162,340
Interest on securities	652,629	569,783
Interest on loans	2,182,955	1,905,845
Other interest income	74,458	65,006
Total interest income	3,095,986	2,702,974
Fees and commissions income	245,932	214,713
Gains on foreign exchange transactions	638,538	557,480
Trust fee income	103,421	90,292
Other income (Note 20)	811,485	708,473
Total revenue	4,895,362	4,273,932
Expenses :		
Interest on deposits	1,404,361	1,226,088
Interest on borrowings and debentures	848,784	741,037
Other interest expense	59,674	52,099
Total interest expense	2,312,819	2,019,224
Fees and commissions expense	34,361	29,999
Losses on foreign exchange transactions	446,737	390,027
Provision for loan losses	1,500,896	1,310,368
General and administrative expenses	435,332	380,070
Provision for severance benefits	42,481	37,088
Depreciation and amortization	56,150	49,022
Compensation for trust accounts	225,865	197,193
Other expenses (Note 21)	632,452	552,167
Total expenses	5,687,093	4,965,158
Net loss before income taxes	(791,731)	(691,226)
Income tax expenses (Note 22)	11,052	9,649
Net loss	₩ (802,783)	US\$ (700,875)
Ordinary loss per share (Note 23)		
(in Korean Won and U.S. Dollars)		
- Basic	₩ (1,929)	US\$ (1.685)
- Diluted	₩ (1,929)	US\$ (1.685)
Net loss per share (Note 23)		
(in Korean Won and U.S. Dollars)		
- Basic	₩ (1,917)	US\$ (1.674)
- Diluted	₩ (1,917)	US\$ (1.674)

The accompanying notes are an integral part of these financial statements

STATEMENT OF DISPOSITION OF ACCUMULATED DEFICIT (BANKING ACCOUNTS)

for the year ended December 31, 1999

Date of disposition for 1999 : March 25, 2000

	In Millions of Korean Won	In Thousands of U.S. Dollars (Note 3)
Accumulated deficit before disposition :		
Undisposed accumulated deficit carried over from the prior year	₩	US\$ -
Cumulative effect of accounting change (Notes 2 and 17)	(562,907)	(491,450)
Prior year adjustments	(396)	(346)
Net loss for the year	(802,783)	(700,876)
	(1,366,086)	(1,192,672)
Disposition :		
Capital surplus	310,822	271,365
Others	(537)	(469)
Undisposed accumulated deficit to be carried forward to the subsequent year	₩ (1,055,801)	US\$ (921,776)

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

NON-CONSOLIDATED STATEMENT OF CASH FLOWS (BANKING ACCOUNTS)

for the year ended December 31, 1999

	In Millions of Korean Won	In Thousands of U.S. Dollars (Note 3)
Cash flows from operating activities:		
Net loss	₩ (802,783)	US\$ (700,876)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Gain on disposal of securities, net	(99,023)	(86,453)
Valuation loss on securities, net	24,260	21,180
Gain on sales of loans, net	(27,578)	(24,077)
Allowance for loan losses	1,528,147	1,334,160
Provision for guarantees and acceptances	41,380	36,127
Depreciation and amortization	56,150	49,022
Provision for severance benefits	42,481	37,088
Amortization of present value discounts	(59,797)	(52,206)
Others, net	(10,246)	(8,945)
Decrease in accrued income	163,720	142,937
Decrease in accrued expenses	(13,300)	(11,612)
Net cash provided by operating activities	843,411	736,345
Cash flows from investing activities:		
Purchases of trading securities	(733,062)	(640,005)
Purchases of investment securities	(2,444,135)	(2,133,870)
Net increase in loans	(878,805)	(767,247)
Acquisitions of premises and equipment	(45,559)	(39,776)
Increase in cash from merger with KIMB	112,944	98,607
Decrease in merchant banking assets	3,142,558	2,743,634
Others, net	(28,310)	(24,716)
Net cash used in investing activities	(874,369)	(763,373)
Cash flows from financing activities:		
Net increase in deposits	4,736,954	4,135,633
Net decrease in borrowings and debentures	(1,445,870)	(1,262,328)
Issuance of new shares for cash	1,022,012	892,275
Proceeds from disposal of treasury shares	170,183	148,580
Decrease in merchant banking liabilities	(3,965,259)	(3,461,899)
Others, net	(262,887)	(229,515)
Net cash provided by financing activities	255,133	222,746
Net increase in cash and cash equivalents	224,175	195,718
Cash and cash equivalents at beginning of year	5,624,450	4,910,468
Cash and cash equivalents at end of year (Note 25)	₩ 5,848,625	US\$ 5,106,186

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 Korea Exchange Bank Act was repealed and the Bank was converted into a corporation under the Commercial Code of the Republic of Korea. In 1994, the Bank offered its shares for public ownership and all shares are listed on the Korea Stock Exchange.

The Bank provides primarily commercial banking services, trust banking services, foreign exchange, merchant banking business through the merger with Korea International Merchant Bank (KIMB), a domestic subsidiary of the Bank, (see Note 26) and other related operations as permitted under the Bank Act and other relevant laws and regulations in the Republic of Korea.

On April 21, 1999, the Bank issued 152,402 thousand new common shares and 52,000 thousand new preferred shares at par value of ₩5,000 based on a resolution of board of directors on February 5, 1999.

The preferred shareholders are entitled to non-cumulative and non-participating preferred dividends of 9% of par value per annum. Preferred shareholders have no voting rights except for periods subsequent to shareholders' meetings in which no dividends are declared for the preferred stocks. Each share of preferred stock may be converted into one share of common stock at the option of the preferred shareholder on the date after three years from the issue date. Each share of unconverted preferred stock outstanding on the date after five years from the issue date will be converted into one share of common stocks.

The Bank's shareholders as of December 31, 1999 are as follows:

	Number of shares owned (shares)			%
	Common stock	Preferred stock	Total	
Commerzbank	104,966,625	52,000,000	156,966,625	31.6
Bank of Korea	79,000,000	-	79,000,000	15.9
Export-Import Bank of Korea	80,628,774	-	80,628,774	16.3
Others	179,754,464	-	179,754,464	36.2
	444,349,863	52,000,000	496,349,863	100.0

As of December 31, 1999, the Bank had 305 branches, agencies and offices in domestic and overseas markets. The Bank has closed 47 domestic branches and two overseas branches in 1999. The Bank is in the process of closing or selling three domestic and overseas subsidiaries and plans to close five more domestic branches and two more overseas branches in 2000.

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.

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.

The accompanying non-consolidated financial statements have been extracted from the Bank's Korean language non-consolidated financial statements that were prepared using accounting principles, procedures and reporting practices generally accepted in the Republic of Korea. These standards vary from International Accounting Standards and the accounting principles generally accepted in the country of the reader. The non-consolidated financial statements have been translated from Korean into English, and have been formatted in a manner different from the presentation under Korean financial statement practices. Accordingly, the accompanying non-consolidated financial statements are not intended to present the non-consolidated financial position, results of operations and cash flows of the Bank in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Korea.

The Bank's 1999 financial statements are prepared in conformity with the revised financial accounting standards in the Republic of Korea effective January 1, 1999 (the revised financial accounting standards). Previously, the Bank's financial statements have been prepared in conformity with the financial accounting standards in the Republic of Korea, as modified by the accounting and reporting guidelines prescribed by the regulatory banking authorities in the Republic of Korea. Accordingly, the Bank changed the methods of accounting and presentation of financial statements in accordance with revised financial accounting standards, such as accounting for valuation of investment securities, accounting for troubled debt restructuring, allowance for possible losses on guarantees and acceptances, deferred income taxes, and stock issuance costs. Cumulative effects on assets and liabilities arising from the retroactive application of the revised accounting standards were reported as an adjustment to beginning accumulated deficit or capital adjustments. As permitted by the revised financial accounting standards, the Bank has presented its non-consolidated financial statements for 1999 only.

The preparation of non-consolidated financial statements requires management to make estimates and assumptions that affect 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 deposit collateral is recognized on a cash basis in accordance with the generally accepted financial accounting standards of the Republic of Korea. At December 31, 1999, the amount of interest not recognized due to such policy approximates ₩159,199 million.

Allowances for Loan Losses

During 1999, the Bank adopted Forward Looking Criteria (FLC) for its loan classification to determine allowances for possible loan losses. Under this method, the borrowers' future debt service capacity as well as overall financial health and management soundness is considered in developing the reserve for possible loan losses related to large corporate customers. However, loan classification for the smaller corporate and retail loan customers are still classified based on the delinquency period, value of collateral and bankruptcy status only.

Estimated loan losses as of December 31, 1999 were determined by applying the following minimum percentages to each credit risk classification:

Current	0.5%
Special mention	2%
Substandard	20%
Doubtful	50%
Loss	100%

In addition, pursuant to the revised financial accounting standards, in 1999, the Bank accrued allowances for estimated potential losses on outstanding guarantees and acceptances contracts for customers with credit classifications of substandard, doubtful and loss. The estimated losses are determined by applying the same percentage used in estimating allowance for loan losses explained above. This revised accounting increased 1999 net loss by ₩41,380 million and the cumulative effect of its retroactive application was to increase accumulated deficits as of January 1, 1999 by ₩69,908 million.

Investments in Debt and Equity Securities

During 1999, The Bank adopted revised financial accounting standards under which investments in debt and equity securities are accounted for as follows:

- All investments in equity and debt securities are carried at cost, including incidental expenses. In the case of debt securities, cost includes the premium paid or discount received at the time of purchase. The following paragraphs describe the subsequent accounting for securities by the type of security.
- Investments in equity and debt securities that are bought and held principally for trading purposes are recorded as trading securities and are carried at fair value, with unrealized gains and losses recorded in current operations.
- Investments in marketable equity securities of non-controlled investees are carried at fair value. Temporary changes in fair value are accounted for in the capital adjustment account, a component of stockholders' equity. Declines in fair value which are

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

anticipated to be permanent are recorded in current operations after eliminating any previously recorded capital adjustment for temporary changes. Subsequent recoveries or other future changes in fair value are recorded in the capital adjustment account.

- Investments in non-marketable equity securities of non-controlled investees are carried at cost, except for declines in the Bank's proportionate ownership of the underlying book value of the investees which are anticipated to be permanent, which are recorded in current operations. Subsequent recoveries are also recorded in current operations up to the original cost of the investment.
- Investments in equity securities of companies over which the Bank exerts significant control or influence are recorded using the equity method of accounting. Differences between the initial purchase price and the Bank's initial proportionate ownership of the net book value of the investees are amortized over 5 years using the straight-line method. Under the equity method, the Bank records changes in its proportionate ownership of the book value of the investees as current operations, capital adjustments or adjustments to retained earnings, depending on the nature of the underlying change in book of the investees.
- Premiums and discounts on debt securities are amortized over the life of the debt using the effective interest method. Investment in debt securities which the Bank has the intent and ability to hold to maturity are generally carried at cost, adjustment for the amortization of discounts or premiums. Declines in the fair value of debt securities which are anticipated to be permanent are recorded in current operations. Subsequent recoveries are also recorded in current operations up to amortized cost of the investment.
- Other investments in debt securities are carried at fair value. Temporary differences between fair value and amortized cost are accounted for in the capital adjustment account. Declines in fair value which are anticipated to be permanent are recorded in current operations after eliminating any previously recorded capital adjustment for temporary changes. Subsequent recoveries or other future changes in fair value are recorded in the capital adjustment account.

The accounting standards previously applied in 1998 are different from the revised standards effective in 1999 as follows:

- Debt securities denominated in Korean Won had previously been stated at cost, as permitted by the previous accounting and reporting guidelines prescribed by the banking regulatory authorities.
- For equity accounting purpose, the Bank's equity in earnings/losses and increases/decreases in shareholders' equity of the affiliated companies were previously recognized as capital adjustments of the Bank until realized.

The adoption of these revised accounting standards for investments in debt and equity securities, including cumulative effect of retroactive application, were to decrease 1999 net loss, accumulated deficit as of January 1, 1999 and capital adjustments as of December 31, 1999 by ₩68,781 million, ₩23,642 million and ₩115,250 million, respectively.

According to the revised financial accounting standards, the beneficiary certificates arranged to invest in the Bank's stock are stated at net asset value of the fund calculated based on the prices of the invested stocks excluding the Bank's own stocks. The portion of the Bank's own stocks in the fund as of the balance sheet date is eliminated from the investments and is presented as capital adjustment.

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 (see Note 16). Depreciation is computed using the declining-balance method over the estimated useful lives of the related assets, except for buildings and leasehold improvements for which depreciation is computed using the straight-line method.

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

	Estimated Useful Lives
Buildings	40 years
Equipment	4 years
Leasehold improvements	5 years

Routine maintenance and repairs are charged to current operations as incurred. Betterments and renewals enhancing the value or extending the useful lives of the facilities are capitalized.

Intangible Assets

Intangible assets, comprising development costs and goodwill acquired in the Bank's merger with KIMB, are recorded at cost and amortized over five years using the straight-line method.

Foreclosed Assets

Foreclosed assets acquired through, or in lieu of, loan foreclosure are to be sold and are initially recorded at their fair value at the date of foreclosure. After foreclosure, the asset is carried at the lower of its carrying amount or fair value determined by its estimated public auction price. In 1999, provisions for valuation losses amounting to ₩18 million were recorded as other operating expenses.

Pursuant to the revised financial accounting standards, gains or losses on disposal of foreclosed assets on an installment payment basis are recognized as other income or expenses as incurred. Previously, such gains or losses were deferred and amortized over the collection period in proportion to subsequent cash collections of the receivables. The effect of retroactive application of this revised accounting standards is to decrease the accumulated deficit as of January 1, 1999 by ₩3,008 million.

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. Accrued severance benefits of ₩208,516 million represent the amount which would be payable assuming all eligible employees and executives were to terminate their employment on December 31, 1999.

The Bank's underaccrued severance benefit liabilities of ₩19,266 million as of December 31, 1998 was eliminated by increasing accumulated deficits as of January 1, 1999 in accordance with the revised financial accounting standards.

In 1999, the Bank paid additional severance benefits to early-retired employees in addition to normal severance benefits as required by the relevant laws and the Bank's retirement policy. No accrual is provided for future early retirements. The Bank's actual payment of severance benefits in 1999, including additional early retirement benefits, approximated ₩125,983 million.

In accordance with the National Pension Act, the Bank deposits a portion of accrued severance benefits with the National Pension Fund presented as deduction from accrued severance benefits. The contributed deposit amount shall be refunded to employees and executives from the National Pension Fund on their retirement. In addition, the Bank has partially funded accrued severance benefits through group severance insurance plans. As of December, 31 1999, the amounts funded under these insurance plans amount to ₩182,734 million and are included in cash and due from banks in the accompanying non-consolidated balance sheet.

Discounts on Debentures

Discounts on debentures, including debenture issuance costs, are amortized over the term of the debenture using the effective interest rate method. Such amortization is included in interest expenses. Debenture issuance costs carried over from the previous years continue to be amortized using the straight-line method consistent with the prior years' in accordance with the revised financial accounting standards.

Present Value Discounts

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

Pursuant to the revised financial accounting standards, troubled loans restructured under work-out plans or other similar restructuring agreements are stated at present value, with the difference between the nominal amount and present value offset against the allowance for loan losses to the extent available. The remaining difference is recorded as a current operating expense. Amortization of these discounts is included in other interest income.

The effect of adoption of revised financial accounting standards for troubled debt restructuring, including cumulative effects of retroactive application, were to increase net loss and accumulated deficits as of January 1, 1999 by ₩46,707 million and ₩380,591 million, respectively.

Discounts on Capital Stock

Discounts on capital stock arising from payment of stock issuance costs are reported as a capital adjustments in shareholders' equity and amortized over three years by appropriations of retained earnings. However, due to accumulated deficits as of December 31, 1999, there has been no amortization in 1999.

Income Taxes

Current income taxes payable comprise corporate income tax and tax surcharges payable for the current year. Pursuant to the revised financial accounting standards, in 1999 the Bank adopted the deferred method of accounting for income taxes. Under this

method, the future tax effects of temporary differences between the financial and tax bases of assets and liabilities are reflected in the balance sheet as of December 31, 1999. Due to accumulated deficits and the uncertain possibility of realizing deferred income tax assets, the Bank has not recognized deferred income tax assets exceeding deferred income tax liabilities, except as incurred by certain overseas branches. 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. The adoption of deferred tax accounting does not impact the Bank's net loss and accumulated deficit as no deferred tax assets and liabilities have been recognized as of December 31, 1998 and 1999.

Tax credits are recognized as a reduction of income tax expense in the year they are incurred 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 loans or borrowings, respectively, and related income and expenses are recorded as interest on loans and interest on borrowings, respectively.

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 or losses 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 balance sheet dates in accordance with the financial accounting standards.

The exchange rates used to translate U.S. Dollar into Korean Won at December 31, 1999 is ₩1,145.40 : US\$ 1.

Guarantees and Acceptances

Pursuant to revised financial accounting standards, guarantees and acceptances outstanding do not appear on balance sheet, but are presented as off-balance sheet items in the notes to the financial statements. The Bank provides allowances for losses on determinable outstanding guarantees and acceptances contracts applying the same method used in estimating allowances for losses in the loan portfolio.

Derivative Financial Instruments

Derivative financial instruments entered into for trading purposes are valued at estimated current market prices. 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 contracts. 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.

Trust Fees and Compensation to the Trust Accounts

The Bank receive trust fees, ranging from 0.2% to 2.0% of the trust's principal, from the trust accounts as compensation for its management of trust assets and operations. The Bank is also entitled to receive special trust fees from certain trust accounts with a guaranteed minimum rates of return in accordance with the relevant laws and regulations applicable to trust operations.

The Bank compensates for losses incurred in certain trust accounts with minimum return guarantees. Such compensation amounting to ₩225,865 million in 1999, is accounted for as compensation for trust accounts.

Earnings Per Share

Basic earnings per share are computed using the weighted average number of common shares outstanding during the year. Diluted earnings per share are based on an increased number of shares that would be outstanding assuming conversion of potentially dilutive securities as shown in Note 23.

Merchant Banking Operations

As permitted by the Restructuring of Financial Institutions Act, the Bank may continue its merchant banking operations, including leasing business, until the existing contracts acquired from KIMB at the merger are terminated. Significant accounting policies applied to the Bank's merchant banking operations are summarized as follows:

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

- Revenue Recognition on Discounted Notes

Interest income on discounted notes is accrued over the term of the notes. Income from the sale of discounted notes is recognized at the date of sale based on the difference between the purchase and sales prices of the notes, adjusted for interest earned during the holding period.

- Cash Management Accounts (CMA)

The Bank recognizes interest income from CMA investments and interest expense from CMA deposits as other income and other expenses, respectively.

- Lease Transactions

The Bank accounts for lease transactions as operating or financing leases, depending upon the terms of the lease contracts. In general, non-cancelable leases are recognized as financing leases when ownership transfers at expiration of the lease term, when a bargain purchase option exists, or when the lease term exceeds the estimated economic life of the related asset.

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

Operating lease equipment are stated at cost and depreciated over the lease term. Operating lease income is recognized as operating income on an accrual basis over the lease term.

Merchant Banking Operations, Continued

- Lease Transactions, continued

The Bank capitalized interest costs on debt borrowed to finance the purchase of lease assets as part of the cost of such assets. Interest costs capitalized in 1999 amount to ₩94 million.

The Bank accrues estimated losses from future sales of operating lease properties. Provision for such unrealized losses recognized in 1999 amounts to ₩1,963 million.

Foreign currency translation gains or losses incurred from foreign currency borrowings used to finance purchases of operating lease equipment have been deferred and amortized over the period that related lease rental revenues are recognized. Foreign currency translation gains incurred and deferred in 1999 approximate ₩6,847 million.

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 1999 Korean Won amounts are expressed in U.S. Dollars at the rate ₩1,145.40 : US\$ 1, the rate in effect on December 31, 1999. 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. Cash and Due from Banks:

Cash and due from banks in Won at December 31, 1999 are as follows:

	Annual Interest Rate (%)	In Millions
Cash on hand	-	₩ 1,321,763
Deposits with the Bank of Korea (reserve deposit)	-	614,230
Deposits with other banks	5.3-7.7	868,432
Deposits with other financial institutions	7.5-10.0	182,734
		₩ 2,987,159

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Cash and due from banks in foreign currencies at December 31, 1999 are as follows:

	Annual Interest Rate (%)	In Millions
Cash on hand	-	₩153,370
Deposits with the Bank of Korea		
Reserve deposit	-	276,649
Other	(*)	475,833
		752,482
Deposits with other Banks	(**)	1,261,249
Deposits with overseas financial institutions	3.68-8.84	40,895
		₩2,207,996

(*) Federal Fund rate - 0.5%

(**) 5.77 or monthly average of daily closing T-Bill rates for the month prior to interest payment date

4. Cash and Due from Banks, Continued:

Deposits 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. As of December 31, 1999, foreign currency deposits with the Bank of Korea and other banks deposited in the course of transaction of derivative financial instruments amount to ₩91,789 million, and won currency deposits with KorAm bank and other banks deposited related to asset-backed securitization and derivative financial instruments amount to ₩16,950 million. Accordingly, the withdrawal of these deposits is restricted. As of December 31, 1999, time deposits with other financial institutions of ₩182,734 million represent group severance deposits deposited under the group severance insurance plan, whose withdrawal is restricted to the actual payment purpose of severance benefits (see Note 2).

The scheduled maturities of due from banks as of December 31, 1999 are as follows:

	In Millions			
	Due in one year or less	Due from one to three years	Due after three years	Total
Due from banks in Won	₩ 629,796	₩ -	₩ 1,035,600	₩ 1,665,396
Due from Banks in foreign currencies	1,293,500	119,900	641,226	2,054,626
	₩ 1,923,296	₩ 119,900	₩ 1,676,826	₩ 3,720,022

5. Securities:

Securities at December 31, 1999 are as follows:

	In Millions	
	Debt securities	Equity securities
Trading securities	₩ 2,030,843	₩ -
Investment securities:		
available for sale	6,234,575	1,035,201
held-to-maturity	1,144,243	-
investment in subsidiaries	-	701,062
	7,378,818	1,736,263
	₩ 9,409,661	₩ 1,736,263

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Investments in Debt Securities

Investments in debt securities at December 31, 1999 are as follows:

In Millions					
	Annual Interest Rate (%)	Nominal amount	Acquisition cost	Adjusted Price	Carryingvalue(*)
Trading securities:					
Monetary stabilization bonds	6.3 - 8.6	₩ 1,210,000	₩ 1,169,505	₩ 1,170,848	₩ 1,163,202
Bonds issued by the government	3.0 - 18.4	470,517	478,609	478,044	467,127
Bonds issued by corporations	1.0 - 9.0	122,500	123,572	123,222	127,364
Beneficiary certificates	-	248,053	248,053	248,053	248,053
Bonds in foreign currencies	0.0 - 5.6	25,199	25,338	22,207	25,097
		2,076,269	2,045,077	2,042,374	2,030,843
Investment securities:					
Monetary stabilization bonds	6.1 - 8.0	3,230,400	3,164,883	3,163,352	3,147,176
Bonds issued by the government	3.0 - 11.9	856,936	805,620	809,264	781,317
Bonds guaranteed by the government	8.7 - 15.0	701,088	700,129	700,668	702,730
Bonds issued by corporations	1.0 - 20.0	1,127,949	1,113,739	1,114,025	1,110,697
Beneficiary certificates	-	167,773	168,680	168,680	171,555
Other securities	-	84,291	83,974	83,974	72,141
Bonds in foreign currencies	0.1 - 10.8	1,428,524	1,395,603	1,367,016	1,306,574
Off-shore debt securities	2.8 - 12.6	275,847	219,973	217,273	86,628
		7,872,808	7,652,601	7,624,252	7,378,818
		₩9,949,077	₩9,697,678	₩9,666,626	₩ 9,409,661

(*) ₩1,144,243 million of investment securities held to maturity are carried at adjusted price. The remaining securities are carried at market price.

The scheduled maturities of debt securities at December 31, 1999 are as follows:

In Millions				
	Due in one year or less	Due from one to three years	Due after three years	Total
Monetary stabilization bonds	₩ 3,204,903	₩ 1,105,475	₩ -	₩ 4,310,378
Bonds issued by the government	593,426	564,303	90,715	1,248,444
Bonds guaranteed by the government	112,421	-	590,309	702,730
Bonds issued by corporations	329,944	814,833	93,284	1,238,061
Beneficiary certificates	266,432	153,176	-	419,608
Other securities	72,141	-	-	72,141
Bonds in foreign currencies	879,842	158,299	293,530	1,331,671
Off-shore debt securities	12,759	33,312	40,557	86,628
	₩ 5,471,868	₩ 2,829,398	₩ 1,108,395	₩ 9,409,661

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Debt securities in foreign currencies, classified by country, as of December 31, 1999 are as follows:

Countries	In Thousands (*)		In Millions		Ratio (%)
	US\$	₩	US\$	₩	
U.S.A.	717,299	₩ 821,594	821,594	₩ 821,594	57.9
Korea	337,541	₩ 386,619	386,619	₩ 386,619	27.3
Japan	36,190	₩ 41,452	41,452	₩ 41,452	2.9
Philippines	28,174	₩ 32,271	32,271	₩ 32,271	2.3
Russia	24,125	₩ 27,633	27,633	₩ 27,633	1.9
Mexico	23,692	₩ 27,137	27,137	₩ 27,137	1.9
Other	71,234	₩ 81,593	81,593	₩ 81,593	5.8
	US\$ 1,238,255	₩ 1,418,299	1,418,299	₩ 1,418,299	100.0

(*) Foreign currencies, except for U.S. dollars, are converted into equivalent U.S. dollar amounts using the exchange rate prevailing on December 31, 1999.

Investments in Equity Securities

Investments in equity securities at December 31, 1999 are as follows:

	Shares owned		In Millions		
	By the Bank (1,000 shares)	Ownership Ratio (%)	Acquisition Cost	Market or Net Asset Value	Book value
Investment securities:					
Equity securities in Won	-	-	₩261,756	₩205,491	₩ 205,491
Equity securities in foreign currencies	-	-	9,057	9,057	9,057
Beneficiary certificates	-	-	30,450	33,261	33,261
Other investments	-	-	773,202	787,392	787,392
Investment in domestic subsidiaries					
KEB Leasing Co., Ltd. (KEBLS)	2,400	30.0	12,000	7,611	8,450
Korea Exchange Bank Credit Service Co., Ltd. (KEBCS)	18,795	58.2	87,975	142,815	143,250
KEB Commerz Investment Trust Management Co., Ltd. (KEBIT)	2,760	46.0	13,800	20,094	20,097
KEB Futures Co., Ltd. (KEBFC)	2,000	100.0	10,000	9,280	9,280
Salomon Smith Barney KEB (KSB)	2,000	20.0	10,000	19,294	19,294
Korea Heavy Industries	8,200	15.7	82,000	271,683	271,683
			215,775	470,777	472,054
Investment in foreign subsidiaries					
California Korea Bank (CKB)	8,000	100.0	57,270	64,648	64,648
Korea Exchange Bank of Canada (KEBOC)	334	100.0	26,322	24,356	24,356
KEB (Asia) Finance Ltd. (KAF)	4,680	80.0	54,775	-	-
KEB Australia Co., Ltd. (KEBA)	40,000	100.0	28,346	12,011	12,689
KEB International Ltd. (KEBI)	27,000	100.0	50,001	32,505	33,070
P.T. Korea Exchange Bank Danamon (KEBD)	1	85.0	16,453	33,093	33,651
Korea Exchange Bank (Deutschland) A.G. (KEBD A.G.)	20	100.0	20,589	26,129	26,173
KEB Ireland Ltd. (KEB Ire)	3,000	100.0	3,436	4,830	5,399
KEB Brazil (KEBB)	17,890	100.0	11,290	12,449	12,449
			268,482	210,021	212,435
Investment in foreign subsidiaries at cost(*)					
Cairo Far East Bank S.A.E. (CFEB)	8	31.5	8,281	8,891	8,891
KIMB Finance, Ltd. (KIMBF)	20,000	100.0	16,766	7,682	7,682
			25,047	16,573	16,573
			₩ 1,583,769	₩ 1,732,572	₩ 1,736,263

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

(*) Cost method was applied since the subsidiaries are in the process of sales or liquidation and accordingly, the Bank's control is temporary.

As of December 31, 1999 Details of investments in subsidiaries accounted for using equity method are as follows:

	In Millions				
	Acquisition cost	of equity method investees	Equity in earnings beginning accumulated deficits	Adjustments to Capital adjustments	Book value
CKB	₩ 57,270	₩ 9,602	₩ (26,178)	₩ 23,954	₩ 64,648
KAF	54,775	-	(54,775)	-	-
KEBOC	26,322	2,862	(7,507)	2,679	24,356
KEBA	28,346	(17,194)	(7,414)	8,951	12,689
KEBI	50,001	991	(37,367)	19,445	33,070
KEBD A.G.	20,589	140	5,444	-	26,173
KEBD	16,453	16,309	(8,708)	9,597	33,651
KEB Ire	3,436	1,914	49	-	5,399
KEBB	11,290	503	656	-	12,449
KEBCS	87,975	19,864	15,979	19,432	143,250
KEBLS	12,000	(8,614)	5,808	(744)	8,450
KEBIT	13,800	1,960	4,337	-	20,097
KEBFC	10,000	(1,151)	305	126	9,280
KSB	10,000	5,335	3,959	-	19,294
Korea Heavy Industries	82,000	7,795	87,192	94,696	271,683
	₩ 484,257	₩ 40,316	₩ (18,220)	₩ 178,136	₩ 684,489

Other Information

Securities denominated in foreign currencies at December 31, 1999 are as follows:

	Foreign Currency		Won Currency
	Currency	In Thousands	In Millions
Government Bond.	USD	771,845	₩ 884,072
	HKD	49,768	7,335
	SGD	5,493	3,785
	(*)	803	920
Debentures issued by financial institution	USD	177,663	203,529
Bonds issued by corporations	USD	264,384	302,893
	CHF	16,120	11,569
	(*)	3,663	4,196
Equity securities	USD	7,417	8,495
	JPY	50,000	561
			9,056
Investments in subsidiaries	USD	199,937	229,008
			₩ 1,656,363

(*) Securities denominated in other foreign currencies are presented at equivalent U.S. dollar amounts.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 1999, the Bank provided debt securities amounting to ₩1,673,900 million as collateral for borrowings from the Bank of Korea and has total debt securities amounting to ₩4,795,041 million available for collateral in connection with the Bank's borrowings from the Bank of Korea. Securities denominated in foreign currencies amounting to ₩338,611 million were deposited in the course of selling securities under repurchase agreements and accordingly, the withdrawals are restricted (see Note 11).

6. Loans:

Loans at December 31, 1999 are as follows:

	In Millions
Loans in Won	₩ 9,643,132
Loans in foreign currencies	7,009,462
Bills bought in Won	1,905,931
Foreign exchange bills purchased	3,639,710
Call loans	376,705
Other	1,726,850
	24,301,790
Less: Allowance for loan losses	(1,929,200)
Present value discount	(427,299)
	₩ 21,945,291

Interest rates on the above loans are normally prime rates or effective market rates plus spreads of up to 5.0%, 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 fluctuate.

Loans to Other Financial Institutions

Loans to other financial institutions at December 31, 1999 are as follows:

	In Millions			
	Banks	Other Financial Institutions	Institutions	Foreign Financial Total
Loans in Won	₩ 143,668	₩ 414,575	₩ -	₩ 558,243
Loans in foreign currencies	-	1,084,260	217,196	1,301,456
Bills bought in Won	-	880,896	-	880,896
Securities purchased under agreement to resell	-	55,000	-	55,000
Call Loans	70,000	-	-	70,000
	₩ 213,668	₩ 2,434,731	₩ 217,196	₩ 2,865,595

Foreign Currency Loans By Nationality

At December 31, 1999, the Bank's loans denominated in foreign currencies classified by nationality of borrowers are as follows:

Countries	In Thousands		In Millions		Ratio (%)
	US\$	₩	US\$	₩	
Korea	5,354,782	₩ 6,133,367			87.5
Japan	306,101	₩ 350,608			5.0
Russia	125,390	₩ 143,622			2.1
Indonesia	123,342	₩ 141,276			2.0
China	115,300	₩ 132,065			1.9
Thailand	43,012	₩ 49,266			0.7
Other	51,736	₩ 59,258			0.8
	US\$ 6,119,663	₩ 7,009,462			100.0

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Loans By Industry

At December 31, 1999, the Bank's loans denominated in Korean Won, including bills bought and loans denominated in foreign currencies of domestic branches, classified by industry, are as follows:

	In Millions	Ratio (%)
Manufacturing	₩ 6,355,304	42.2
Financial and insurance	1,296,299	8.6
Telecommunication	1,276,684	8.5
Wholesale and retails/service	1,474,686	9.8
Construction	687,085	4.5
Individuals and households	2,682,531	17.8
Other	1,294,069	8.6
	15,066,658	100.0
Loans of overseas branches	3,491,867	
	₩ 18,558,525	

Maturity Information

The scheduled repayments of loans at December 31, 1999 are as follows:

	In Millions		
	Won currency loan and bills bought in Won	Foreign currency loans	Total
Due in one year or less	₩ 9,177,760	₩ 2,574,200	₩ 11,751,960
Due from one to three years	184,300	1,349,200	1,533,500
Due after three years	2,187,003	3,086,062	5,273,065
	₩ 11,549,063	₩ 7,009,462	₩ 18,558,525

Loan Classification

Credit risk classification of loans and allowance for losses at December 31, 1999 are as follows:

	In Millions						Allowance for loan losses
	Current	Special mention	Substandard	Doubtful	Loss	Total (*)	
Loans in Won	₩ 9,647,800	₩ 389,500	₩ 927,600	₩ 116,000	₩ 117,600	₩ 11,198,500	₩ 604,800
Loans in foreign currencies	4,674,200	724,700	1,087,100	363,400	124,500	6,973,900	626,800
Local L/C bills bought	70,640	-	-	-	-	70,640	400
Foreign exchange bills bought	2,820,200	37,000	90,800	661,700	29,900	3,639,600	393,800
Advance for customers	4,700	23,600	121,700	148,400	71,800	370,200	170,900
Factoring Receivable	7,000	-	-	-	-	7,000	-
Call loans & RPs	1,023,805	-	-	-	-	1,023,805	-
Others	269,791	600	281,500	40,307	-	592,198	77,900
	18,518,136	1,175,400	2,508,700	1,329,807	343,800	23,875,843	1,874,600
Other accounts	1,485,000	31,500	16,100	900	50,000	1,583,500	54,600
	₩ 20,003,136	₩ 1,206,900	₩ 2,524,800	₩ 1,330,707	₩ 393,800	₩ 25,459,343	₩ 1,929,200

(*) These balances represent loan amount after deduction of present value discounts.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Allowances for Loan Losses

An analysis of the change in allowances for loan losses for the year ended December 31, 1999 are as follow:

	In Millions
Balance at January 1, 1999	₩ 671,878
Addition:	
Provision for loan losses	1,500,896
Transfer from repurchase of loan from KAMCO and others	115,708
Reversal of allowance	(29,998)
Net provision	1,586,606
Deduction:	
Loans charged off	(327,087)
Translation adjustments	(2,197)
Balance at December 31, 1999	₩ 1,929,200

Recovery of charge-offs in 1999 approximated ₩ 4,805 million, and was recorded as other income.

Ratios of allowance for loan losses to total loans for the years ended December 31, 1999, 1998 and 1997 are 8.1%, 3.3% and 1.7%, respectively.

At December 31, 1999, the Bank's loans of which the balance had been already charged off but the Bank's legal claim rights against borrowers or guarantors have not expired amount to ₩580,871 million.

Restructured Loans

The Bank recognized losses on troubled loans restructured under work-out plans or other similar rescheduling agreements if the total discounted future cash receipt specified by the modified terms of rescheduled loans are less than the nominal amount of those loans. For purposes of this calculation for the year ended December 31, 1999, ₩165,928 million of loans converted or subject to be converted into equity security are recorded at fair value at the determination date of rescheduling plans. The present value of total future cash receipts under the restructuring plans which have been decided by December 31, 1999, discounted using interest rates of 7.0% to 18.2%, are ₩427,299 million less than their nominal value of ₩1,546,448 million. Amortization of these discounts of ₩59,797 million in 1999 are included in other interest income.

The changes in present value discount of the Bank's restructured loans in 1999 are as follows:

	In Millions			
	Beginning balance	Addition	Deduction	December 31, 1999
Loans restructured under work-out plan	₩ 55,908	₩ 68,175	₩ 41,715	₩ 82,368
Loans restructured under other similar rescheduling agreements	3,123	38,330	1,009	40,444
Loans in industry rationalization policy	321,560	-	17,073	304,487
	₩ 380,591	₩ 106,505	₩ 59,797	₩ 427,299

Other Information

The Bank sold certain non-performing loans amounting to ₩106,368 million to a special purpose company (SPC) in accordance with the Asset Backed Securitization (ABS) laws, and recognized ₩46,772 million of losses on loan sales included in other expenses. In addition, the Bank recognized gains and losses on loan sales amounting to ₩151,897 million and ₩35,302 million, respectively, in connection with prior year's non-performing loan sales to Korea Asset Management Corporation (KAMCO), sales prices of which are adjusted according to the results of actual subsequent collection of those loans (see Notes 19, 20 and 21).

At December 31, 1999, the Bank provided ₩639,909 million of loans as collateral for borrowings from the Bank of Korea and others.

In accordance with the relevant banking regulations in Korea, the Bank's overall limit of borrowings from the Bank of Korea may

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

be increased by the amount of the Bank's outstanding notes discounted. Such outstanding notes discounted of the Bank at December 31, 1999 amount to ₩2,482,279 million (see Note 11).

The Bank provides housing loans bearing interest at a rate of 1.0% per annum below 20 million and 9.75% per annum over 20 million to directors and employees, up to maximum of ₩50 million per person. The outstanding balance of housing loans receivable as of December 31, 1999 amounts to ₩7,815 million.

7. Guarantee Deposits for Trust Operations:

The Bank is required to annually deposit an amount with bank regulators equal to 0.05% of its capital stock until such deposit equals 1% 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 and face value of debt securities provided as security deposits at December 31, 1999 are ₩1,613 million and ₩4,300 million, respectively.

8. Premises and Equipment:

Premises and equipment at December 31, 1999 are as follows:

	In Millions
Buildings	₩ 374,849
Office facilities held on lease	29,350
Equipment	282,644
Foreclosed assets	10,267
	697,110
Less: Accumulated depreciation or allowance	(353,392)
	343,718
Construction in progress	43,110
Land	381,403
Intangible assets	9,350
	₩ 777,581

At December 31, 1999, the value of the Bank's domestic lands as determined by the tax authorities for property tax assessment purpose amounts to ₩390,017 million.

At December 31, 1999, 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, 1999 are as follows:

	In Millions
Merchant banking assets	₩ 1,422,892
Guarantee deposits	380,473
Accounts receivable	137,564
Prepaid expenses	176,979
Adjustments related to derivatives	20,815
Suspense receivable	26,214
Domestic exchange settlement	292,155
Loans to trust accounts	163,100
Deferred tax assets	13,745
Other	44,862
	₩ 2,678,799

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Merchant Banking assets at December 31, 1999 comprise the following:

	In Millions
Notes discounted	₩ 385,978
CMA assets	154,998
Beneficiary certificates	47,380
Operating lease equipment, net	95,167
Financial leases receivable	728,294
Others	79,175
Less: Allowance for loan losses	(68,100)
	₩ 1,422,892

Notes Discounted

The merchant banking division of the Bank provides discounting of short-term notes and trade bills receivable maturing in 270 days or less.

Notes and trade bills discounted and held at December 31, 1999 comprise the following:

	In Millions
Issued by eligible customers	₩ 361,808
Guaranteed by financial institutions	17,590
	379,398
Payment in subrogation for note guarantees	6,580
	₩ 385,978

The outstanding balance of notes discounted and sold without recourse is ₩35,000 million at December 31, 1999.

Cash Management Accounts

Cash management accounts (CMA) comprise customers' deposits maturing in 180 days or less which are invested in securities approximating the value of such deposits. The income from the investments, less management fees, is distributed to the accounts on the contract maturity date. If the deposit is withdrawn before maturity, distribution is based on a rate computed daily.

CMA assets at December 31, 1999 comprise the following:

	In Millions
Notes discounted	₩ 115,684
Securities eligible for open market operation	13,509
Other securities	25,805
	₩ 154,998

Beneficiary Certificates

Under authorization by the Ministry of Finance and Economy, the merchant banking division of the Bank establishes and manages debt security investment trusts. The assets of these trusts, comprising primarily guaranteed corporate, government and public bonds, are deposited under trust deeds with the Seoul Bank who is acting as trustee. As of December 31, 1999, the merchant banking division of the Bank operates various kinds of funds such as money market fund, short-term and long-term debt security trusts, installment type trusts, low tax trusts, long-term benefit trusts, separate tax trusts, tax exempt trusts and other types of trusts.

The merchant banking division of the Bank issues beneficiary certificates (BCs) representing shares in the trusts. The BCs are sold at daily trade prices, determined based on the value of the net assets held by the trusts every day. The merchant banking division of the Bank has undertaken to repurchase, at the daily trade price, all BCs sold, when requested by the beneficiaries. The BCs recorded on the balance sheet represent the shares unsold or repurchased by the Bank. Total BCs issued and outstanding at December 31, 1999 are 47,604 million shares.

Operating Lease Equipment

The merchant banking division of the Bank purchases equipment to be leased for periods ranging from one to fifteen years. Lease contracts include the following general provisions:

- Leases are non-cancelable.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

- In the event of early termination by the lessee, predetermined liquidation losses are assessed to the lessee.
- The lessee has the option to return the equipment to the merchant banking division of the Bank at the end of the lease term or to renew the lease contract on the basis of a predetermined price at a stated percentage of the original cost.
- The merchant banking division of the Bank is beneficiary of insurance policies.
- Interest rates applied in the computation of quarterly or monthly minimum lease payments is based on actual financing costs plus fixed margins as stated in the lease contract.
- In certain lease agreements, payment of the rentals and potential liquidation losses are partly covered by collateral, amounting up to 5% of acquisition costs of lease assets, in the form of lease contract guarantee deposits from the lessees or guarantees from other Korean financial institutions or the Korean Fidelity and Surety Insurance Company.

Equipment held for lease at December 31, 1999 is as follows:

	In Millions	
General industrial equipment	₩	139,821
Construction equipment		26,120
Shipping		30,526
Office equipment		13,193
Other		24,684
		234,344
Less: Accumulated depreciation		(135,722)
Allowance for estimated loss on future sales of operating lease assets (see Note 2)		(3,455)
	₩	95,167

The estimated future rentals to be received on the operating leases as of December 31, 1999 are as follows:

For the year ending December 31,	In Millions		
	Foreign Currency Rentals (*)	Won Currency Rentals	Total
2000	₩ 35,500	₩ 8,192	₩ 43,692
2001	29,222	6,978	36,200
2002	23,381	6,936	30,317
2003	20,828	6,726	27,554
2004	16,823	6,167	22,990
2005 and thereafter	31,010	2,823	33,833
	₩ 156,764	₩ 37,822	₩ 194,586

(*) Future rentals of ₩156,764 million denominated in foreign currencies are equivalent to US\$ 136,864 thousand.

Financing Leases Receivable

The estimated future minimum lease payments in aggregate to be received on financing leases as of December 31, 1999 are as follows:

For the year ending December 31	In Millions	
2000	₩	181,747
2001		195,726
2002		173,672
2003		165,828
2004		129,627
2005 and thereafter		59,417
Total minimum lease payments to be received		906,017
Unearned residual value		26
Less: Unearned interest income		(177,749)
Net financing leases receivable	₩	728,294

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 1999, US\$ 620,598 thousand (equivalent to ₩710,833 million) of net financing leases receivable are denominated in foreign currencies.

Credit Risk Classification and Related Allowance for Loan Losses

The credit risk classification and allowance for loan losses of the accounts in the merchant banking division of the Bank as of December 31, 1999 are as follows:

In Millions							
	Current	Special mention	Substandard	Doubtful	Loss	Total (*)	Allowance for loan losses
Notes discounted	₩ 379,119	₩ 27,900	₩ 61,100	₩ 1,800	₩ 24,800	₩ 494,719	₩ 44,000
Payment in subrogation for note guarantees	-	-	5,953	600	-	6,553	1,500
Financing lease receivables	586,926	92,300	26,900	17,706	3,500	727,332	22,600
Others	1,100	2,000	-	-	-	3,100	-
	₩ 967,145	₩ 122,200	₩ 93,953	₩ 20,106	₩ 28,300	₩ 1,231,704	₩ 68,100

(*) These balances represent loan amounts after deduction of present value discounts.

10. Deposits:

Deposits at December 31, 1999 are as follows:

	Annual Interest Rate (%)	In Millions
Deposits in Won:		
Demand deposits	0.0 - 5.0	₩ 8,012,675
Saving deposits	4.0 - 11.0	10,435,140
		18,447,815
Deposits in foreign currencies:		
Demand deposits	0.0 - 2.11	1,207,224
Saving deposits	3.95 - 7.23	6,866,571
	LIBOR +0.00-2.00	8,073,795
Certificates of deposit	5.2 - 7.9	292,208
		₩ 26,813,818

Deposits from Other Financial Institutions

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

In Millions				
	Banks (*)	Institutions other than banks	Foreign financial institutions	Total
Deposits in Won				
Demand deposits	₩ 208,813	₩ 608,440	₩ -	₩ 817,253
Saving deposits	473,014	959,777	-	1,432,791
Deposits in foreign currencies				
Demand deposits	304,440	12,458	4,157	321,055
Saving deposits	2,904,746	-	1,597	2,906,343
Certificates of deposit	-	-	98	98
	₩ 3,891,013	₩ 1,580,675	₩ 5,852	₩ 5,477,540

(*) Deposits in foreign currencies from banks represent deposits by the Bank of Korea.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Maturity Information

The scheduled maturities of deposits at December 31, 1999 are as follows:

	In Millions			
	Due in one year or less	Due from one to three years	Due after three years	Total
Deposits in Won	₩ 14,287,400	₩ 564,300	₩ 3,596,115	₩ 18,447,815
Deposits in foreign currencies	7,079,500	132,800	861,495	8,073,795
Certificates of deposit	292,208	-	-	292,208
	₩ 21,659,108	₩ 697,100	₩ 4,457,610	₩ 26,813,818

11. Borrowings:

Borrowings at December 31, 1999 are as follows:

	Annual	In Millions
	Interest Rate (%)	
Borrowings in Won		
Borrowings from the Bank of Korea	3.0 - 5.0	₩691,249
Borrowings from the Governmental and Public fund	4.0 - 7.25	223,138
Borrowings from other banks	5.0 - 7.5	272,292
Borrowings from other financial institutions	9.5 - 10.6	340,000
Borrowings from others	2.2 - 10.15	245,676
		1,772,355
Borrowings in foreign currencies		
Long-term borrowings	LIBOR+0.1 - 3.7	3,151,854
Short-term borrowings	6.46 - 8.85	1,016,245
Refinance	6.22 - 7.83	649,315
Borrowings from banks for subordinated loans	3.4 - 5.9	28,437
Others	6.0 - 9.8	398,061
		5,243,912
Securities sold under repurchase agreements	5.1 - 6.9	621,226
Covering notes sold	5.2 - 6.9	373,845
Call money	4.2 - 8.0	
	LIBOR + 1.2 - 1.9	781,704
		₩ 8,793,042

Subordinated borrowings

Subordinated borrowings at December 31, 1999 are as follows:

	Annual	In Millions
	Interest Rate (%)	
Subordinated borrowings in Won:		
Samsung Life Insurance, Co. and other, maturing through 2007	9.5-10.625	₩ 340,000
Subordinated borrowings in foreign currencies:		
Commerzbank, maturing through 2005	LIBOR+3.5	40,089 (US\$ 35,000)
		₩ 380,089

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Subordinated borrowings have redemption periods of 3 to 8 years and are due in lump sum at maturity.

Maturity Information

The scheduled maturities of borrowings at December 31, 1999 are as follows:

	In Millions			
	Due in one year or less	Due from one to three years	Due after three years	Total
Borrowings in Won	₩ 817,655	₩ 300,700	₩ 654,000	₩ 1,772,355
Borrowings in foreign currencies	3,584,400	1,597,600	61,912	5,243,912
Securities sold under repurchase agreements	621,226	-	-	621,226
Covering notes sold	373,845	-	-	373,845
Call Money	781,704	-	-	781,704
	₩ 6,178,830	₩ 1,898,300	₩ 715,912	₩ 8,793,042

Other Information

At December 31, 1999, in the normal course of funding activities the Bank provided ₩1,673,900 million of securities and ₩639,909 million of promissory notes receivable from borrowers as collateral for borrowings from the Bank of Korea and other financial institutions (see Notes 5 and 6).

12. Debentures:

Debentures at December 31, 1999 are as follows:

	Annual Interest Rate (%)	In Millions
Debentures in Won		
Debentures	8.0 - 10.5	₩ 402,208
Subordinated debentures	14.8 (*)	435,300
Subordinated convertible debentures	4.0	200,000
Others	-	5
		1,037,513
Discounts on debentures		(5,123)
		1,032,390
Debentures in foreign currencies		
Debentures	LIBOR+0.25-3.55	1,110,275
Off-shore debentures	6.1	5,154
		1,115,429
Discounts on debentures		(3,402)
		1,112,027
		₩ 2,144,417

(*) Interest rates on these debentures are floating based on the market rates at the time of payment.

Subordinated Debentures

Subordinated debentures at December 31, 1999 are as follows:

	Annual Interest Rate (%)	In Million (InThousand)
Fund invested by the Korean government, maturing through 2004	(*)	₩ 422,300
Samsung Life Insurance Co., maturing in 2007	14.8	13,000
Chase Manhattan Bank & Merrill Lynch, maturing in 2006	LIBOR + 0.64 - 2.0	229,080 (US\$ 200,000)
		₩ 664,380

(*) Interest rates on these debentures are floating based on the market rates at the time of payment.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Subordinated Convertible Debentures

Subordinated convertible debentures at December 31, 1999 are as follows:

	Annual Periods of debentures	Interest rate (%)	In Millions
Subordinated convertible debentures (No. 4)	1999. 12. 6 ~ 2009. 12. 6	4.0	₩ 100,000
Subordinated convertible debentures (No. 5)	1999. 12. 27 ~ 2009. 12. 27	4.0	100,000
			₩ 200,000

The above fourth and fifth subordinated convertible debentures are convertible from 3 months after the date of issuance through October 31, 2004 and November 20, 2004, respectively, into common shares at a conversion price of ₩5,000 per share of common stock, subject to adjustment based on certain events. The debentures are redeemable at the option of the Bank with the approval of the chairman of Financial Supervisory Service (FSS) on December 6, 2004 and December 27, 2004, respectively at 150.82% of their principal amounts. If no puts were exercised by the Bank, 50.82% of the principal will be paid on December 6, 2004 and December 27, 2004, respectively and the principal will be paid on their maturities, ten years from the issue date.

Repayment Schedules

The scheduled maturities of debentures at December 31, 1999 are as follows:

	In Millions			
	Due in one year or less	Due from one to three years	Due after three years	Total
Debentures in Won	₩ 187,900	₩ 164,300	₩ 685,313	₩ 1,037,513
Debentures in foreign currencies	708,700	177,500	229,229	1,115,429
	₩ 896,600	₩ 341,800	₩ 914,542	₩ 2,152,942

13. Other Liabilities:

Other liabilities at December 31, 1999 consist of the following:

	In Millions
Merchant banking liabilities	₩ 480,160
Unearned income	83,844
Accrued severance benefits	195,388
Allowance for estimated losses on outstanding guarantees and acceptance contract	112,000
Due to trust accounts	530,429
Due to treasury agency	62,452
GIRO accounts	27,632
Deferred tax liabilities	5,601
Other	763,304
	₩ 2,260,810

Merchant banking liabilities at December 31, 1999 comprise the following

	Annual Interest Rate (%)	In Millions
Notes payable	5.0 - 7.5	₩ 286,726
CMA deposits	5.0 - 7.5	160,288
Others		33,146
		₩ 480,160

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Notes payable mature a maximum of 180 days from issue date and bear interest at varying rates according to market conditions and note terms.

14. Accrued Severance Benefits:

Accrued severance benefits at December 31, 1999 are as following:

	In Millions
Balance at beginning of year	₩ 269,105
Adjustment of beginning accumulated deficit	17,900
Provisions	42,481
Severance payments	(121,133)
Adjustments of foreign exchange transactions	163
	208,516
Cumulative Deposits to National Pension Fund	(13,128)
Balance at end of year	₩ 195,388

15. Monetary Assets and Liabilities Denominated in Foreign Currencies:

Monetary assets and liabilities denominated in foreign currencies at December 31, 1999 are as follows:

	In Thousands of U.S. Dollars Equivalents	In Millions of Korean Won
ASSETS:		
Cash and due from banks	US\$ 1,920,772	₩ 2,207,996
Trading securities	21,911	25,097
Investment securities	1,424,446	1,631,266
Loans	9,483,067	10,861,971
	US\$ 12,850,196	₩ 14,726,330
LIABILITIES:		
Deposits	US\$ 7,048,842	₩ 8,073,795
Borrowings	4,859,517	5,566,115
Debentures	973,834	1,115,429
Others	208,013	238,258
	US\$ 13,090,206	₩ 14,993,597

Monetary assets and liabilities of the Bank denominated in other than U.S. Dollars were converted into equivalent U.S. Dollar amounts using the exchange rate prevailing on December 31, 1999.

16. Capital Surplus:

In accordance with the Asset Revaluation Law, the Bank elected to revalue lands, buildings and investment securities on January 1, 1993. The revaluation gain of ₩370,730 million represents the difference between the revalued amount and the net book value of the revalued assets at January 1, 1993, out of which ₩359,608 million, net of 3% revaluation taxes, was used to disposition of accumulated deficit.

17. Accumulated Deficit:

Accumulated deficit as of December 31, 1999 is as follows:

	In Millions
Other statutory reserves	₩ 13,133
Accumulated deficit before disposition	(1,055,801)
	₩ (1,042,668)

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

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.

Disposition of Accumulated Deficits

Details of the recent two years' disposition of accumulated deficits approved by shareholders on February 26, 1999 and February 27, 1998 are as follows:

	In Millions	
	1998	1997
Accumulated deficit before disposition	¥ 843,544	¥ 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
	¥ -	¥ -

Details of adjustments to the beginning accumulated deficits reflecting the effect of retroactive application of new accounting methods to conform to the revised financial accounting standards are as follows:

	In Millions
Accumulated deficits before adjustments	¥ -
Adjustments:	
Rescheduled loans	(380,591)
Loss on valuation of securities	(127,467)
Loan loss reserves for outstanding guarantees and acceptance contracts	(69,908)
Equity method accounting for investment securities in subsidiaries	31,317
Others, net	(16,258)
Accumulated deficits, as adjusted	¥ (562,907)

18. Capital Adjustments:

Capital adjustments at December 31, 1999 are as follows:

	In Millions
Valuation losses on investment in debt securities	¥ (72,292)
Valuation gain on investment in equity securities	124,291
Discounts on capital stocks	(16,983)
Treasury stocks	(6,425)
	¥ 28,591

Treasury stock of ¥16,983 million held by the Bank at December 31, 1999 comprised 3,904 thousand shares of common stock included in the beneficiary certificate arranged to invest in the Bank's stock. These shares were acquired in the course of merger with KIMB (See Note 26). The Bank intends to sell these treasury shares in the near future.

19. 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 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).

Guarantees and Acceptances

The Bank makes various commitments whereby it accepts customer contingencies or guarantees customer's liabilities in the course of normal business to extend credit to customers. Guarantees and acceptances outstanding at December 31, 1999 are summarized as follows:

		In Millions
Guarantees:		
Won currency	₩	794,122
Foreign currencies		2,745,343
		3,539,465
Acceptances in foreign currencies		1,777,282
	₩	5,316,747

Credit risk classification of the guarantees and acceptances and allowances for estimated potential losses at December 31, 1999 are as follows:

	In Millions						Allowance for Estimated potential losses
	Current	Special mention	Substandard	Doubtful	Loss	Total	
Guarantees and Acceptances	₩ 4,645,230	₩ 180,300	₩ 442,000	₩ 41,417	₩ 7,800	₩ 5,316,747	₩ 112,000

The guarantees and acceptances, excluding acceptance in offshore branches and guarantees arising from merchant banking operations, classified by industry as of December 31, 1999 are as follows:

	In Millions	Ratio (%)
Manufacturing	₩ 2,692,629	56.1
Wholesale and retails/service	731,771	15.2
Construction	521,536	10.9
Telecommunication	210,773	4.4
Other	641,743	13.4
	4,798,452	100.0
Acceptance in overseas branches	487,278	
Guarantees provided by merchant banking operations	31,017	
	₩ 5,316,747	

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Guarantees and Acceptances, Continued

The guarantees and acceptances denominated in foreign currency classified by country as of December 31, 1999 are as follows:

	In Thousands	In Millions	Ratio (%)
Korea	US\$ 3,769,888	₩ 4,318,030	95.5
France	119,864	137,292	3.0
Germany	17,612	20,173	0.4
United Kingdom	12,845	14,713	0.3
U.S.A.	10,515	12,044	0.3
Japan	5,913	6,773	0.2
Other	11,874	13,600	0.3
	US\$ 3,948,511	₩ 4,522,625	100.0

In addition to guarantees and acceptances with underlying liabilities of customers, the notional amounts of the Bank's guarantees and acceptances without underlying liabilities of customers, provided in the normal course of business, at December 31, 1999 are as follows:

	In Millions
Letters of credit issued but not yet being drawn	₩ 4,550,117
Other guarantees and acceptance	31,836
	₩ 4,581,953

The Bank has entered into various loan commitments to provide a certain amount of loans, including overdraft financing, for its customers in the normal course of business. As of December 31, 1999, the amount committed but not yet drawn approximates ₩124,533 million.

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.

A summary of derivative financial instrument information as of December 31, 1999 is as follows:

	In Millions	
	Trading Purpose	Hedging Purpose
Interest Rate Related Contracts		
Futures contracts purchased	₩ 163,356	₩ 22,908
Futures contracts sold	86,363	7,560
Swap contracts purchased	1,355,295	218,513
Swap contracts sold	1,354,144	219,842
Option contracts purchased	171,810	-
Option contracts sold	171,810	-
	₩ 3,302,778	₩ 468,823
Foreign Currency Related Contracts		
Forward contracts purchased	₩ 427,516	₩ 992,423
Forward contracts sold	442,741	991,625
Futures contracts purchased	25,849	-
Swap contracts purchased	512,056	105,051
Swap contracts sold	485,767	127,908
Option contracts purchased	14,890	-
Option contracts sold	69,200	-
	₩ 1,978,019	₩ 2,217,007

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

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 are approximately ₩63,199 million as of December 31, 1999. The Bank believes that the outcome of these matters is uncertain but, in any event, they would not result in material ultimate losses 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.

Asset Backed Securitization and Loans Sold under Repurchase Agreements

At December 6, 1999, the Bank sold certain non-performing loans amounting to ₩106,772 million to a Special Purpose Company (SPC) and received ₩40,000 million and ₩20,000 million in cash and subordinated bonds, respectively. The Bank recognized the loss on sale of loans of ₩46,772 million. The Bank is subject to compensation for damages up to the amount of ₩26,800 million, 25 percent of the total principal amounts of the loans sold under certain adverse conditions.

The Bank recognized additional gains and losses on loans sold to KAMCO amounting to ₩151,897 million and ₩35,302 million, respectively, as a result of subsequent adjustments upon settlement and the change of settlement method(see Notes 20, 21). As of December 31, 1999, the outstanding balance of loans sold but subject to subsequent adjustment upon settlement approximates ₩558,132 million.

Economic uncertainties

In connection with the Asian financial crisis which began in 1997, the Korean economy as well as other economies in the Asia Pacific region experienced economic contractions, a reduction in the availability of credit, increased interest rates, increased inflation, negative fluctuations in currency exchange rates, increased numbers of bankruptcies, increased unemployment and labor unrest. Such conditions had a significant adverse effect on the operations of the Company and other companies in Korea and in the Asia Pacific region.

Recently, economic conditions in the Republic of Korea have improved as evidenced by an increased trade surplus, increases in foreign exchange reserves, record levels of foreign investment and economic growth, lower inflation and interest rates and stabilized foreign exchange rates. Notwithstanding the current recovery, significant uncertainties still exist related to the economy in Korea and in the Asia Pacific region, including certain financially troubled borrowers such as Daewoo Group companies and others which are in process of restructuring of their debt structure under workout and other similar programs. The Bank's outstanding loans and guarantees to the affiliated companies of Daewoo Group and other companies under work-out programs amount to ₩2,583,289 million and 1,693,156 million before present value discounts of ₩199,600 million and ₩82,368 million, respectively. The Bank has accrued ₩1,120,500 million and ₩255,600 million, respectively of allowance for such loan losses as of December 31, 1999. The accompanying non-consolidated financial statements reflect management's current assessment of the impact to date of the economic situation on the financial position of the Bank. Actual results may differ materially from management's current assessment.

20. Other Income:

Details of other income for the year ended December 31, 1999 are as follows:

	In Millions
Operating income from merchant banking operations	₩ 233,306
Gain on disposal of trading securities	156,411
Gain on disposal of investment securities	97,356
Gain on valuation of securities	78,857
Gain on sales of loans	151,897
Gain on disposal of premises and equipment	12,260
Recovery of loans charged off	4,805
Lease rental earned	2,652
Deferred tax revenue	12,773
Other	61,168
	₩ 811,485

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Details of operating income from merchant banking operations for the year ended December 31, 1999 are as follows:

	In Millions
Interest income, including interest on financing lease receivable	₩ 132,688
Fees and commissions income	3,303
Lease rentals earned	58,725
Gain on disposal of operating lease assets	13,152
Gain on disposal of beneficiary certificates	14,186
Gain on foreign currency translations	797
Other	10,455

21. Other Expenses:

Details of other expenses for the year ended December 31, 1999 are as follows:

	In Millions
Operating expenses from merchant banking operations	₩ 121,519
Loss on disposal of trading securities	50,401
Loss on disposal of investment securities	104,343
Loss on disposal of premises and equipment	6,163
Loss on valuation of securities	103,117
Loss on sales of loans	124,319
Deferred tax expenses	4,066
Other	118,524
	₩ 632,452

Details of operating expenses from merchant banking operations for the year ended December 31, 1999 are as follows:

	In Millions
Interest expense, including interest on CMA deposits	₩ 35,599
Depreciation on operating lease assets	29,097
Provision for loan losses	27,251
Loss on disposal of operating lease assets	658
Provision for losses on disposal of operating lease assets	28,914
	₩ 121,519

22. Income Taxes:

The statutory income tax rates applicable to the Bank, including resident tax surcharges, approximate 30.8%. No current or deferred income tax expenses were recorded in 1999 due to net loss and operating loss carry forward. The current income tax expenses represent income taxes paid by overseas branches.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

The components of differences between taxable income and accounting income for the year ended December 31, 1999, are as follows:

	In Millions
Net loss	₩ (802,783)
Temporary differences:	
Restructuring of loans	427,299
Allowance for loan losses	257,100
Accrued interests, net	81,352
Gain on valuation at securities, net	243,030
Allowance for estimated losses on outstanding guarantees and acceptances contract	112,000
Others	220,252
	1,341,033
Permanent differences:	
Adjustments to accumulated deficits	(563,303)
Others	(5,231)
	(568,534)
Net taxable loss / operating loss carry-forward	₩ (30,284)

The details of temporary differences and deferred tax assets as of December 31, 1999 are as follows:

	In Millions				
	Balance at January 1, 1999	Adjustments for foreign currency translation	Increase (Decrease)	Balance at December 31, 1999	Deferred tax (liabilities)
Loss on valuation of securities	₩ 95,198	₩ (2,067)	₩ 86,270	₩ 179,401	₩ 55,255
Gain on valuation of long-term debt securities	(54,427)	495	156,760	102,828	31,671
Accrued interest	(209,245)	-	81,352	(127,893)	(39,391)
Allowance for loan losses	36,319	-	220,781	257,100	79,187
Loans charged off	(36,319)	-	102,532	66,213	20,394
Allowance for losses from guarantees and acceptances	-	-	112,000	112,000	34,496
Restructuring of loans	-	-	427,299	427,299	131,608
Others, net	(118,339)	(68)	154,039	35,632	10,975
Sub-total	(286,813)	(1,640)	1,341,033	1,052,580	324,195
Operating loss carry-forward	1,000,888	-	30,284	1,031,172	317,601
Deferred tax assets					641,796
Allowance for deferred tax assets					(641,796)
Deferred tax assets, net					₩ -

23. Net Loss Per Share and Ordinary Loss Per Share:

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

	In Millions
Net loss	₩ (802,783)
Preferred stock dividends	-
Net loss allocated to common stock	(802,783)
Weighted average number of common shares outstanding (in shares)	418,858,752
Basic net loss per share (in Won)	₩ (1,917)

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

	In Millions
Ordinary loss	₩ (796,832)
Income tax related to ordinary loss	11,052
Ordinary income allocated to common stock	(807,884)
Weighted average number of common shares outstanding (in shares)	418,858,752
Basic ordinary loss per share (in Won)	₩ (1,929)

The weighted average number of common shares outstanding for the year ended December 31, 1999 are calculated as follows:

Number of Shares	Adjustment (*)	As adjusted	Number of days outstanding	Weighted number of shares outstanding	
Beginning	235,000,000	1.1488	269,973,354	365	98,540,274,210
Increase due to merger	56,947,525	1.1488	65,422,614	360	23,552,141,040
Treasury stock	(13,428,774)	1.0000	(13,428,774)	227	(3,048,331,698)
Treasury stock	(13,428,774)	1.0000	(13,428,774)	239	(3,209,476,986)
Treasury stock	(4,969,201)	1.0000	(4,969,201)	365	(1,813,758,365)
Stocks newly issued	152,402,338	1.0000	152,402,338	255	38,862,596,190
	412,523,114		455,971,557		152,883,444,391

Weighted average number of shares outstanding:
152,888,444,391 shares / 365 days = 418,858,752 shares

(*) In accordance with the interpretation of the financial accounting standards weighted average of new common stock outstanding were adjusted to reflect market value of new common stock in excess of proceeds from issuance of them.

For the period ended December 31, 1999, diluted net loss per share and diluted ordinary loss per share are equal to basic net loss per share and basic ordinary loss per share due to the anti-dilutive effect of all potentially dilutive securities.

Potential common share information as of December 31, 1999 are as follows:

	Face value (In millions)	Exercise Period	Number of common shares to be issued upon conversion
Convertible preferred shares	₩ 260,000	On Apr. 21, 2002 or on Apr. 21, 2004	52,000,000
Subordinated convertible debentures (No. 4)	100,000	From Mar. 7, 2000 to Oct. 31, 2004	20,000,000
Subordinated convertible debentures (No. 5)	100,000	From Mar. 28, 2000 to Nov. 27, 2009	20,000,000
	₩ 460,000		92,000,000

24. Business Division and Regional Information:

The financial information by business divisions comprising retail financing, corporate financing, international financing and others are as follows:

	In Millions				
	Retail financing	Corporate financing	International financing	Other	Total
Divisional income	₩ 430,398	₩ 476,643	₩ (14,730)	₩ 211,683	₩ 1,103,994
Loans	3,489,437	11,970,307	5,274,880	3,567,166	24,301,790
Securities	-	-	1,248,779	9,897,143	11,145,922

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Reconciliation between the bank-wide earnings and divisional earnings for the period ended December 31, 1999 are as follows:

	In Millions
Total divisional income	₩ 1,103,994
Provision for allowances for loan losses	(1,853,244)
Provision for severance benefits	(42,481)
Income taxes	(11,052)
Net loss	₩ 802,783

The financial information divided by geographical regions, comprised of domestic and overseas markets, is as follows:

	In Millions		
	Domestic	Overseas	Total
Operating revenue	₩ 3,952,334	₩ 565,818	₩ 4,518,152
Operating income	(641,065)	(169,892)	(810,957)
Loans	19,945,158	4,356,632	24,301,790
Securities	10,239,840	906,084	11,145,924

25. Supplemental Cash Flows Information:

The Bank considers cash on hand, deposits and highly liquid marketable securities with original maturities of three months or less to be cash and cash equivalents. Cash and cash equivalent at December 31, 1999 are as follows:

	In Millions
Cash on hand	₩ 1,475,133
Deposits in won	1,665,396
Deposits in foreign currencies	2,054,626
Marketable securities	653,470
	₩ 5,848,625

Significant non-cash flow transactions for the financial year ended December 31, 1999 are as follows:

	In Millions
Increase in net assets by merger	₩ 90,769
Increase in goodwill by merger	81,024
Increase in beginning accumulated deficits by reflecting present value discounts	380,591
Decrease in loans by charge-off	327,086
Decrease in allowance for loan losses by offsetting present value discounts	103,073
Acquisition of treasury stocks by merger	96,087
Decreasing of goodwill by gain on disposal of treasury stocks	77,532
Increase in beginning accumulated deficits by reflecting allowance for estimated potential losses on outstanding guarantees and acceptances	69,908

26. Merger:

On January 1, 1999, the Bank merged with Korea International Merchant Bank (KIMB), a domestic subsidiary of the Bank. The transaction occurred in accordance with a resolution of board of directors on October 16, 1998 and subsequent approval by shareholders on November 26, 1998 in order to comply with the Bank's Rehabilitation Plan filed to the banking regulatory authorities.

KIMB had been established on May 28, 1979 under the Merchant Banking Act and engaged in leasing, CMA, foreign exchange, and other merchant banking operations.

In connection with the merger, the Bank issued 56,947,525 new shares of its common stock in exchange for all of the outstanding common stock of KIMB at a conversion ratio of 2.78571 shares (the merger exchange ratio) of the Bank's common stock for each outstanding share of KIMB. The Bank also acquired 26,857,548 treasury shares by conversion of the KIMB's 9,639,981 shares (47.16%) previously held by the Bank before the merger and recorded them as capital adjustments. During the period ended 1999, bank sold all treasury shares and deducted the gains on disposal of treasury shares from goodwill rights.

The details of goodwill arising from the merger are as follows:

	In Millions
Merchant banking assets acquired	₩ 4,656,369
Merchant banking liabilities assumed	4,452,655
Net asset value at January 1, 1999	203,714
Stocks delivered (*)	284,738
	81,024
Gain on disposition of treasury stock	(77,532)
Goodwill incurred by the merger	₩ 3,492

(*) 56,947,525 shares x ₩5,000 = ₩284,738 million

The KIMB's condensed balance sheet as of December 31, 1998 and income statement information for the year then ended are as follows:

- Condensed balance sheet information as of December 31, 1998:

	In Millions
Loans	₩ 2,571,598
Cash and due from banks	112,944
Securities	787,651
Premises and equipment	45,999
Other assets	1,138,177
	₩ 4,656,369
Deposits	₩ 450,545
Borrowings	2,811,825
Allowance	143,526
Other liabilities	1,046,759
	4,452,655
Capital stock	102,214
Capital surplus	61,840
Retained earnings	39,660
	203,714
	₩ 4,656,369

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

- Condensed income statement information for the year ended December 31, 1998.:

	In Millions
Operating revenues	₩ 593,096
Operating expenses	708,355
Operating losses	(115,259)
Non-operating revenues	5,519
Non-operating expenses	(6,659)
Net loss before income taxes	(116,399)
Income taxes	12,435
Net loss	₩ (103,964)

The assets and liabilities of KIMB were recorded at its book value as of January 1, 1999 in accordance with the financial accounting standards for business combination. Details of inter-company account balances eliminated in the merger are as follows:

Company	Assets	Company	Liabilities	In Millions
KEB	Cash and due from Banks	KIMB	Borrowings	₩ 713,930
KEB	Other assets	KIMB	Borrowings	414,696
KIMB	Cash and due from Banks	KEB	Deposits	944
KIMB	Cash and due from Banks	KEB	Borrowings	89,497
KIMB	Loans	KEB	Borrowings	6,700
KIMB	Cash and due from Banks	KEB	Other liabilities	2
KEB	Guarantees provided	KIMB	Guarantees received	464,555

27. Related Party Transactions:

Significant transactions made in the normal course of business with subsidiaries during 1999 and related account balances as of December 31, 1999 are summarized as follows :

	In millions of Korean Won											
	KAF	KEBA	KEBCS	KEBI	KEBLS	KEBLS(HK)	KEBD A.G.	KEBD	KEBIRE	Trust	Others	Total
ASSETS :												
Due from banks	37,923	89,945	-	11,454	-	-	99,473	53,038	-	-	45,484	337,317
Loans	209,614	22,566	57,991	186,690	167,772	69,869	4,328	58,859	197,405	163,100	5,732	1,143,926
Others	2,791	733	1,975	3,056	6,378	-	-	-	-	325	-	15,258
LIABILITIES :												
Deposits	9	-	-	25,552	5,419	47	7,067	30,967	43,531	-	37,926	150,518
Borrowings	13,428	-	-	-	-	-	-	-	8,777	-	-	22,205
Others	559	-	-	246	1,896	-	714	225	-	282,387	2,774	288,801
REVENUES:												
Interest in Won currency	-	-	1,962	-	-	-	-	-	-	-	-	1,962
Interest in foreign currency	20,767	733	31	6,002	-	6,444	-	10,391	9,931	11,234	1,844	67,377
Fees and commissions	335	-	25,713	-	-	-	-	-	-	-	-	26,048
Others	3,242	-	-	-	161	-	-	-	-	11,205	-	14,608
EXPENSES:												
Interest in Won currency	-	-	-	-	-	-	-	-	-	1,448	2,663	4,111
Interest in foreign currency	1,056	-	-	644	-	4	-	6,308	201	-	1,130	9,343
Others	1,978	-	-	-	-	-	-	-	-	225,865	85	227

To the Board of Directors and Shareholders

KOREA EXCHANGE BANK

We have audited the accompanying non-consolidated balance sheet of Korea Exchange Bank ("the Bank") as of December 31, 1999, and the related non-consolidated statements of operations, disposition of accumulated deficit and cash flows for the year then ended. These non-consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these non-consolidated financial statements based on our audit. We did not audit the financial statements of certain foreign branches, which statements reflect total assets and revenues constituting 10.3 percent and 7.7 percent, respectively, of the related totals. These 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.

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

In our opinion, based on our audit and the reports of the other auditors, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of December 31, 1999, and the results of its operations, the changes in its accumulated deficit and its cash flows for the year then ended, in accordance with financial accounting standards generally accepted in the Republic of Korea.

As discussed in Note 2 to the accompanying non-consolidated financial statements, the Bank's 1999 financial statements are prepared in conformity with the revised financial accounting standards in the Republic of Korea effective January 1, 1999. Previously, the Bank's financial statements were prepared in conformity with the financial accounting standards in the Republic of Korea, as modified by the accounting and reporting guidelines prescribed by the regulatory banking authorities in the Republic of Korea. In addition, as permitted by the revised financial accounting standards, the Bank has presented its financial statements for 1999 only.

As discussed in Note 2 to the accompanying non-consolidated financial statements, the Bank adopted Forward Looking Criteria ("FLC") for its loan classification to determine the allowances for certain loan losses.

As discussed in Note 26 to the accompanying non-consolidated financial statements, the Bank merged with Korea International

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

As discussed in Note 1 to the accompanying non-consolidated financial statements, on April 21, 1999, the Bank issued 152,402 thousand new common shares and 52,000 thousand new preferred shares at par value of ₩5,000 based on a resolution of board of directors on February 5, 1999.

Without qualifying our opinion, we draw attention to Note 19 of the non-consolidated financial statements. The operations of the Bank have been significantly affected, and may continue to be affected for the foreseeable future, by the general adverse economic conditions in the Republic of Korea and in the Asia Pacific region, including certain financially troubled borrowers such as Daewoo Group companies and others which are in process of restructuring of their debt structure under workout and other similar programs. As of December 31, 1999, the Bank's outstanding loans and guarantees to Daewoo Group companies and other companies under workout programs amount to ₩2,583,289 million and ₩1,693,156 million before present value discounts of ₩199,600 million and ₩82,368 million, respectively. The Bank has accrued ₩1,120,500 million and ₩255,600 million, respectively, of allowance for such loan losses as of December 31, 1999. The ultimate effect of these significant uncertainties on the financial position of the Bank as of the balance sheet date cannot presently be determined and accordingly, no adjustments have been made in the accompanying non-consolidated financial statements related to such uncertainties.

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

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

Seoul, Korea
January 19, 2000

Samil Accounting Corporation

NON-CONSOLIDATED BALANCE SHEET (TRUST ACCOUNTS)

December 31, 1999

	In Millions of Korean Won	In Thousands of U.S. Dollars (Note 3)
ASSETS :		
Cash and due from banks	₩ 851,794	US\$ 743,665
Call loans	1,433,375	1,251,419
Securities purchased under agreements to resell	37,716	32,928
Securities	20,054,640	17,508,853
Money receivables	30,561	26,682
Loans	1,202,998	1,050,286
Deposits at the Bank's banking accounts	530,429	463,095
Accrued income	391,617	341,904
Other assets	184,672	161,229
	₩ 24,717,802	US\$ 21,580,061
LIABILITIES AND STOCKHOLDERS' EQUITY :		
Money trusts	₩ 9,070,909	US\$ 7,919,425
Other trusts	46,154	40,295
Securities investment trusts	12,913,720	11,274,419
Borrowings	163,100	142,396
Special allowance	17,764	15,509
Allowance for loan losses	434,185	379,068
Accrued expenses	1,763,893	1,539,980
Other liabilities	308,077	268,969
	₩ 24,717,802	US\$ 21,580,061

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

NON-CONSOLIDATED STATEMENT OF OPERATIONS (TRUST ACCOUNTS)

for the year ended December 31, 1999

	In Millions of Korean Won	In Thousands of U.S. Dollars (Note 3)
Revenues:		
Interest on Loans	₩ 208,178	US\$ 181,751
Interest on Call loans	6,830	5,963
Interest on Securities	880,126	768,401
Interest on Money receivables	881	769
Interest on deposits at the Bank's banking accounts	11,341	9,901
Gains on securities transactions	3,204,355	2,797,586
Gains on derivative transactions	424,554	370,660
Other income	425,162	371,191
Total revenue	5,161,427	4,506,222
Expenses:		
Trust fees to the Bank's banking accounts	103,421	90,292
Fees and commissions expense	6,541	5,711
Provision for loan losses	317,608	277,290
Contributions to guarantee funds	4,347	3,795
Losses on securities transactions	995,484	869,115
Losses on derivative transactions	380,490	332,190
Other expenses	45,922	40,093
Total expenses	1,853,813	1,618,486
Dividends of trust profit to beneficiaries	₩ 3,307,614	US\$ 2,887,736

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

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS (TRUST ACCOUNTS)

for the year ended December 31, 1999

	In Millions of Korean Won	In Thousands of U.S. Dollars (Note 3)
Cash flows from operating activities:		
Net income	₩ -	US\$ -
Adjustment to reconcile net income to net cash provided by operating activities:		
Gain on disposal of securities, net	(1,455,085)	(1,270,373)
Gain on repayment of securities, net	(506,073)	(579,656)
Valuation gain on securities	(174,130)	(152,025)
Provision for loan losses	317,608	277,290
Gain on sale of loans	(13,732)	(11,989)
Others, net	352,603	307,843
Net cash used in operating activities	(1,552,392)	(1,355,327)
Cash flows from investing activities:		
Decrease in loans	1,004,582	877,058
Decrease in securities	1,171,895	1,023,132
Decrease in deposits at the Bank	113,881	99,425
Increase in securities purchased under agreements to resell	(28,655)	(25,017)
Increase in money receivables	(30,561)	(26,682)
Increase in call loans	(278,346)	(243,012)
Others, net	(437)	(382)
Net cash provided in investing activities	1,952,359	1,704,522
Cash flows from financing activities:		
Decrease in money trusts	(3,062,316)	(2,673,578)
Increase in securities investment trusts	788,577	688,473
Decrease in borrowings	(89,400)	(78,051)
Others, net	45,999	40,160
Net cash used in financing activities	(2,317,140)	(2,022,996)
Net decrease in cash and cash equivalents	(1,917,173)	(1,673,801)
Cash and cash equivalents at beginning of year	2,794,047	2,439,364
Cash and cash equivalents at end of year	₩ 876,874	US\$ 765,563

The accompanying notes are an integral part of these financial statements

1. Summary of Significant Accounting Policies

Under the Trust Business Act, trust funds held by the bank as 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 income 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 deposit collateral is recognized on a cash basis. At December 31, 1999, the amount of interest not recognized due to such policy approximates ₩76,637 million.

- *Deposits at the Bank's banking accounts*

The Bank's trust accounts deposit certain amounts for drawing of unspecified money trust, and account for them as deposits at the Bank's banking accounts. 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 trust revenues, until the total allowance equals 3% of the related money trust balance. If the current income from trust operations is insufficient to generate the required rate of return, the deficiency may be either recovered from previously established special allowances or from the Bank's banking accounts.

- *Allowance for Loan Losses*

Allowance for loan losses of trust account assets which are not carried at market value (including loans, commercial paper and certain corporate debentures) are provided based on a credit risk classification of the loan portfolio as of December 31. Estimated loan losses are determined using the same estimated loss percentage for each credit risk classification as the banking accounts of the Bank. The losses on restructured troubled loans receivable have not been recognized as permitted by the Trust Business Act and relevant related regulations.

The allowance for loan losses of these trust accounts with a guaranteed minimum rate of return and without a guaranteed minimum rate of return at December 31, 1999 amount to ₩385,242 million and 48,943 million, respectively. The charge-offs recorded by these trust accounts of the Bank 1999 amounts to ₩89,173 million.

- *Investment Securities*

Pursuant to the laws and regulations applicable to trust operations prescribed by the banking regulatory authorities, equity securities and beneficiary certificates held by the Bank's trust accounts are stated at market or net asset value. Certain debt securities including corporate debentures, except for debt securities included in the trust accounts established subsequent to November 15, 1998, which are stated at market or net asset value, are stated at cost as permitted by the Trust Business Act and relevant related regulations.

- *Trust Fees*

The Bank's banking accounts receive trust fees, ranging from 0.2% to 2.0% of the trust's principal, from the trust accounts as compensation for its management of trust assets and operations. The banking accounts are also entitled to receive special trust fees from certain trust accounts with a 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 are accounted for as compensation for trust accounts of the banking accounts and other income of the trust accounts, respectively, in accordance with the relevant laws and regulations applicable to trust operations.

The amount of compensations accounted for other income of the trust accounts in 1999 is ₩225,865 million.

- *Security Investment Trust*

The Bank's trust accounts include assets and liabilities of securities investment trusts for which the Bank has performed fiduciary roles only and does not acquire or assume additional benefits or risk under the fiduciary agreements.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS (TRUST ACCOUNTS)

The Bank recognizes interest income on assets of the securities investment trusts on an accrual basis but does not provide for possible loan losses and valuation losses on securities.

The Bank receives trust fees of 0.05% to 0.1% of security investment trust amounts for acting as a custodian.

2. Trust Accounts

Trust Type

Trust funds managed by the Bank at December 31, 1999 are as follows:

	In Millions
Money Trusts:	
General unspecified money trusts	₩ 634
Development trusts	1,864,808
Old-age living pension trusts	97,587
Long-term household trusts	1,028,360
Employee preferential trusts	183,869
New installment trusts	1,013,249
Installment savings trust	2,421,314
Household money trusts	228,311
Corporation money trusts	41,670
Individual pension trusts	317,078
Specified money trusts	600,471
Unit money trusts	1,272,320
National stock trusts	1,238
	9,070,909
Securities investments trusts	12,913,720
Other	46,154
	₩ 22,030,783

	In Millions			
	Trust accounts subject to a guaranteed minimum rate of return	Trust accounts with no guarantees of return	Securities investment trust	Total
ASSETS:				
Cash and due from Banks	₩ 253	₩ 378	₩ 851,163	₩ 851,794
Call loans	64,480	40,520	1,328,375	1,433,375
Securities purchased under agreement to resell	-	-	37,716	37,716
Securities	2,405,846	6,169,095	11,479,699	20,054,640
Money receivables	-	30,561	-	30,561
Loans	607,849	595,149	-	1,202,998
Deposits at the Bank's banking accounts	282,387	103,872	144,170	530,429
Accrued income	31,455	226,677	133,485	391,617
Other assets	6,400	12,704	165,568	184,672
	₩ 3,398,670	₩ 7,178,956	₩ 14,140,176	₩ 24,717,802

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS (TRUST ACCOUNTS)

In Millions

	Trust accounts subject to a guaranteed minimum rate of return	Trust accounts with no guarantees of return	Securities investment trust	Total
LIABILITIES AND SHAREHOLDERS' EQUITY:				
Money trusts	₩ 2,397,409	₩ 6,673,500	₩ -	₩ 9,070,909
Other trusts	-	46,154	-	46,154
Securities investment trusts	-	-	12,913,720	12,913,720
Borrowings	163,100	-	-	163,100
Special allowance	7,508	2,813	7,443	17,764
Allowance for loan losses	385,242	48,943	-	434,185
Accrued expenses	435,910	388,242	939,741	1,763,893
Other liabilities	9,501	19,304	279,272	308,077
	₩ 3,398,670	₩ 7,178,956	₩ 14,140,176	₩ 24,717,802
REVENUE:				
Interest on loans	₩ 80,609	₩ 127,569	₩ -	₩ 208,178
Interest on call loans	2,371	4,459	-	6,830
Interest on securities	230,543	635,474	14,109	880,126
Interest on deposits at the Bank's banking accounts	1,326	6,866	3,149	11,341
Gains on securities transactions	239,034	299,166	2,666,155	3,204,355
Gains on derivatives transactions	7,228	12,415	404,911	424,554
Other income	243,941	3,440	178,662	426,043
	₩ 805,052	₩ 1,089,389	₩ 3,266,98	₩ 5,161,427
EXPENSES:				
Trust fees to the Bank's banking accounts	₩ 11,205	₩ 85,270	₩ 6,946	₩ 103,421
Fees and commissions expense	2,748	3,659	134	6,541
Provision for loan losses	252,623	64,985	-	317,608
Contributions to guarantee funds	3,255	1,092	-	4,347
Losses on securities transactions	88,976	94,232	812,276	995,484
Losses on derivatives transactions	8,594	11,777	360,119	380,490
Other expenses	31,893	2,483	11,546	45,922
	₩ 399,294	₩ 263,498	₩ 1,191,021	₩ 1,853,813
Dividends of trust profit to beneficiaries	₩ 405,758	₩ 825,891	₩ 2,075,965	₩ 3,307,614

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS (TRUST ACCOUNTS)

Money Trusts and other

Details of money trusts are as follows:

	Period of Trusts	Type of Dividends	Guarantee of Principal Repayment
General unspecified money trusts	1.5 years or more	Guaranteed	Guaranteed
Development trusts	2 years or more	"	"
Old-age living pension trusts	5 years or more	Actual	"
Individual pension trusts	15 years or more	"	"
Installment savings trusts (*)	1.5 years or more	"	No guarantee
Household money trusts (*)	1.5 years or more	"	"
Corporation money trusts (*)	1.5 years or more	"	"
Long-term household trusts	3-5 years	"	"
Employee preferential trusts	3-5 years	"	"
New installment trusts	1 years or more	"	"
Specified money trusts	1.5 years or more	"	"
Unit money trusts	1 year	"	"
National stock trust	expired	"	"

(*) For beneficiaries of these trusts who entered into agreements with the Bank on or prior to April 30, 1996, the Bank provides guarantees for the repayment of principal, if the trusts incurred net loss.

During 1999, ₩902,572 million of trust assets with no guarantees of return were transferred to trust accounts subject to a guaranteed minimum rate of return.

Loans

Loans of the trust accounts at December 31, 1999 are as follows:

	In Millions
Loans secured by:	
Securities	₩ 138
Movable property	4
Real estate	316,228
Certificates of deposit and commercial paper	22,785
Trust beneficiary certificates	166,191
Guarantees of financial institutions or Korea Credit Guarantee Fund	73,432
	578,778
Unsecured loans	624,220
	₩ 1,202,998

Interest rates on the above loans are normally determined at prime rates plus spreads of up to 5.0%, 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.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS (TRUST ACCOUNTS)

Securities

Securities of the trust accounts at December 31, 1999 are as follows:

	In Millions
Securities issued by government	₩ 1,866,627
Financing bonds	2,508,715
Securities issued by local government	223,251
Corporation bonds	5,399,230
Stocks	3,326,410
Foreign securities	92,989
Bills bought	4,752,443
Other securities	1,884,975
	₩ 20,054,640

Other Assets

Other assets of the trust accounts at December 31, 1999 are as follows:

	In Millions
Accounts receivable	₩ 51,974
Other	132,698
	₩ 184,672

Other liabilities

Other liabilities of the trust accounts at December 31, 1999 are as follows:

	In Millions
Accounts payable	₩ 290,608
Unearned income	10,496
Other	6,973
	₩ 308,077

Dividends of Trust Profit to Beneficiaries

Dividends of trust profit to beneficiaries by trust types for the period ended December 31, 1999 are as follows:

	In Millions
Money trusts:	
General unspecified money trusts	₩ 110
Development trusts	357,126
Old-age living pension trusts	10,196
Long-term household trusts	90,449
Employee preferential trusts	14,033
New installment trusts	145,767
Installment savings trusts	238,574
Household money trusts	20,518
Corporation money trusts	3,850
Individual pension trusts	27,411
Specified money trusts	208,533
Unit money trusts	113,432
National stock trusts	685
	1,230,684
Securities investment trusts	2,075,965
Property trust	965
	₩ 3,307,614

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS (TRUST ACCOUNTS)

Trust Fees to the Bank

Trust fees to the Bank by trust type for the period ended December 31, 1999 are as follows:

	In Millions
Money trusts:	
General unspecified money trusts	₩ 94
Development trusts	-
Old-age living pension trusts	5,972
Long-term household trusts	5,436
Employee preferential trusts	1,213
New installment trusts	30,912
Installment savings trusts	15,704
Household money trusts	5,598
Corporation money trusts	474
Individual pension trusts	3,069
Specified money trusts	19,540
Unit money trusts	8,385
National stock trusts	33
	96,430
Property trust	45
Securities investment trusts	6,946
	₩ 103,421

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 by investment trust companies at December 31, 1999 are as follows:

	In Millions
KEB Commerz Investment Trust Management Co., Ltd.	₩ 3,458,343
Hyundai Investment Trust Management Co., Ltd.	3,241,435
Daehan Investment Trust Co., Ltd.	2,730,115
Dongbu Investment Trust Management Co., Ltd.	311,308
Samsung Life Insurance Co., Ltd.	972,495
LG Investment Trust Co., Ltd.	1,507,773
Korea Investment Trust Co., Ltd.	239,898
CJ Investment Trust Securities Co., Ltd.	321,176
Merchant Banking Account of the Bank	103,959
Other	27,218
	₩ 12,913,720

Loans charged-off

At December 31, 1999, the Bank's loans in trust accounts of which the balance had been already charged off but the Bank's legal claim rights against borrowers or guarantors have not been expired amount to ₩54,583 million and ₩5,060 million for trust accounts subject to a guaranteed minimum rate of return and those without guarantees, respectively.

Loans Sold under Repurchase Agreements

In 1998, trusts accounts sold a portion of non-performing loans to the Korea Asset Management Corporation (KAMCO) and others. As of December 31, 1999, outstanding balance of loans sold but subject to subsequent adjustments upon settlements approximates ₩97,488 million.

3. Supplemental Cash Flow Information:

The Bank considers cash on hand, deposits and highly liquid marketable securities with original maturities of three months or less to be cash and cash equivalents. Cash and cash equivalent at December 31, 1999 are as follows:

	In Millions	
Cash and bank deposits	₩	851,794
Marketable securities		25,080
	₩	876,874

Significant non-cash flow transactions for the financial year ended December 31, 1999 are as follows:

	In Millions	
Decrease in loans by charge-off	₩	89,173
Increase in investments in equity securities by exchange of troubled loans		95,721

FINANCIAL STATEMENTS OF THE BANK'S TRUST ACCOUNTS

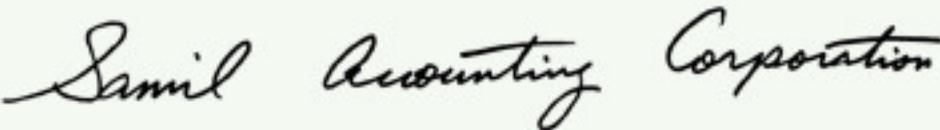
To the Shareholders and Board of Directors of
KOREA  EXCHANGE BANK

We have audited the financial statements of Korea Exchange Bank (the Bank) as of December 31, 1999. We have also audited the accompanying financial statements of the Bank's Trust Accounts for the year ended December 31, 1999. We conducted our audit in accordance with auditing standards generally accepted in the Republic of Korea. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

In our opinion, the accompanying financial statements of trust accounts states fairly, in all material respects, the financial position of trust accounts as of December 31, 1999, and the results of operations for the period then ended in conformity with the relevant Trust Business Act and related regulations.

Samil Accounting Corporation

Seoul, Korea
January 19, 2000



Attachment:

Balance Sheet of the Bank's Trust Accounts
Statement of Operations of the Bank's Trust Accounts
Statement of Cash Flows of the Bank's Trust Accounts
Notes to the Financial Statements of the Bank's Trust Accounts

CONSOLIDATED BALANCE SHEET

December 31, 1999

	In Millions of Korean Won	In Thousands of U.S. Dollars (Note 3)
ASSETS :		
Cash and due from banks (Note 4)	₩ 4,933,737	US\$ 4,307,436
Trading securities (Note 5)	3,234,489	2,823,895
Investment securities (Note 5)	9,240,758	8,067,713
Loans, net of allowance for loan losses (Notes 6 and 9)	27,192,532	23,740,643
Premises and equipment, net (Note 8)	1,116,438	974,714
Accrued interest	483,419	422,052
Consolidation differentials, debit (Note 23)	2	2
Other assets (Notes 10)	1,266,919	1,106,093
Total Assets	₩ 47,468,294	US\$ 41,442,548
LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY :		
Liabilities :		
Deposits (Note 11)	₩ 30,187,468	US\$ 26,355,394
Borrowings (Note 12)	9,733,417	8,497,832
Debentures (Note 13)	3,204,622	2,797,819
Accrued expenses	1,110,679	969,687
Other liabilities (Notes 14 and 15)	1,667,633	1,455,939
Total Liabilities	45,903,819	40,076,671
Minority Interests in consolidated subsidiaries	149,714	130,709
Commitments and Contingencies (Note 19)		
Shareholders' equity (Note 1) :		
Capital stock,		
1,000 million shares authorized;		
Common stock, ₩ 5,000 par value;		
444 million shares issued and outstanding	2,221,749	1,939,715
Preferred stock, ₩ 5,000 par value;		
52 million shares issued and outstanding	260,000	226,995
Capital surplus (Note 16)	222,727	194,453
Accumulated deficit (Note 17)	(1,140,057)	(995,335)
Capital adjustments, net (Note 18)	(149,658)	(130,660)
Total Shareholders' Equity	1,414,761	1,235,168
Total Liabilities, Minority Interests and Shareholders' Equity	₩ 47,468,294	US\$ 41,442,548

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

CONSOLIDATED STATEMENT OF OPERATIONS

for the year ended December 31, 1999

	In Millions of Korean Won	In Thousands of U.S. Dollars (Note 3)
	(Except for EPS data)	(Except for EPS data)
Revenue :		
Interest on due from banks	₩ 203,525	US\$ 177,689
Interest on securities	834,614	728,666
Interest on loans	2,633,596	2,299,281
Other interest income	245,743	214,548
Total interest income	3,917,478	3,420,184
Fees and commissions income	588,103	513,448
Gains on foreign exchange transactions	663,189	579,002
Trust fee income	92,216	80,510
Other income (Note 20)	893,685	780,238
Total revenue	6,154,671	5,373,382
Expenses :		
Interest on deposits	1,866,871	1,629,886
Interest on borrowings	736,675	643,160
Interest on debentures	306,672	267,742
Other interest expense	78,090	68,177
Total interest expenses	2,988,308	2,608,965
Fees and commissions expense	115,946	101,228
Losses on foreign exchange transactions	493,420	430,784
Provision for possible loan losses	1,951,887	1,704,109
General and administrative expenses	530,283	462,968
Provision for severance benefits	46,161	40,301
Depreciation and amortization	164,421	143,549
Other expenses (Note 21)	681,721	595,181
Total expenses	6,972,147	6,087,085
Net loss before income tax expenses	(817,476)	(713,703)
Income tax expenses (Note 22)	44,690	39,017
Net loss before minority interests, equity in earnings of equity method investees and amortization of consolidation differentials	(862,166)	(752,720)
Minority interests in losses of consolidated subsidiaries, net	25,626	22,373
Amortization of consolidation differentials, net (Note 23)	1	1
Equity in earnings of equity method investees (Note 5)	13,130	11,463
Net loss	₩ (823,411)	US\$ (718,885)
Basic and diluted net loss per share (Note 24) (in Korean Won and U.S. Dollars)	₩ (2,096)	US\$ (1,830)
Basic and diluted net loss per share (Note 24) (in Korean Won and U.S. Dollars)	₩ (1,966)	US\$ (1,716)

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

CONSOLIDATED STATEMENTS OF CAPITAL SURPLUS AND ACCUMULATED DEFICIT

for the year ended December 31, 1999

	In Millions of Korean Won	In Thousands of U.S. Dollars (Note 3)
Consolidated capital surplus (Note 16)		
Balance at beginning of the year	₩ 386,243	US\$ 337,212
Increase by changes in equity method investees, net	93,943	82,018
Increase in capital stock of consolidated subsidiaries by transfer from retained earnings	54,249	47,362
Increase in changes in ownership ratio, net	9,418	8,222
Capital surplus used to offset accumulated deficit	(310,822)	(271,365)
Decrease by changes in consolidated subsidiaries, net	(5,571)	(4,864)
Other	(4,733)	(4,132)
Balance at end of the year	222,727	194,453
Consolidated accumulated deficit (Note 17)		
Balance at beginning of the year	(99,502)	(86,871)
Accumulated deficit used to offset capital surplus	310,822	271,365
Increase by changes in equity method investees, net	86,884	75,855
Increase by changes in ownership ratio, net	73,739	64,378
Increase by changes in consolidated subsidiaries, net	14,101	12,311
Net loss	(823,411)	(718,885)
Cumulative effect of retroactive adoption of the revised accounting standards	(590,500)	(515,540)
Retained earnings transferred to capital stock	(54,249)	(47,362)
Decrease by deficit in excess of minority interests, net	(29,715)	(25,943)
Cash dividends	(29,414)	(25,680)
Others, net	1,188	1,037
Balance at end of the year	(1,140,057)	(995,335)
Balance of consolidated capital surplus and accumulated deficit at end of the year	₩ (917,330)	US\$ (800,882)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

for the year ended December 31, 1999

	In Millions of Korean Won	In Thousands of U.S. Dollars (Note 3)
Cash flows from operating activities:		
Net loss	₩ (823,411)	US\$ (718,885)
Adjustment to reconcile net loss to net cash provided by operating activities:		
Gain on disposal of securities, net	(199,132)	(173,854)
Valuation gain on securities, net	(285)	(249)
Loss on sales of loans, net	(41,310)	(36,066)
Provision for loan losses, net	1,921,850	1,677,885
Provision for guarantees and acceptances	44,387	38,752
Amortization of present value discounts	(59,797)	(52,206)
Depreciation and amortization	164,421	143,549
Provision for severance benefits	46,161	40,301
Minority interests in losses of consolidated subsidiaries	(25,626)	(22,373)
Equity in earnings of equity method investees	(13,130)	(11,463)
Amortization of consolidation differentials, net	1	1
Severance benefit payments	(125,185)	(109,294)
Decrease in accrued income	247,925	216,453
Decrease in accrued expenses	(105,725)	(92,303)
Others, net	(15,866)	(13,852)
Net cash provided by operating activities	1,015,278	886,396
Cash flows from investing activities:		
Proceeds from disposal of trading securities	912,001	796,229
Purchases of investment securities	(1,465,808)	(1,279,735)
Net increase in loans	(337,806)	(294,924)
Disposals of premises and equipment	481,263	420,170
Net increase of cash due to changes in consolidated subsidiaries	757,517	661,356
Others, net	335,657	293,049
Net cash provided by investing activities	682,824	596,145
Cash flows from financing activities:		
Net increase in deposits	2,817,009	2,459,411
Net decrease in borrowings	(4,053,957)	(3,539,337)
Net decrease in debentures	(277,398)	(242,184)
Issurance of new shares for cash, net	1,015,587	886,666
Proceeds from disposal of treasury shares	170,183	148,579
Net increase of minority interests in consolidated subsidiaries	93,360	81,509
Dividends paid	(29,414)	(25,680)
Others, net	(844,361)	(737,177)
Net cash used in financing activities	(1,108,991)	(968,213)
Net increase in cash and cash equivalents	589,111	514,328
Cash and cash equivalents at beginning of the year (Note 25)	4,998,096	4,363,625
Cash and cash equivalents at end of the year (Note 25)	₩ 5,587,207	US\$ 4,877,953

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

1. The Consolidated Companies:

The accompanying consolidated financial statements include the banking and certain trust accounts of Korea Exchange Bank (the "Bank") and its consolidated subsidiaries. General information of the Bank, its consolidated subsidiaries, its non-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 finances business under the Korea Exchange Bank Act. In December 30, 1989, the Korea Exchange Bank Act was repealed and the Bank was converted into a corporation under the Commercial Code of the Republic of Korea. In 1994, the Bank offered its shares for public ownership and all shares are listed on the Korea Stock Exchange.

The Bank provides primarily commercial banking services, trust banking services, foreign exchange, merchant banking business through the merger with Korea International Merchant Bank ("KIMB"), a domestic subsidiary of the Bank, (see Note 26) and other related operations as permitted under the Bank Act and other relevant laws and regulations in the Republic of Korea.

On April 21, 1999, the Bank issued 152,402 thousand new common shares and 52,000 thousand new preferred shares at par value of ₩5,000 based on a resolution of board of directors on February 5, 1999.

The preferred shareholders are entitled to non-cumulative and non-participating preferred dividends of 9% of par value per annum. Preferred shareholders have no voting rights except for periods subsequent to shareholders' meetings in which no dividends are declared for the preferred stocks. Each share of preferred stock may be converted into one share of common stock at the option of the preferred shareholder on the date after three years from the issue date. Each share of unconverted preferred stock outstanding on the date after five years from the issue date will be converted into one share of common stocks.

The Bank's shareholders as of December 31, 1999 are as follows:

	Number of shares owned (shares)			
	Common stock	Preferred stock	Total	%
Commerzbank	104,966,625	52,000,000	156,966,625	31.6
Bank of Korea	79,000,000	-	79,000,000	15.9
Export-Import Bank of Korea	80,628,774	-	80,628,774	16.3
Others	179,754,464	-	179,754,464	36.2
	444,349,863	52,000,000	496,349,863	100.0

As of December 31, 1999, the Bank had 305 branches, agencies and offices in domestic and overseas markets. The Bank has closed 47 domestic branches and two overseas branches in 1999.

The Bank is in the process of closing or selling three domestic and overseas subsidiaries and plans to close five domestic branches and two overseas branches in 2000.

Consolidated Subsidiaries

Summarized information regarding the consolidated subsidiaries as of December 31, 1999 is as follows:

Subsidiaries	Number of Invested Shares (In Thousands)	Ownership (Ratio)
Domestic		
Korea Exchange Bank Credit Service Co., Ltd. ("KEBC")	18,795	58.2%
KEB Leasing Co., Ltd. ("KEBLS")	2,400	30.0%
KEB Commerz Investment Trust Management Co., Ltd. ("KEBIT")	2,760	46.0%
KEB Futures Co., Ltd. ("KEBFC")	2,000	100.0%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Subsidiaries	Number of Invested Shares (In Thousands)	Ownership (Ratio)
Foreign		
California Korea Bank ("CKB")	8,000	100.0%
Korea Exchange Bank of Canada ("KEBOC")	334	100.0%
KEB (Asia) Finance Ltd. ("KAF")	4,680	80.0%
KEB Australia Ltd. ("KEBA")	40,000	100.0%
KEB International Ltd. ("KEBI")	27,000	100.0%
KEB Deutschland A.G. ("KEBD A.G.")	20	100.0%
P.T.KEB Danamon ("KEBD")	1	85.0%
KEB Ireland Ltd. ("KEB Ire")	3,000	100.0%
KEB Leasing & Finance Ltd. ("KEBL&F")	3,000	30.0%
Banco KEB do Brazil S.A. ("KEBB")	17,890	100.0%

The ownership of KEB Leasing & Finance Ltd. ("KEBL&F") is an aggregate ratio of direct and indirect equity ownership of the Bank and its subsidiaries.

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 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, 1999 and for the year then ended are as follows:

Condensed Balance Sheet Information (*)

	In Millions of Korean Won				
	KEBCS	CKB	KEBLS	Others(**)	Total
Cash and due from banks	₩ 8,624	₩ 46,416	₩ 5,419	₩ 226,162	₩ 286,621
Securities	9,925	180,271	4,286	1,411,352	1,605,834
Loans	1,559,396	433,303	383,380	4,086,185	6,462,264
Fixed assets	43,902	10,742	170,468	111,318	336,430
Other assets	50,638	11,980	117,390	154,481	334,489
Total assets	₩ 1,672,485	₩ 682,712	₩ 680,943	₩ 5,989,498	₩ 9,025,638
Deposits	₩ -	₩ 610,635	₩ -	₩ 3,270,417	₩ 3,881,052
Borrowings and debentures	1,319,776	-	608,076	1,163,796	3,091,648
Other liabilities	107,474	7,428	47,496	1,458,603	1,621,001
Total liabilities	1,427,250	618,063	655,572	5,892,816	8,593,701
Capital stock	161,370	45,816	40,000	268,333	515,519
Capital surplus	40,860	11,454	-	7,426	59,740
Accumulated earnings (deficit)	39,129	10,914	(12,151)	(179,203)	(141,311)
Capital adjustments	3,876	(3,535)	(2,478)	126	(2,011)
Total shareholders' equity	245,235	64,649	25,371	96,682	431,937
Total liabilities and shareholders' equity	₩ 1,672,485	₩ 682,712	₩ 680,943	₩ 5,989,498	₩ 9,025,638

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Condensed Income Statement Information (*)

In Millions of Korean Won					
	KEBCS	CKB	KEBLS	Others(**)	Total
Operating revenue	₩ 386,908	₩ 55,263	₩ 205,842	₩ 968,857	₩ 1,616,870
Operating expenses	360,324	39,363	257,053	1,012,573	1,669,313
Operating income (loss)	26,584	15,900	(51,211)	(43,716)	(52,443)
Non-operating income	10,461	10	13,292	50,439	74,202
Non-operating expenses	4,672	15	9,378	64,888	78,953
Ordinary income (loss)	32,373	15,895	(47,297)	(58,165)	(57,194)
Extraordinary loss	-	-	-	(551)	(551)
Income tax expenses	12,198	6,293	(15,786)	14,156	16,861
Net income (loss)	₩ 20,175	₩ 9,602	₩ (31,511)	₩ (72,872)	₩ (74,606)

(*) 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", "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 Exchange Bank Credit Service Co., Ltd. ("KEBCS")

KEBCS was established on May 19, 1988 under the Credit Card Business Law. KEBCS's credit card operations include consumer installment financing, factoring and providing payment guarantees.

On January 1, 1999, KEBCS merged with KEBS Finance Co., Ltd. in accordance with the resolution of board of directors on October 20, 1998 and, as of December 31, 1999, its capital stock is ₩161,370 million.

(2) KEB Leasing Co., Ltd. ("KEBLS")

KEBLS was incorporated on September 11, 1989 to engage in leasing industrial equipment. As of December 31, 1999, its capital stock is ₩40,000 million, of which Korea Exchange Bank and other shareholders own 30% and 70%, respectively.

(3) KEB Commerz 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 8, 1997 and KEB Commerz Investment Trust Management Co., Ltd. on May 28, 1999. As of December 31, 1999, its capital stock is ₩ 30,000 million.

(4) KEB Futures Co., Ltd. ("KEBFC")

KEBFC was incorporated on September 24, 1997 to engage in brokerage or agency of financial futures. As of December 31, 1999, its capital stock is ₩10,000 million

(5) 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, 1999, its capital stock is US\$40,000 thousand and it has eleven branches.

(6) 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, 1999, its capital stock is US\$58,500 thousand, of which Korea Exchange Bank and Korea Investment Trust own 80% and 20%, respectively.

(7) 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, 1999, its capital stock is GBP27,000 thousand.

All consolidated subsidiaries including certain trust accounts are consolidated in the accompanying 1999 consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In 1999, the Bank liquidated KEB Luxembourg S.A. ("KEBL"). KIMB Finance Ltd. ("KIMBF") and Cairo Far East Bank S.A.E. ("CFEB") are in the process of liquidation and sales. Accordingly, these subsidiaries over which the Bank has temporary control are not included in the consolidated financial statements.

Condensed balance sheet of KIMBF and CFEB as of December 31, 1999 and their income statements for the year then ended are as follows:

Condensed Balance Sheet Information

	In Millions of Korean Won	
	CFEB	KIMBF
Cash and due from banks	₩ 47,355	₩ 634
Securities	9,670	-
Loans	70,000	7,645
Fixed assets	4,355	607
Other assets	825	-
Total assets	₩ 132,205	₩ 8,886
Deposits	₩ 94,288	₩ -
Other liabilities	8,203	785
Total liabilities	102,491	785
Capital stock	19,431	24,156
Accumulated earnings (deficit)	10,283	(16,055)
Total shareholders' equity	29,714	8,101
Total liabilities and shareholders' equity	₩ 132,205	₩ 8,886

Condensed Income Statement Information

	In Millions of Korean Won	
	CFEB	KIMBF
Operating revenue	₩ 14,607	₩ 14,723
Operating expenses	11,106	34,944
Operating income (loss)	3,501	(20,221)
Non-operating income	-	184
Net income (loss)	₩ 3,501	₩ (20,037)

Equity Method Investees

In accordance with financial accounting standards for consolidated financial statements generally accepted in the Republic of Korea and relevant laws, the Bank's investment in Korea Heavy Industries Co., Ltd., a 15.7% owned subsidiary, and KEB Smith Barney Securities Co., Ltd. ("KSB"), a 20% owned subsidiary, are accounted for on an equity basis.

(1) Korea Heavy Industries Co., Ltd.

Korea Heavy Industries Co., Ltd. was incorporated on September 20, 1962 to supply power plants, industrial plants, iron & steel facilities and construction service. As of December 31, 1999, its capital stock is ₩521,000 million.

(2) KEB Smith Barney Securities Co., Ltd. ("KSB")

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. As of December 31, 1999, its capital stock is ₩50,000 million.

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 have been extracted from the Bank's Korean language consolidated financial statements that were prepared using accounting principles, procedures and reporting practices generally accepted in the Republic of Korea. These standards vary from International Accounting Standards and the accounting principles generally accepted in the country of the reader. The consolidated financial statements have been translated from Korean into English, and have been formatted in a manner different from the presentation under Korean financial statement practices. Accordingly, the accompanying consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows of the Bank in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Korea.

The Bank's 1999 financial statements are prepared in conformity with the revised financial accounting standards in the Republic of Korea effective January 1, 1999 (the "revised financial accounting standards"). Previously, the Bank's financial statements have been prepared in conformity with the financial accounting standards in the Republic of Korea, as modified by the accounting and reporting guidelines prescribed by the regulatory banking authorities in the Republic of Korea. Accordingly, the Bank changed the methods of accounting and presentation of financial statements in accordance with revised financial accounting standards, such as accounting for valuation of investment securities, accounting for troubled debt restructuring, allowance for possible losses on guarantees and acceptances, deferred income taxes, and stock issuance costs. Cumulative effects on assets and liabilities arising from the retroactive application of the revised accounting standards were reported as an adjustment to beginning accumulated deficit or capital adjustments. As permitted by the revised financial accounting standards, the Bank has presented its consolidated financial statements for 1999 only.

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.

Basis of Consolidated Financial Statement Presentation, Continued

Financial statements for the twelve-month period ended December 31, 1999 were used for consolidation of KEBLS, KEBIT, KEBFC and KEBL&F having a fiscal year ending March 31. The financial statements of KEBOC for the twelve-month period ended October 31, 1999 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 (see Note 27).

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 deposit collateral is recognized on a cash basis in accordance with the generally accepted financial accounting standards of the Republic of Korea. At December 31, 1999, the amount of interest not recognized due to such policy approximates ₩159,199 million.

Allowance for Loan Losses

During 1999, the Bank adopted Forward Looking Criteria ("FLC") for its loan classification to determine allowances for possible loan losses. Under this method, the borrowers' future debt service capacity as well as overall financial health and management soundness is considered in developing the reserve for possible loan losses related to large corporate customers. However, loan classification for the smaller corporate and retail loan customers are still classified based on the delinquency period, value of collateral and bankruptcy status only.

Estimated loan losses as of December 31, 1999 were determined by applying the following minimum percentages to each credit risk classification:

Current	0.5%
Special mention	2%
Substandard	20%
Doubtful	50%
Loss	100%

In addition, pursuant to the revised financial accounting standards, in 1999, the Bank accrued allowances for estimated potential losses on outstanding guarantees and acceptances contracts for customers with credit classifications of substandard, doubtful and loss. The estimated losses are determined by applying the same percentage used in estimating allowance for loan losses explained above. This revised accounting increased 1999 net loss by ₩41,380 million and the cumulative effect of its retroactive application was to increase accumulated deficits as of January 1, 1999 by ₩69,908 million.

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

Investments in Debt and Equity Securities

During 1999, The Bank adopted revised financial accounting standards under which investments in debt and equity securities are accounted for as follows:

- All investments in equity and debt securities are carried at cost, including incidental expenses. In the case of debt securities, cost includes the premium paid or discount received at the time of purchase. The following paragraphs describe the subsequent accounting for securities by the type of security.
- Investments in equity and debt securities that are bought and held principally for trading purposes are recorded as trading securities and are carried at fair value, with unrealized gains and losses recorded in current operations.
- Investments in marketable equity securities of non-controlled investees are carried at fair value. Temporary changes in fair value are accounted for in the capital adjustment account, a component of stockholders' equity. Declines in fair value which are anticipated to be permanent are recorded in current operations after eliminating any previously recorded capital adjustment for temporary changes. Subsequent recoveries or other future changes in fair value are recorded in the capital adjustment account.
- Investments in non-marketable equity securities of non-controlled investees are carried at cost, except for declines in the Bank's proportionate ownership of the underlying book value of the investees which are anticipated to be permanent, which are recorded in current operations. Subsequent recoveries are also recorded in current operations up to the original cost of the investment.
- Other investments in debt securities are carried at fair value. Temporary differences between fair value and amortized cost are accounted for in the capital adjustment account. Declines in fair value which are anticipated to be permanent are recorded in current operations after eliminating any previously recorded capital adjustment for temporary changes. Subsequent recoveries or other future changes in fair value are recorded in the capital adjustment account.

- Premiums and discounts on debt securities are amortized over the life of the debt using the effective interest method. Investment in debt securities which the Bank has the intent and ability to hold to maturity are generally carried at cost, with adjustments for the amortization of discounts or premiums. Declines in the fair value of debt securities which are anticipated to be permanent are recorded in current operations. Subsequent recoveries are also recorded in current operations up to amortized cost of the investment.

The accounting standards previously applied in 1998 are different from the revised standards effective in 1999 as follows:

- Debt securities denominated in Korean Won had previously been stated at cost, as permitted by the previous accounting and reporting guidelines prescribed by the banking regulatory authorities.

The adoption of these revised accounting standards for investments in debt and equity securities, including cumulative effect of retroactive application, were to decrease 1999 net loss and capital adjustments as of December 31, 1999 by ₩28,466 million and ₩43,618 million, respectively, and were to increase accumulated deficit as of January 1, 1999 by ₩7,675 million.

According to the revised financial accounting standards, the beneficiary certificates arranged to invest in the Bank's stock are stated at net asset value of the fund calculated based on the prices of the invested stocks excluding the Bank's own stocks. The portion of the Bank's own stocks in the fund as of the balance sheet date is eliminated from the investments and is presented as capital adjustment.

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 (see Note 16). Depreciation is computed using the declining-balance method over the estimated useful lives of the related assets, except for buildings and leasehold improvements for which depreciation is computed using the straight-line method.

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

Intangible Assets

Intangible assets, including development costs and goodwill acquired in the Bank's merger with KIMB, are recorded at cost and amortized over the estimated useful lives using the straight-line method.

Foreclosed Assets

Foreclosed assets acquired through, or in lieu of, loan foreclosure are to be sold and are initially recorded at their fair value at the date of foreclosure. After foreclosure, the asset is carried at the lower of its carrying amount or fair value determined by its estimated public auction price.

Pursuant to the revised financial accounting standards, gains or losses on disposal of foreclosed assets on an installment payment basis are recognized as other income or expenses as incurred. Previously, such gains or losses were deferred and amortized over the collection period in proportion to subsequent cash collections of the receivables. The effect of retroactive application of this revised accounting standards is to decrease the accumulated deficit as of January 1, 1999 by ₩ 3,008 million.

Accrued Severance Benefits

Employees and executives with one year or more of service with the Bank and domestic subsidiaries are entitled to receive a lump-sum payment upon termination of their employment with the Bank and subsidiaries, based on their length of service and rates of pay at the time of termination. Accrued severance benefits of ₩221,599 million represent the amount which would be payable assuming all eligible employees and executives were to terminate their employment on December 31, 1999.

The Bank's underaccrued severance benefit liabilities of ₩19,266 million as of December 31, 1998 was eliminated by increasing accumulated deficits as of January 1, 1999 in accordance with the revised financial accounting standards.

In 1999, the Bank and domestic subsidiaries paid additional severance benefits to early-retired employees in addition to normal severance benefits as required by the relevant laws and retirement policy of the Bank and domestic subsidiaries. No accrual is provided for future early retirements. Actual payment of severance benefits of the Bank domestic subsidiaries in 1999, including additional early retirement benefits, approximated ₩128,669 million.

In accordance with the National Pension Act, the Bank and subsidiaries deposit a portion of accrued severance benefits with the National Pension Fund and those deposits are presented as deduction from accrued severance benefits. The contributed deposit

amount shall be refunded to employees and executives from the National Pension Fund on their retirement. In addition, the Bank and domestic subsidiaries have partially funded accrued severance benefits through group severance insurance plans and the amounts funded under these insurance plans are included in cash and due from banks in the accompanying consolidated balance sheet or deducted from accrued severance benefits.

Discounts on Debentures

Discounts on debentures, including debenture issuance costs, are amortized over the term of the debenture using the effective interest rate method. Such amortization is included in interest expenses. Debenture issuance costs carried over from the previous years continue to be amortized using the straight-line method consistent with the prior years' in accordance with the revised financial accounting standards.

Present Value Discounts

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

Pursuant to the revised financial accounting standards, troubled loans restructured under work-out plans or other similar restructuring agreements are stated at present value, with the difference between the nominal amount and present value offset against the allowance for loan losses to the extent available. The remaining difference is recorded as a current operating expense. Amortization of these discounts is included in other interest income.

The effect of adoption of revised financial accounting standards for troubled debt restructuring, including cumulative effects of retroactive application, were to increase net loss and accumulated deficits as of January 1, 1999 by ₩46,707 million and ₩380,591 million, respectively.

Discounts on Capital Stock

Discounts on capital stock arising from payment of stock issuance costs are reported as a capital adjustments in shareholders' equity and amortized over three years by appropriations of retained earnings. However, due to accumulated deficits as of December 31, 1999, there has been no amortization in 1999.

Income Taxes

Current income taxes payable comprise corporate income tax and tax surcharges payable for the current year. Pursuant to the revised financial accounting standards, in 1999 the Bank adopted the deferred method of accounting for income taxes. Under this method, the future tax effects of temporary differences between the financial and tax bases of assets and liabilities are reflected in the balance sheet as of December 31, 1999. Due to accumulated deficits and the uncertain possibility of realizing deferred income tax assets, the Bank has not recognized deferred income tax assets exceeding deferred income tax liabilities, except as incurred by certain overseas branches and consolidated subsidiaries. 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 consolidated financial statements. The adoption of deferred tax accounting does not impact the Bank's net loss and accumulated deficit since no deferred tax assets and liabilities have been recognized as of December 31, 1998 and 1999.

Tax credits are recognized as a reduction of income tax expense in the year they are incurred 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 loans or borrowings, respectively, and related income and expenses are recorded as interest on loans and interest on borrowings, respectively.

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 or losses 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 financial accounting standards.

The exchange rates used to translate U.S. Dollar into Korean Won at December 31, 1999 is ₩1,145.40 : US\$ 1.

Guarantees and Acceptances

Pursuant to revised financial accounting standards, guarantees and acceptances outstanding do not appear on balance sheet, but are presented as off-balance sheet items in the notes to the financial statements. The Bank provides allowances for losses on determinable outstanding guarantees and acceptances contracts applying the same method used in estimating allowances for losses on the loan portfolio.

Derivative Financial Instruments

Derivative financial instruments entered into for trading purposes are valued at estimated current market prices. 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 contracts. 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.

Trust Fees

The Bank's banking accounts receive trust fees, ranging from 0.2% to 2.0% of the trust's principal, from the trust accounts as compensation for its management of trust assets and operations. The banking accounts are also entitled to receive special trust fees from certain trust accounts with a guaranteed minimum rates of return in accordance with the relevant laws and regulations applicable to trust operations. These trust fees arising from consolidated trust accounts are eliminated in consolidation.

Merchant Banking Operations

As permitted by the Restructuring of Financial Institutions Act, the Bank may continue its merchant banking operations, including leasing business, until the existing contracts acquired from KIMB at the merger are terminated. Significant accounting policies applied to the Bank's merchant banking operations are summarized as follows:

- Revenue Recognition on Discounted Notes

Interest income on discounted notes is accrued over the term of the notes. Income from the sale of discounted notes is recognized at the date of sale based on the difference between the purchase and sales prices of the notes, adjusted for interest earned during the holding period.

- Cash Management Accounts ("CMA")

The Bank recognizes interest income from CMA investments and interest expense from CMA deposits as other income and other expenses, respectively.

Lease Transactions

The merchant banking accounts of the Bank and KEBSL, a consolidated subsidiary, account for lease transactions as operating or financing leases, depending upon the terms of the lease contracts. In general, non-cancelable leases are recognized as financing leases when ownership transfers at expiration of the lease term, when a bargain purchase option exists, or when the lease term exceeds the estimated economic life of the related asset.

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

Operating lease equipment are stated at cost and depreciated over the lease term. Operating lease income is recognized as operating income on an accrual basis over the lease term.

The Bank capitalized interest costs on debt borrowed to finance the purchase of lease assets as part of the cost of such assets. The Bank accrues estimated losses from future sales of operating lease properties.

Foreign currency translation gains or losses incurred from foreign currency borrowings used to finance purchases of operating lease equipment have been deferred and amortized over the period that related lease rental revenues are recognized.

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 income on loans and investment securities held by the consolidated 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 deposit collateral is recognized on a cash basis. At December 31, 1999, the amount of interest not recognized due to such policy approximates ₩ 65,032 million.

- *Deposits at the Bank's Banking Accounts*

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

- *Special Allowance*

Certain consolidated 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 trust revenues, until the total allowance equals 3% of the related money trust balance. If the current income from trust operations is insufficient to generate the required rate of return, the deficiency may be either recovered from previously established special allowances or from the Bank's banking business operations. These special allowances amounting ₩7,508 million at December 31, 1999 are reclassified into consolidated retained earnings.

- *Allowance for Loan Losses*

Allowance for loan losses of consolidated trust account assets which are not carried at market value (including loans, commercial paper and certain corporate debentures) are provided based on a credit risk classification of the loan portfolio as of December 31. Estimated loan losses are determined using the same estimated loss percentage for each credit risk classification as the banking accounts of the Bank. The losses on restructured troubled loans receivable have not been recognized as permitted by the Trust Business Act and relevant related regulations.

The allowance for loan losses of consolidated trust accounts with a guaranteed minimum rate of return at December 31, 1999 amounts to ₩385,242 million and the charge-offs recorded by the trust accounts of the Bank in 1999 amounts to ₩64,126 million.

- *Investment Securities*

Pursuant to the laws and regulations applicable to trust operations prescribed by the banking regulatory authorities, equity securities and beneficiary certificates held by the Bank's consolidated trust accounts are stated at market or net asset value. Certain debt securities including corporate debentures, except for debt securities included in the consolidated trust accounts established subsequent to November 15, 1998, which are stated at market or net asset value, are stated at cost as permitted by the Trust Business Act and relevant related regulations.

- *Compensation to the Trust Accounts*

The Bank compensates for losses incurred in certain consolidated trust accounts subject to minimum return guarantees. Such compensations are accounted for as compensation for trust accounts of the banking accounts and other income of the trust accounts, respectively, in accordance with the relevant laws and regulations applicable to trust operations.

The amount of compensations accounted for other income of the consolidated trust accounts in 1999 is ₩225,865 million and eliminated in consolidation.

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 1999 Korean Won amounts are expressed in U.S. Dollars at the rate ₩1,145.40 : US\$ 1, the rate in effect on December 31, 1999. 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 Shareholders and Board of Directors of



We have audited the accompanying consolidated balance sheet of Korea Exchange Bank (the "Bank") and its subsidiaries as of December 31, 1999, and the related consolidated statements of operations, capital surplus and accumulated deficit and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We did not audit the financial statements of certain subsidiaries and foreign branches, which statements reflect total assets and revenues constituting 13.2 percent and 13.2 percent, respectively, of the related totals. These 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.

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

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 the Bank and its subsidiaries as of December 31, 1999, and the consolidated results of their operations, the consolidated changes in their capital surplus and accumulated deficit and their cash flows for the year then ended, in accordance with financial accounting standards generally accepted in the Republic of Korea.

As discussed in Note 2 to the accompanying consolidated financial statements, the Bank's 1999 financial statements are prepared in conformity with the revised financial accounting standards in the Republic of Korea effective January 1, 1999. Previously, the Bank's consolidated financial statements were prepared in conformity with the financial accounting standards in the Republic of Korea, as modified by the accounting and reporting guidelines prescribed by the regulatory banking authorities in the Republic of Korea. In addition, as permitted by the revised financial accounting standards, the Bank has presented its consolidated financial statements for 1999 only.

As discussed in Note 2 to the accompanying consolidated financial statements, the Bank adopted Forward Looking Criteria ("FLC") for its loan classification to determine the allowances for certain loan losses.

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

As discussed in Note 1 to the accompanying consolidated financial statements, on April 21, 1999, the Bank issued 152,402 thousand new common shares and 52,000 thousand new preferred shares at par value of ₩5,000 based on a resolution of board of directors on February 5, 1999.

Without qualifying our opinion, we draw attention to Note 19 of the consolidated financial statements. The operations of the Bank and its subsidiaries have been significantly affected, and may continue to be affected for the foreseeable future, by the general adverse economic conditions in the Republic of Korea and in the Asia Pacific region, including certain financially troubled borrowers such as Daewoo Group companies and others which are in process of restructuring of their debt structure under workout and other similar programs. As of December 31, 1999, the Bank's outstanding loans and guarantees to Daewoo Group companies and other companies under workout programs amount to ₩2,583,289 million and ₩1,693,156 million before present value discounts of ₩199,600 million and ₩82,368 million, respectively. The Bank has accrued ₩1,120,500 million and ₩255,600 million, respectively, of allowance for such loan losses as of December 31, 1999. The ultimate effect of these significant uncertainties on the financial position of the Bank as of the balance sheet date cannot presently be determined and accordingly, no adjustments have been made in the accompanying consolidated financial statements related to such uncertainties.

The accompanying consolidated financial statements are not intended to present the 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 Korea. The standards, procedures and practices utilized to audit such consolidated financial statements are those generally accepted and applied in Korea.

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

Seoul, Korea
January 21, 2000

STANDING DIRECTORS



Kyung-Lim Kim
President and Chief Executive Officer



Manfred Drost
Senior Managing Director and
Deputy President



Ko-Kwang Huh
Standing Auditor



Hans-Bernhard Merforth
Senior Managing Director



Youn-Soo Lee
Senior Managing Director



Soo-Shin Lee
Senior 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 Timblich
Non-standing Director



Hwi-Soo Lee
Non-standing Director



Doo-Han Song
Non-standing Director

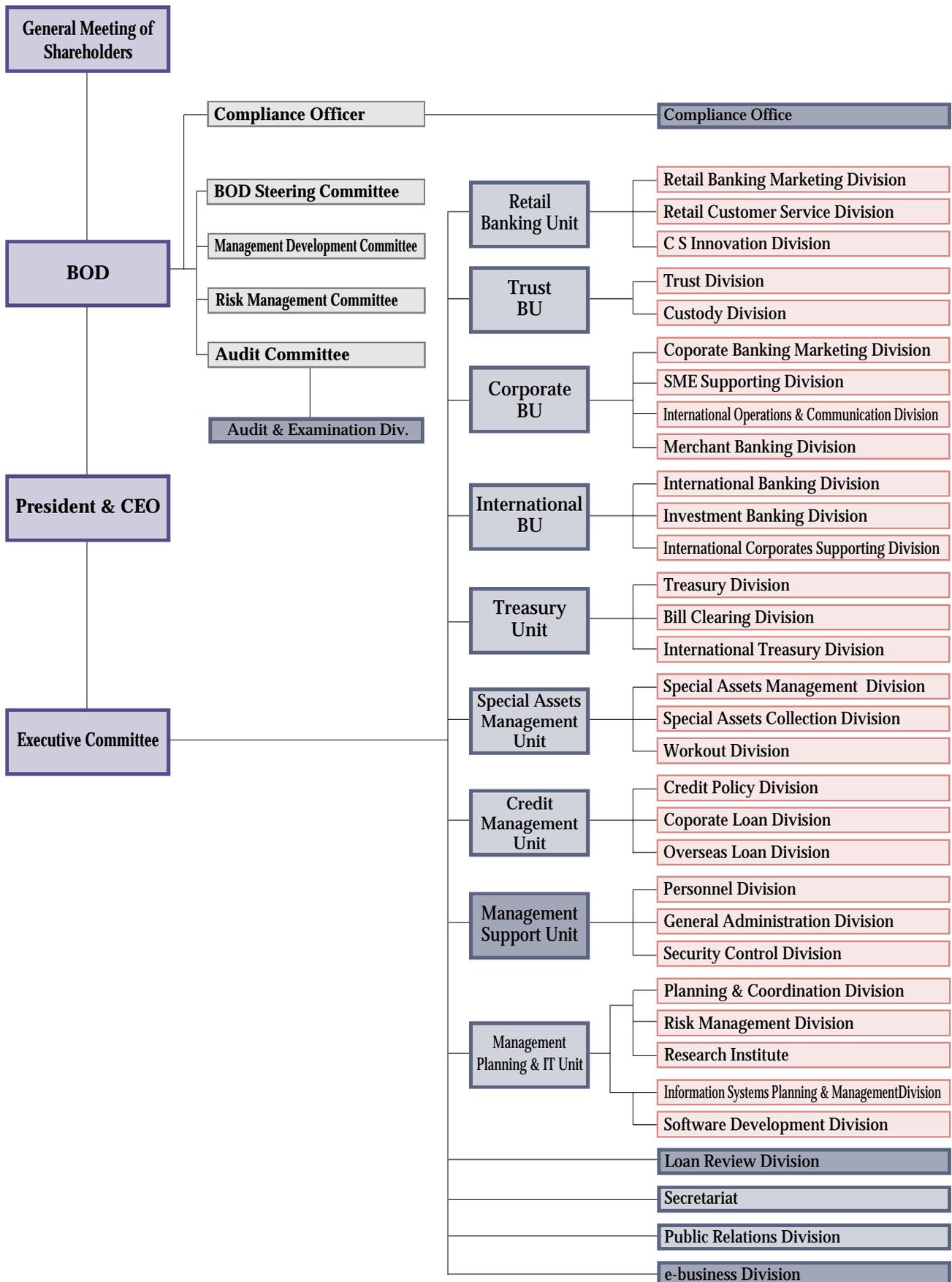


Sang-Kyung Kim
Non-standing Director



Jong-Heon Back
Non-standing Director

ORGANIZATION CHART



INTERNATIONAL BANKING
GROUP

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Asia
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Korea
Manager: Sung-Jae Lee
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Credit Risk Management

Deputy General Manager: Chan-Young Song
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Europe, Africa, Oceania
Assistant Manager: Kuh-Sung Hwang
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Asia, Oceania, America
Manager: Yong-Joo Hwang
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Manager: Kwang-Won Kim
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Underwriting & Syndication

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Manager: Kyeong-Soo Kim
Tel: (82-2) 729-0551

M & A

Deputy General Manager: Byung-Sung Moon
Tel: (82-2) 729-8882
Manager: Min-Seop Song
Tel: (82-2) 729-8939

Structured Finance

Deputy General Manager: Yong-Il Keum
Tel: (82-2) 729-0554
Manager: Jae-Ho Ryoo
Tel: (82-2) 729-0157

Financial Advisory

Deputy General Manager: Han-Young Kim
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Manager: Kee-Seock Bang
Tel: (82-2) 729-0956

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Money Dealing
Manager: Sang-Bae Lee
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Securities Dealing
Manager: Chang-Hoon Kang
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Derivatives
Manager: Hee-Dong Kim
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Market Research
Assistant Manager: Dai-Sung Woo
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Forex Dealing

Manager: Chang-Hun Lee
Tel: (82-2) 729-8770
Manager: Jin-Mo Lee
Tel: (82-2) 729-0476

Corporate Customer Desk

Manager: Jun-Sik Park
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Medium & Long-Term Financing

Assistant Manager: Beom-Rae Kim
Tel: (82-2) 729-0520

**Middle Office, Back Office & Correspondent
Account Services**

Deputy General Manager: Youn-Wook Ko
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Middle Office

Manager: Cheol-Seung Kwark
Tel: (82-2) 729-0482

Back Office

Manager: Hi-Taek Yoon
Tel: (82-2) 729-0479

ALM

Assistant Manager: Kyun-Soo Roh
Tel: (82-2) 729-0519

Correspondent Account Services

Manager: Jae-Ho Lee
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**International Operations & Communication
Team**

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**Issuance/Advice of Letter of Credit
Reconciliation/Telecommunication**

Beom-Seo Kim, Deputy General Manager
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**Import/Export Marketing/Int'l Money
Transfer**

Bank Notes/Travellers Cheques
Man-Sik Hong, Deputy General Manager
Tel: (82-2) 729-0172

OVERSEAS NETWORK

BRANCHES & REPRESENTATIVE OFFICES

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Regional Office for America

Senior Vice President & Chief of ROAM:
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Europe & Middle East

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850-0549-20408 (Overseas)
Fax: 850-669 (Domestic)

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Fax: 61-2-9251-3853

KEB International Ltd.

Managing Director: Choong-Suk Suh
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London EC2N 4AJ, U.K.
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Tlx: 925855
Fax: 44-171-650-1501

Korea Exchange Bank(Deutschland) A.G.

Managing Director: Dae-Soo Kwon
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P.T. Korea Exchange Bank Danamon

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Tlx: 65060
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KEB Ireland Ltd.

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Tlx: 32340
Fax: 353-1-478-5612/3

Banco KEB do Brasil S.A.

President: Chong-Ku Choi
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Cetenco Plaga, Torre Norte,
Cerqueira Cesar Sao Paulo,
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Fax: 55-11-3171-1100

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Fax: 202-348-3818

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Corporate Data (as of December 31, 1999)

Established

January 30, 1967

Paid-in Capital

2,481,000 Millions

Common Stock Issued and Outstanding

444,349,863

Stock Exchange Listing

Korea Stock Exchange

Number of Stockholders

140,396

Number of Employees

5,732