



Annual Report 2002



KorAm Bank

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KorAm Bank

‘BEST QUALITY BANK OF CUSTOMERS’ FIRST CHOICE’

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CorAmB

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NEW CORPORATE IDENTITY

‘Banking Curator’

KorAm Bank’s new symbol is representative of its image of being a ‘Total Financial Solution Provider,’ systematically managing customers’ financial assets in a diversified manner. This is grounded upon its visual asset—the ‘Mondrian’ image, developed from grasping the theme of ‘Banking Curator.’

The overall square-shaped design represents a canvas on which customer value is created, focusing solely on customer needs, while the straight-lined partitions signify a reliable financial partner providing a wide range of financial services. Of the four colors within, the red represents our passion for customers; the blue, rational judgment; the yellow, promptitude; and the white, transparent management. Meanwhile, the diversity of colors signifies a wealth of financial services. Additionally, the bold square outline symbolizes the bank’s progressive creativity and passion to create customer satisfaction, which will continue to move the bank forward during times of adversity.

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CORPORATE PROFILE

Established in 1983, KorAm Bank is the product of a joint venture between a consortium of local conglomerates and the Bank of America NT & SA (BOA). The bank began building its superior platform from the early stages of its establishment with the implementation of advanced banking techniques from BOA. Its early focus on building a strong risk management platform has distinguished it from other domestic banks and has proven to be a valuable tool enabling the bank to endure the Asian Financial Crisis of 1997~1998.

In November of 2000, a controlling 40.1% equity stake in KorAm Bank was purchased by the Carlyle & JP Morgan consortium, which assumed management control and accounted for five out of the 13 members on the board. The consortium laid the groundwork for KorAm's eventual turnaround, and in mid-2001, a new internationally experienced team was assigned to manage the bank and to bring it up to global standards, ultimately leading to higher earnings growth and increased shareholder value. Through efforts to grow its core businesses (retail banking, SME banking, credit card business and wealth management), KorAm Bank recorded Net Income of ₩260.4 billion in 2002, which is a year-on-year increase of 33.5%. Meanwhile, the bank's Non-Performing Loan and BIS Capital Adequacy ratios reached industry highs of 1.13% and 12.1%, respectively, in 2002 from 2.66% and 11.2% in 2001, thanks to rigorous risk controls and efficient capital management.

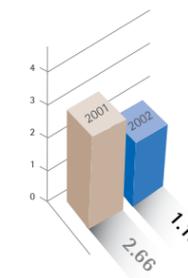
FINANCIAL HIGHLIGHTS*

In billions of Korean Won,%,%P

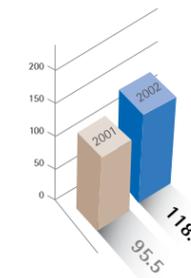
	2001	2002	Change
Operating results			
Net interest income	719.2	958.9	239.7
Net income	195.0	260.4	65.4
Per share data (won)			
Dividend per common share	0	375	375
Earning per common share	1,196	1,475	279
Profitability ratios			
ROA	0.69	0.79	0.10
ROE	16.37	17.18	0.81
Net interest margin	2.84	3.24	0.40
Net interest spread	3.13	3.30	0.17
Balance sheet data at year-end			
Total assets	28,699.9	37,097.4	8,397.5
Loans	18,109.1	24,953.4	6,844.3
Deposits	17,756.1	20,789.8	3,033.7
Securities	8,303.8	8,244.7	-59.1
Shareholder's equity	1,242.3	1,615.2	372.9
Asset quality ratios			
Coverage ratio	95.5	118.3	22.80
NPL ratio (Substandard and below)	2.66	1.13	-1.53
Capital ratios at year-end			
Total capital ratio	11.18	12.11	0.93
Tier 1 capital	5.79	6.53	0.74
Tier 2 capital	5.55	5.72	0.17

* Based on internal criteria

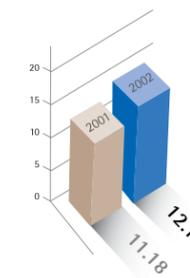
NPL ratio (%)



Coverage ratio (%)



Total capital ratio (%)



MESSAGE FROM THE CEO

Overview of Business Performance

I am honored to report KorAm Bank's 20th annual business results to our shareholders, who have been very supportive since the bank's inception.

Although KorAm Bank achieved strong business growth in 2002, it still faced a series of challenges. From the second half of last year, signs of economic instability began arising, resulting in the government tightening policy measures, amid aggressive expansion in retail lending and credit card assets by financial institutions. Nevertheless, even under such unfavorable business conditions, the management and employees of KorAm Bank did their utmost to turn the bank into the 'Best Quality Bank,' and their efforts bore fruit.

Despite tightened provisioning requirements imposed by the government, which forced financial institutions to reserve additional provisions for credit card assets and retail loans, KorAm Bank still saw improvements in profitability, capital adequacy, asset quality, loan growth and franchise.

Firstly, the bank beat its net income after tax (NIAT) target of ₩250 billion by ₩10 billion, earning ₩260.4 billion. In addition, KorAm Bank recorded a BIS ratio of 12.1% and a Tier I ratio of 6.5% in 2002, which were both industry highs, on the back of NIAT of ₩260.4 billion and the issuance of approximately US\$200 million in GDRs and approximately ₩390 billion in subordinated debts. The bank's asset quality sharply improved to 1.1%, from 2.7% at 2001-end, due to active loan write-offs and recoveries, leading to an NPL coverage ratio of 118%. The delinquency ratio also improved to 1.9% behind preemptive risk management efforts and active delinquency collection.

In 2002, KorAm Bank saw a noticeable enhancement in all leading indicators, which will become the backbone of future profitability. By segment, the bank saw a 12.7% increase in corporate loans thanks to strong SME loan growth, notwithstanding intense competition from local peers. In addition, retail loans and credit card assets grew by 81.2% and 29.4% year-on-year, respectively, despite tightened government regulations and intensified competition among banks. Moreover, the ratio of the corporate business and the retail business was reformed to 59:41 at 2002-end (from 66:34% at 2001-end), in line with the bank's mid and long-term objective of seeking a balanced development among business lines.

The growth potential of investment products was proven in 2002 from sales of ₩1.2 trillion. In addition, KorAm Bank encouraged further

training and education for its employees (including the acquisition of relevant certificates) to provide a better foundation for bancassurance operations, which are to begin from August 2003. Accordingly, we expect investment products and bancassurance to become major revenue sources for KorAm Bank in 2003.

Finally, KorAm Bank won the 'best management award for exemplary corporate governance' in July 2002 from the Korea Stock Exchange in recognition of its strong corporate governance and transparent management.

Prepared for Future Challenges

We expect the economic condition of 2003 could not be better than in 2002. With uncertainties lingering over a global economic recovery, there are concerns regarding the impact a US-Iraq war would have on the domestic economy. Moreover, a possible delay in the domestic economy's recovery due to a slowdown in the real estate market and lower personal consumption is also burdening market sentiment. The banking industry's aggressive sales activities initiated by the large newly-merged banks widened the gap between large and small banks, and presented greater challenges, particularly intensified competition.

Going forward, KorAm Bank will strive to establish itself as Korea's 'Best Quality Bank,' meeting and surpassing global standards by focusing on the following tasks.

We aim for the solid expansion of our core businesses to lay the groundwork for stable growth. In 2002, KorAm Bank recorded high growth in core assets and will continue with this trend in 2003.

To this end, KorAm will increase the number of financial service officers in its corporate banking segment to expand SME loans and small proprietorship loans. In this respect, its attention will be focused on the expansion of fee income from foreign exchange and derivatives transactions with large corporations using a product-oriented approach.

With respect to retail banking, we will focus on the development of new products, particularly unsecured loan products, based on customer segmentation. Furthermore, to strengthen the bank's wealth management operations, we will focus on cross-selling various products, resulting in substantial synergy effects. In addition, starting from August 2003, KorAm Bank will sell insurance products to the general public.

In regard to its credit card operations, KorAm Bank not only plans to acquire creditworthy customers, but it also plans on raising the activity rate among existing customers. Additionally, the bank intends to attain profitable growth by boosting productivity through restructuring its operating process.

Secondly, KorAm Bank will maintain its industry-best asset quality by continuing to focus on risk management. As such, credit risk cycle management will be reinforced in 2003. Since the economic outlook for 2003 is worse than last year, KorAm Bank will continue its focus on conservative risk management policies.

Thirdly, the bank's operating platform will be upgraded to improve productivity. To achieve this goal, the transformation

of transaction-oriented branches into sales centers will be accelerated in 2003, and customer relationship management (CRM) will be further expanded to fully utilize our sales channels.

KorAm Bank intends to relieve operational bottlenecks at its branches by upgrading electronic banking channels, particularly Internet banking services. Furthermore, we plan on lowering the bank's expense-to-revenue ratio to less than 40% through higher productivity expected from branch restructuring.

Fourthly, in order to accomplish the aforementioned strategies, first and foremost, we need to have our own vibrant corporate culture take root. In March 2003, KorAm Bank celebrated the 20th anniversary of its foundation, and we announced a new corporate identity to present a new vision and create a goal-driven organization through improved communications.

Finally, we are determined to meet our 2003 business targets. Despite unexpected provisions additionally set aside in 2002 due to preemptive government regulations, we expect to meet our business goals for 2003. We realize that the year 2003 presents many difficulties, however, we believe that as long as management and employees are committed to accomplishing the bank's objectives, I can assure you that KorAm Bank will succeed.

As CEO of KorAm Bank, I will take the initiative in addressing all the hurdles to allow our Bank to attain best quality bank. KorAm Bank has come of age after being at the forefront of innovative changes for the past 20 years. Going forward, KorAm will continue exploring uncharted waters to open a new chapter of its history. I can say with confidence that in 2003, we at KorAm Bank will make every effort to be the 'Best Quality Bank,' and will do our best to move in a direction that most positively affects our shareholders. Above all, I would like to express my deepest appreciation for your continued interest and support.



Yung-Ku Ha
Chairman & Chief Executive Officer

SOLID GROWTH FOR THE LAST 20 YEARS

Through the concerted efforts of its dedicated professionals, KorAm Bank has demonstrated solid growth for the last 20 years.

2002 MANAGEMENT HIGHLIGHTS

JANUARY

'The Asset,' a monthly financial trade journal of Australia, disclosed the results of its investor opinion survey on corporate Asia. The monthly's Asset Benchmark Research focused on corporate governance, including transparency and accountability, and its results represented the views of approximately 750 chief investment officers (CIOs), fund managers and buy-side analysts at the leading 120 international institutions investing in Asian equities. KorAm Bank ranked fifth, earning the highest score among companies that had not issued American Depository Receipts (ADRs). Of note, Samsung Electronics topped the rankings among Korean companies, followed by Kookmin Bank, SK Telecom and POSCO.

stock prices were declining at this time. The issue price was set at ₩13,000 per share, which is a 2.99% discount from the closing price on the contract date (April 25). However, pricing was considered quite satisfactory, given that most Korean companies have issued GDRs at discounts of more than 10% since 1999.

The success in issuance was the result of positive evaluation by overseas investors on the bank's management including global-standard corporate governance and objective management indicators. Meanwhile, the bank expected to inject these proceeds into core businesses, such as SME and household loans, and the credit card division to help strengthen its foundation for growth.

- Established a separate site on the bank's homepage where shareholders and management can share ideas and opinions.
- Actively carried out IR sessions at home and overseas to enhance enterprise value.
- Established meritocracy-based personnel compensation systems.

Such management reforms led to noticeable results such as sharp declines in the NPL Ratio and delinquency ratio from 2.7% and 2.1% in 2001 to 1.1% and 1.9%, respectively, in 2002. In addition, the bank saw a 33.5% year-on-year rise in net income to ₩260.4 billion in 2002, plus the successful issuance of GDRs at April-end.

SEPTEMBER

KorAm Bank successfully issued 10-year foreign-currency subordinated bonds worth US\$200 million at an annual interest rate of 5.64%. Led by Salomon Smith Barney, the issuance was intended to improve the bank's BIS ratio and support working capital.

DECEMBER

KorAm Bank was the grand prize winner in the 'e-Finance' category at the fourth annual 'Korea EC Awards' sponsored by the Ministry of Information & Communication and jointly managed by Commerce Net Korea, MK News and Chosun Ilbo.

The award proved the bank's unrivaled leadership in Internet banking services. KorAm Bank's Internet banking

Jan.

- Ranked among the best Korean companies in corporate governance by 'The Asset'

Apr.

- Redeemed and canceled ₩78 billion in preferred shares

May

- Issued GDRs of US\$199 million

Jul.

- Received Best Management in Corporate Governance Award from KSE
- Issued Korean won-denominated subordinated bonds worth ₩150.0 billion

Sep.

- Issued foreign-currency subordinated bonds worth US\$200 million

Dec.

- Received grand prize for 'e-Finance' at the 2002 Korea Electronic Commerce (EC) Awards

APRIL

KorAm Bank redeemed and canceled ₩78.0 billion in preferred stocks, as scheduled, which were issued to KDIC to offset a decline in its BIS ratio when acquiring former Kyungki Bank. The bank further plans to redeem and scrap the remaining preferred stocks over the next two years ₩39.0 billion in 2003 and ₩39.0 billion in 2004.

MAY

KorAm Bank successfully issued global depository receipts (GDRs) worth approximately US\$200 million targeting overseas investors on May 1. This marked the first issuance of depository receipts in the domestic banking industry since 1999, and attracted much attention despite the fact that

JULY

The Korea Stock Exchange (KSE) selected KorAm Bank's chairman, Yung-Ku Ha, as an exemplary CEO, recognizing his efforts to implement a transparent and shareholder-based management system at KorAm Bank.

Reforms made across the bank since his inauguration in May 2001, include the following:

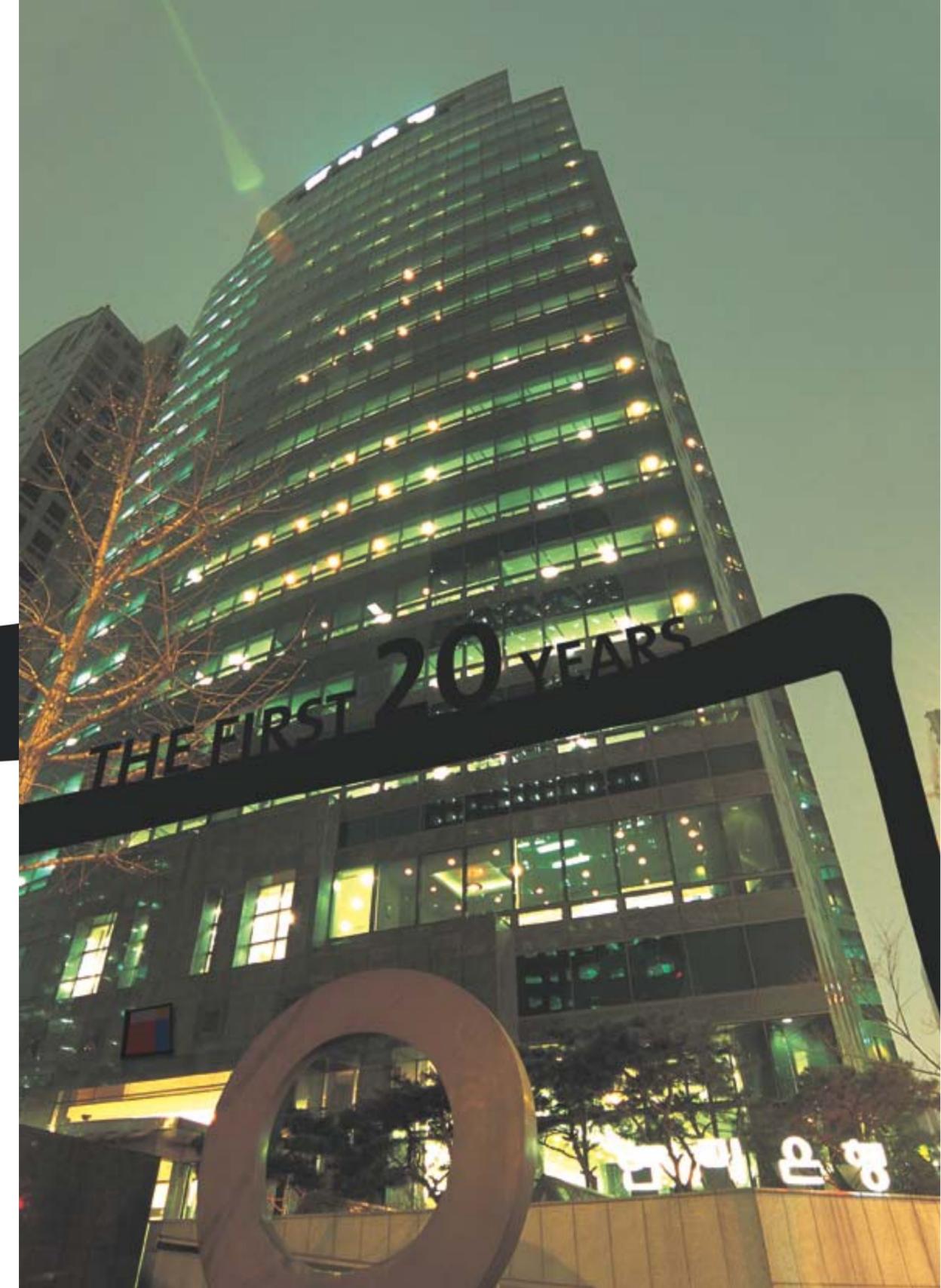
- Re-established the board of directors (BOD) as the bank's highest decision making power, and filling the majority of BOD seats with non-executive directors (nine out of 13) to heighten transparency.
- Held online BOD meetings (five out of 12 meetings), to encourage more participation by external directors while making all BOD minutes public to promote transparency.

The bank was also selected as one of Korea's most transparent companies in January 2002 by the Australia-based financial trade journal, 'The Asset.'

JULY

On July 23rd and 25th, KorAm Bank floated 5-year and 6-month subordinated bonds worth ₩50.0 billion and ₩100.0 billion, respectively, with coupon rates of 7.1% and 7.25%. These issuances were estimated to increase the bank's BIS ratio by 0.9%p, and the proceeds were slated for investments in core business areas.

services are centered on its homepage combining the three Cs (contents, communications, and commerce). The award recognized the bank's active development of e-Finance products through all available channels, which enjoyed highly favorable responses from customers. The bank particularly takes pride in hassle-free Internet loans, which require no documents, visits or guarantees. Of note, related businesses include: Internet banking based on the hub-and-spoke strategy, email via secure Internet e-mail addresses, Internet loans, reward programs for Internet customers, Personal Finance Management Software (PFMS) business for asset management, credit card issuances via the Internet, affiliated programs (including the cyber branch businesses), and mobile banking and personal digital assistant (PDA) banking.



HIGHLIGHTS OF THE FIRST 20 YEARS

'83
March 16

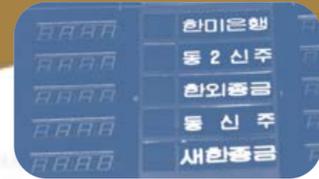
KORAM BANK HELD COMMENCEMENT CEREMONY



KorAm Bank was inaugurated as the first bank established as a joint venture and the seventh commercial bank in Korea. It marked the birth of a unique bank, as it was the product of a joint venture between a Korean firm, which was neither a commercial bank nor a special-purpose bank, and a US bank. KorAm Bank forged ahead with a rational management framework, selectively applying diverse management strategies based on a clear mission.

'89
October 11

KORAM BANK'S STOCK IS PUBLICLY LISTED



KorAm Bank conducted a capital increase of W40.0 billion via an initial public offering. Its stock was subsequently listed on the Korea Stock Exchange one month later (November 11), attracting much attention from both the public and investors.

'91
June 24

BEGAN KORAM VISA CARD OPERATIONS



The bank launched KorAm Visa Card operations. The Korea-issued credit card could be used internationally under the Visa Card trademark of US Visa International. The card also enabled cardholders to use the merchant members of Kookmin Credit Card, an affiliated company, in Korea.

'93
October 9

LAUNCHED ACE 2000 CAMPAIGN FOR MANAGEMENT REFORMS



KorAm Bank launched its ACE 2000 campaign for management reforms on October 9, 1993. Carrying out diverse projects, the campaign's purpose was to enhance customer satisfaction, improve business efficiency, activate the organization, and develop a creative and challenging corporate culture.

'94
December 15

RECEIVED BEST ORGANIZATION AWARD AND OUTSTANDING CEO AWARD FROM KOREA MANAGEMENT ASSOCIATION



KorAm Bank received the 'Best Organization Award' in the category of finance at the Korea Management Innovation Awards, held by the Korea Management Association. The bank's president, S.P. Hong, was also presented with the 'Outstanding CEO Award' that night.

'95
May 12

BEGAN NEW COMPREHENSIVE ONLINE SYSTEM



KorAm Bank began operations of its new comprehensive online system on May 2, 1995 to satisfy demand and follow the lead of advanced nations. This system led to reforms in customer satisfaction and reduced workload by standardizing business processes.

'96
April 10

LAUNCHED KORAM ROYAL PHONE SERVICE



KorAm Bank newly opened Royal Phone Center and began Royal Phone Service on April 10, 1996, with a view to carrying forward reforms in customer service through standardization and streamlined services.

'97
August 19

ISSUED OVERSEAS SUBORDINATED CONVERTIBLE BONDS - FIRST IN KOREAN BANKING INDUSTRY



KorAm Bank successfully issued overseas subordinated convertible bonds worth US\$100 million for the first time in Korean banking history on August 26, 1997.

'97
September 1

RELOCATED HEAD OFFICE



KorAm Bank completed the construction of its new headquarters and moved its head office to the state-of-the-art building, which stood 20 stories above ground and seven below, located in Da-dong, Jung-gu, Seoul.

'98
October 7

HELD 'NEW START' EVENTS FOLLOWING ACQUISITION OF KYUNGKI BANK



Following the acquisition of Kyungki Bank on June 29, 1998, KorAm Bank held eight training sessions from December 3, 1998 until January 16, 1999, for the integration of organizational cultures of the two former banks.

'97
October 6

FORMED GENERAL BUSINESS ALLIANCE WITH KOREAN POST OFFICE



On October 6, 1997, KorAm Bank secured a nationwide network by forming an alliance with the Korean Post Office, which boasted the largest branch network in Korea. This alliance provided customers of both KorAm Bank and the Korean Postal Service with free deposit and withdrawal services.

'00
November 15

INCREASED CAPITAL VIA GDR ISSUANCE



KorAm Bank, which had sought a capital increase through the issuance of global depository receipts (GDRs) since early 2000, successfully issued GDRs worth approximately US\$400 million on November 15, 2000, upon the official approval of the J.P. Morgan & Carlyle Consortium's participation from the Financial Supervisory Commission on September 8, 2000.

'02
April 25

ISSUES GDRS WORTH US\$200 MILLION



On April 25, 2002, KorAm Bank finally signed a contract for the issuance of around US\$200 million in GDRs, upon successfully completing road shows in the Asian, US and European markets. This reflected high valuations given to the bank by foreign investors, which was mainly attributed to the bank's efforts to steadily improve asset soundness and profitability. The issuance was completed with the receipt of payments for a capital increase on April 30.

BEST QUALITY BANK OF CUSTOMERS' FIRST CHOICE

Our corporate objective is to become
Korea's best quality bank and
customers' first choice.

CORPORATE VALUES AND STRATEGIES

Our values and strategies are in close linkage
with our corporate objective, and include the following:

- _ Tighten risk management to maintain
best asset quality in banking industry.
- _ Build a base for stable growth.
- _ Upgrade operating platform.
- _ Create a dynamic KorAm culture.

DELIVERING VALUE AND CREATING A FOUNDATION FOR FUTURE PROGRESS



REVIEW OF OPERATIONS

CONSUMER BANKING

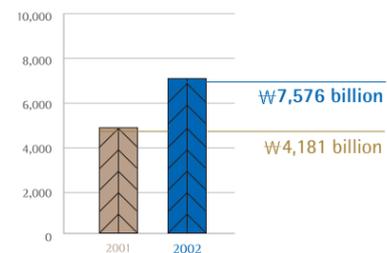
KorAm Bank displayed solid growth on its retail banking side as a result of continuing efforts to focus equally on retail and corporate banking during 2002. The bank also strived to prevent the generation of non-performing loans (NPLs) amid such growth. Relevant endeavors include thorough credit management and upward adjustments on loan loss provisioning ratios.

RETAIL LENDING

< Retail loans >

	In billions of Korean Won	
	2001	2002
Mortgage	₩2,649	₩4,920
Unsecured personal loans (UPLs)	355	984
Others	1,177	1,672
Total retail loans	₩4,181	₩7,576

Total retail loans



As of 2002-end, accumulated consumer loans amounted to ₩7,576 billion, recording impressive growth of ₩3,395 billion, or approximately 81%, year-on-year (YoY). This was primarily attributed to UPLs with satisfactory profitability, which jumped 158% YoY in 2002. The bank had expanded its share of the credit loan market by continuously introducing new products based on customer segmentation. Specifically, in January the bank launched the 'Smart Loan,' a new product targeting employees of quality companies, and the 'Doctor Loan,' targeting medical doctors. Additionally, in September 2002 the bank rolled out the 'Pharm Loan' in order to target pharmacists. Meanwhile, numerous regulations and reinforced supervision were placed on mortgage loans in 2002 behind

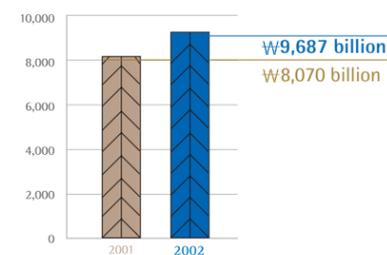
government efforts to control real estate-backed lending in order to stabilize the real estate market. Also adding to such unfavorable conditions were reductions in loan-to-value (LTV) ratios and upward adjustments for loan loss provisioning. Nevertheless, KorAm Bank's accumulated mortgage loans jumped 86% YoY to ₩4,920 billion at 2002-end. This was attributed to the development of distinct sales channels by securing a total of 290 direct sales (DS) members, an increase of 147 DS members YoY. The DS channel accounted for ₩1,506 billion, or 49%, of total new mortgage loans of ₩3,065 billion in 2002. Group loans also posted noticeable growth in 2002, amounting to ₩789.0 billion at 2002-end, increasing by ₩758.0 billion YoY. This gain was triggered by the establishment of the Home Mortgage Marketing Unit within the Retail Banking Marketing Team, followed by aggressive marketing activities. In terms of qualitative growth, loan applications were limited to projects undertaken by financially healthy constructors and carefully reviewed by Consumer Lending Sub-Committee prior to their implementation.

RETAIL DEPOSITS

	In billions of Korean Won	
	2001	2002
MMDA/Demand deposits	₩2,448	₩2,554
Installment savings	881	1,090
Time deposits	4,201	5,779
Others	540	265
Total retail deposits	₩8,070	₩9,687

_Including RPs, notes sold and deposits in FCY.

Total retail deposits



Consumer deposits amounted to ₩9,687 billion at 2002-end, rising by ₩1,617 billion, or 20%, relative to 2001. This was spearheaded by continuous micro-marketing efforts by branch and region in order to expand the bank's quality client base, and by implementing target marketing activities to induce more Royal Customers--private banking customers. In addition, we developed a number of new competitive products to maintain our competitiveness. These products include the 'Free Revolving Deposit,' a new deposit product, and the 'Free-Style Installment Saving.' The Free Revolving Deposit product generated ₩554 billion in total deposits within the first ten months of its introduction. The product also helped greatly reduce the bank's liquidity risks by converting short-term deposits into long-term deposits. In the meantime, the Free-Style Installment Saving enabled us to reduce our interest rate risk, combining the strong points of installment-type deposits and time deposits. In particular, the bank strengthened its customer relationship management (CRM) activities by reinforcing services via Private Bankers and relationship marketing, while expanding our customer base for retail deposits. We also continued our efforts to upgrade our Middle Customers to VIP status (i.e., Royal Customers) through continuous telemarketing. As a result, our customer base was further expanded in 2002, which should provide a solid foundation for growth going forward.

Meanwhile, fees for teller services were increased to curtail bottlenecks at branches and increase commission income. This resulted in an ascent in the utilization of automated hardware solutions and a rise in fee-based income, inducing more transactions via the Internet, cash dispensers (CDs), and automated teller machines (ATMs), which all charge comparatively lower fees.

WEALTH MANAGEMENT

Wealth Management, one of our core businesses, once again achieved noteworthy accomplishments in 2002. In order to strengthen wealth management services, we added to our consultation services by improving business efficiency via realigned functions of branch employees and the discontinuation of marketing to unprofitable customers. We also increased the number of professional PBs holding certifications, such as the Associate Financial Planner Korea

(AFPK) and Certified Financial Planner (CFP), to 108 as of 2002-end, thereby strengthening the bank's customer support system in terms of both quality and quantity. In addition, we remodeled the layouts of existing branch offices, and introduced Royal Plaza branches, dedicated solely to our Royal Customers, in strategic areas to maximize customer satisfaction.

Based on such business foundations, the number of customers with deposits of more than ₩100 million jumped 43.0% YoY to 25,185 at 2002-end. Our Royal Customer base also expanded greatly to 30,315 members in 2002, an increase of 36.6% YoY. Consequently, sales of investment products to the bank's Royal Customers rose significantly to ₩800.0 billion as of 2002-end, from a mere ₩4.4 billion in the prior year.

INVESTMENT PRODUCTS

KorAm Bank newly established the Product Development Team through alliances with non-monetary institutions in 2001 to strengthen its non-banking operations. Since its establishment, the team has seen noticeable growth in customer asset management through sales of diverse products, including equity and bond-type products, in addition to the reinforcement of closer and stronger business coalitions with securities firms, and sales of foreign mutual funds operated by overseas asset management companies. In 2003, the bank will contribute not only to improving profitability by introducing bancassurance, but also to providing customers with a full array of financial products. At KorAm Bank, only professionals--employees equipped with the expertise and ability to offer information on products through exhaustive education and training (1,440 employees as of 2002-end) --are permitted to sell investment products. We also meet customer needs by providing stable products through business alliances with premier management corporations that boast outstanding operational capabilities, which are verified by transparent and fair selection procedures.

< SALES OF INVESTMENT PRODUCTS >

	In Billions of Korean Won		
	KorAm Bank	Banking Industry Total	Financial Industry Total
At 2001-end	120	14,810	154,200
At 2002-end	1,210	20,100	170,580
Growth (Percentage)	1,090 (98.0%)	5,290 (35.7%)	16,380 (10.6%)

Consequently, KorAm Bank posted a 0.7% share of the investment products market as of 2002-end, while accounting for 6% of the banking industry's total, versus 0.8% in 2001.

BANCASSURANCE

Financial institutions are briskly preparing for the introduction of bancassurance, which is scheduled to begin from August 2003. KorAm Bank will also launch bancassurance services by signing with a cooperative agreement with an insurance carrier soon.

The government decided to allow sales of bancassurance products in three stages to minimize side effects following its introduction, allowing for full-scale sales of all products in 2007. During the initial year, sales of retirement and education savings products, fire insurance, and casualty insurance will be permitted. In addition, the government has prevented a monopoly from forming by limiting sales of specific insurance companies so as not to exceed certain portions. In terms of business methods, sales of such products will be allowed only at separate windows within financial institutions' branches.

Meanwhile, KorAm Bank has made preparations for the sale of insurance products by assigning the Product Development Team to take exclusive charge of bancassurance services. These services range from developing advanced bancassurance models and providing professional consultation, to selecting optimal sales methods and the favorable insurance partners. We also operate insurance product training programs targeting employees from early stages. As a result, more than 1,000 KorAm Bank employees have already obtained

certification to sell insurance products. Above all, we are certain that we will be able to generate sound earnings from the sale of insurance products.

CORPORATE BANKING

SMALL & MEDIUM ENTERPRISES (SMEs)

Our core strategies for the small and medium enterprises (SMEs) sector during 2002 were to increase quality assets and maximize income. In 2002, KorAm Bank saw total won-denominated loans to SMEs grow by 18.9% YoY, or ₩1,106.4 billion, to ₩6,975.5 billion, from ₩5,869.1 billion in 2001.

We also developed many new products to meet the diverse needs of customers such as real estate development financing, foreign loans convertible to domestic currency loans, and the purchase of trade receivables, which generated sales of approximately ₩900.0 billion, ₩500.0 billion, and ₩246.5 billion, respectively, in 2002. Particularly, real estate financing substantially contributed to the upturn in revenue, as it maintains relatively greater spreads and commission income than other loan products.

We also began operations of our 'CAT-i Pro' system, in July 2002, an upgraded version of our existing e-banking 'CAT-i' system, providing a variety of services including foreign exchange and automated collection services. This resulted in a rise in the number of contractor companies to 4,929 in 2002, from 1,220 in 2001, further solidifying our client base.

LARGE CORPORATE

Taking into consideration declining demand for loans among large corporations, KorAm plans to execute a differentiated strategy, as opposed to merely providing bullet loans, by providing them with customized financial services including purchasing cards, derivatives, and Internet-based cash and treasury services. To implement this plan, KorAm established two 'Large Corporate Banking Centers' in January 2002, which are responsible for large corporate banking services and focus on developing new products for these clients.

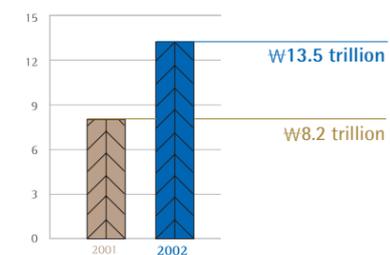
CREDIT CARDS

In 2002, the most noticeable features of the domestic credit card industry included the significant external growth of credit card usage and the number of newly issued credit cards as compared to 2001 figures, but the growth of earnings began to deteriorate behind the rapid market expansion and intensifying competition. In addition, delinquency ratios and the number of poor debtors sharply increased, following the continuously strengthened government regulations focusing on the improvement of asset quality, leading to aggravating profitability.

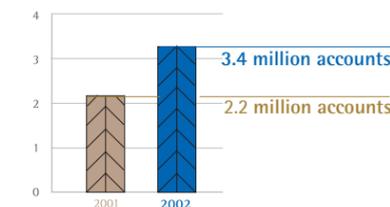
Amid such changes, KorAm Bank recorded substantial results during 2002, posting a net increase of approximately 1.3 million in the number of card members and sales of ₩13.5 trillion, a YoY rise of 64.6% from a year ago.

	In trillions of Korean Won, millions of accounts		
	2001	2002	YoY Growth (%)
Sales volume	8.2	13.5	64.6%
No. of generally accepted cards	2.2	3.4	54.5%

Sales volume



No. of generally accepted cards



In addition, the bank strategically pursued a number of key objectives conforming to strategic adjustments in our credit card policy behind such portfolio actions as the augmented need for risk management in accordance with changes in the operating environment, inducement of quality customers, and reductions in usage limits for marginal members.

First, we constructed the New Score System, which promotes effective portfolio management and systematic risk management. Comprising the Credit Bureau Score (CBS), Application Score (AS), Behavior Score (BS), and Risk Segment (RS), this system can be utilized for approval and limit management, risk management, and CRM by analyzing and tracking a wide range of information related to individual credit. The system, above all, enabled the bank to secure an underpinning for more scientific and specialized portfolio management going forward.

Second, KorAm Bank additionally issued four new affiliate cards in alliance with Freechal, Seoul Broadcast System Internet (SBSI), KTF and others to heighten the brand value of KorAm Cards and continue expanding our client base. We also newly rolled out the 'I-Be Card' under our own brand.

Third, the bank developed the Activation Process for our card members in an effort to increase profitability. Also developed during 2002 were a variety of supplementary services such as installment repayments for cash advances, conversion of credit sales to installments, and loans to credit card members in order to strengthen our product competitiveness and expand our customer base.

The above-mentioned endeavors and outcomes carried forward during 2002 will provide a core base for KorAm Bank to proactively cope with a rapidly changing market environment and efficiently manage well-organized portfolios through scientific and systematic approaches.

FINANCIAL MARKET

In 2001, the Financial Markets Trading & Sales Team laid the groundwork to reinforce its organization and manpower. Now, it is helping the bank settle down as a powerful player in the highly competitive banking industry by maximizing synergies generated from the integration of Korean won and foreign currency asset management.

The team's major accomplishment in 2002 was its contribution to overall earnings, as it significantly exceeded its original goal for the team by approximately 15%. As for the won-denominated asset management division, we expanded the weighting of bonds relative to equity in the second quarter of 2002, as interest rates were expected to fall and stock markets were forecasted to be bearish. This enabled us to obtain relatively exceptional return, outperforming the bond and stock market indexes, respectively.

The foreign currency asset management division benefited from our efforts to expand our customer base through active marketing, and securing stable revenue sources by developing a variety of structured products using financial derivatives. This produced outstanding results, particularly with F/X trading gains, which increased by 7% YoY, and currency option/swaps, which jumped 275% YoY.

Earnings from the swap sector significantly rose in 2002, jumping 250% YoY. In addition, the bank garnered a 20% share of the won-based structured deal market. The bank is providing all types of won currency-related swap products, while strengthening our market dominance with a diversified product lineup. Earnings from currency option products also shot up by 317% YoY. 'Asia Risk,' an authoritative magazine specialized in derivatives, accredited our options business. KorAm Bank ranked first in the categories of 'Preference' and 'Market Share' for won-dollar currency options trading in the magazine's 'Interbank Derivatives Survey 2002.' We also presented alternative investment vehicles while creating new earnings sources in an era of low interest rates by introducing stock price index-based time deposits.

The requirements for proper risk management and derivatives are continuously increasing with the tendency towards product integration and the expansion of market volatility. We are now able to manage risk more efficiently making asset allocation and funding decisions in view of our overall funding position and market conditions. Furthermore,

using derivatives such as options and swaps allows us to stabilize our asset-liability structure and secure a variety of earnings sources.

Meanwhile, banks are under greater risk in terms of market and operational risks due to the introduction of financial derivatives and the expansion in their trading volume. Accordingly, risk management is gradually becoming more important. KorAm's Middle Offices, which are separately operated from asset management divisions for objective analysis and evaluation, are effectively carrying out risk management using value-at-risk (VaR) techniques, stress tests, simulations, and a wide array of sensitivity indicators, which is winning recognition from the Financial Supervisory Service and becoming a benchmark target for other domestic banks.

During 2002, KorAm Bank set up a global medium-term note (MTN) program worth US\$1 billion. Consequently expected are the diversification of credit lines, cost reductions, and an efficient timeframe for mid-to-long term foreign currency borrowings. In addition, we were able to cut funding costs by raising US\$800 million in mid and long-term foreign currency borrowings, of which US\$350 million was raised at lower interest rates through syndicated loans over three occasions. Also, of this amount, US\$100 million was borrowed at an extended maturity period, thereby improving the maturity structure of the bank's total foreign currency borrowings.

RISK MANAGEMENT

RISK MANAGEMENT TEAM

KorAm Bank places great emphasis on risk management through its Risk Management Committee and Risk Management Team, which ensure that the bank is operating within its internally set risk limits. The Risk Management Team consists of five functions, which include the Integrated Risk Management, Credit Risk Management, Market Risk Management, Asset & Liability Management, and Credit Review. In addition, the bank also has launched the Consumer Credit Risk Management Team to manage consumer credit risk, which has been on the rise lately. KorAm Bank was

equipped with improved risk management systems in 2002, securing its risk-adjusted return on capital (RAROC). A comprehensive risk measure, RAROC enables the bank to measure and manage outcomes given the bank's risk profile. Moreover, the bank also reconstructed its corporate credit rating and asset & liability management (ALM) systems to improve risk measurement and analysis.

INTEGRATION RISKS

In cooperation with foreign consultant Oliver Wyman & Company, KorAm Bank established RAROC system in 2002. This is a part of the bank's long-term vision for risk management in preparation for the New Basel Accord, which is to begin in 2006.

RAROC, a risk-adjusted performance measurement (RAPM) of risk and earnings, not only enables us to measure outcomes by business sector, but also provides indicators which management can utilize as reference for value-based decisions.

Our integrated risk management system encompasses a wide range of risk areas, including business risk, operational risk, and interest rate risk, to name a few. Meanwhile, we were able to improve transparency by measuring capital adequacy and use it as a key indicator when market participants and external credit rating agencies evaluate the bank. Going forward, we plan to improve the bank's risk-adjusted economic values by utilizing the above-mentioned indicators for the evaluation of each business division's performance.

CREDIT RISK MANAGEMENT

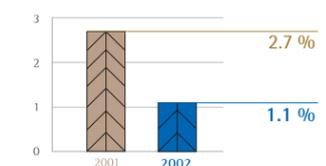
Our credit approval and monitoring are based on the credit ratings of individual assets, leading to the differentiated application of lending rates based on from the credit ratings of individual debtors. When evaluating the performance of each branch, we reflect credit risk premiums in calculating each branch's net earnings to spread culture of risk awareness. After the extension of loans, we closely monitor the financial status of our debtors, and if there is any sign of potential weaknesses in the borrower's debt-paying ability, we designate such borrower as a watch account and closely monitor such loans. In addition, we developed a new model to

further improve our credit rating with National Information & Credit Evaluation (NICE), Korea's leading provider of accurate and unbiased credit information on businesses and individuals, in 2002, and developed an early warning system to grasp signs for NPLs in advance.

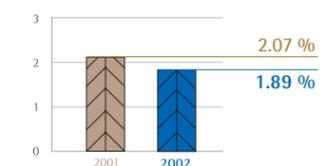
We also established portfolio management policies by credit rating and by industry to achieve an optimal portfolio. Moreover, we are operating diverse tools to limit loan concentration, such as the 'Credit Ceiling System for Individual Borrower and/or its Affiliates' to control loan concentration on the same debtors or debtor groups. We also realigned the bank's total exposure to management-related regulations to establish a more elaborate management system.

All these efforts, backed by the bank's excellent credit analysis, significantly contributed to improving the soundness of our loan assets, and will continue to be the foundation for excellent asset quality. Above all, we were committed to controlling and reducing NPLs in 2002 to become a 'clean bank.' Consequently, we accomplished the best asset quality in the domestic banking industry in 2002, with our NPL-to-total loan ratio decreasing by 1.6% point to 1.1%, from 2.7% in 2001.

NPL-to-Total Loan Trend



Delinquency Ratio Trend



REVIEW OF OPERATIONS

Such satisfactory results are accredited to our exhaustive credit risk screening policy with a focus on large loans as part of our policies to preemptively suppress NPLs. We also removed potential NPLs by identifying companies, which display signs for insolvency through credit risk monitoring, and reducing loans to such companies. We were also able to curtail loan risks at opportune times by establishing an early warning system within the Credit Risk Management Group, which automatically identifies potential problem loans through a computerized system and examines credit risks. In order to manage our delinquency ratio, we introduced a system that manages delinquent loans and concentrates on collection throughout the year assigning goals by business segment. Concerning problematic loans (subordinated and lower grade loans), they have been sharply reduced by active writing off or disposing of them based on loan loss provisions for bad debts.

MARKET RISK MANAGEMENT

The bank sees to it that losses on trading positions, which can be generated due to diverse changes in interest rates, exchange rates and stock prices, are kept within acceptable levels. To this end, we established a Position Limit, Loss Limit and VaR Limit. Meanwhile, we also demand that traders observe such limits while monitoring their positions on a daily basis. We are also measuring our daily VaR position, the maximum estimated loss to be generated for the next ten business days, using Variance-Covariance, Historical Simulation, and Monte-Carlo Simulation Models.

Furthermore, we not only perform Stress Testing regularly to measure losses that can be incurred under extreme market conditions, such as the financial crisis in 1997, but we also perform Back Testing on a daily basis to verify the appropriateness of our VaR models. Of note, the VaR of our trading position amounted to an average of ₩12.3 billion and maximum of ₩18.9 billion during 2002.

ASSET & LIABILITY MANAGEMENT

KorAm Bank changed its ALM system to Oracle's OFSA System to tackle problems and functional limitations, which the previous BancWare System had displayed. The OFSA System enables a variety of analysis required for ALM, ranging from gap analysis and Net Interest Income/Net Present Value Simulation, to VaR and Earning at Risk Analysis, offering effective management of basic data and more diversified analytical functions. Accordingly, we expect earnings to stabilize, as we are now able to more effectively manage ALM risk through such analytical tools in an increasingly complicated and unpredictable financial environment.

CREDIT REVIEW

KorAm Bank operates an independent credit review unit, separate from the Credit Risk Management Group to improve asset quality. The Credit Review Unit engages in the re-evaluation of approved loans so that the bank's credit evaluation can be made consistently and properly. In addition, it operates an early warning system to improve the bank's asset quality by detecting signs of loan deterioration.

CONSUMER CREDIT RISK MANAGEMENT TEAM

The Consumer Credit Risk Management Team plays a pivotal role in identifying and minimizing risks associated with specific activities and processes undertaken in the consumer banking business. The team develops risk acceptance criteria and conducts a credit process review, while supervising the consumer credit cycle. As part of its risk management role, the team identifies risks throughout all stages of the credit process, from credit initiation to consumer credit scoring, credit screening, account management, and collection/recovery process, in addition to feedback to assist in product planning.

In detail, the Consumer Credit Risk Management Team analyzes loan performance by acquisition channel, customer profile segment, income, age and occupation, booking vintages, and other criteria. Such analytical tools make it possible to closely monitor changes in loan quality. The team is also responsible for establishing risk acceptance criteria, operating the credit scoring system using various checking

items to prevent default, and securing the soundness of consumer credit assets. In addition, it is responsible for monitoring and screening the credit status of each customer through credit bureau information shared with other financial institutions. Furthermore, the team collects delinquent loans utilizing an advanced call system and its 360+specialized loan collectors. Finally, the team reflects the risk calculated from each credit process in the planning of new products.

During 2002, the Consumer Credit Risk Management Team carried out diverse activities to advance its risk management techniques and heighten asset quality. First, it upgraded its risk management foundation to meet global standards by extensively solidifying management information systems. Second, the team developed a new score card to be employed from early 2003. Featuring improved discrimination power, this new score card is expected to significantly contribute to securing quality customers and improving asset quality by being utilized in diverse sectors such as acquisition, line management, marketing, and collection. Third, it curtailed the credit limits of 1.2 million credit card users by approximately ₩1.9 trillion in order to actively cope with increased credit risks and the FSS' strengthened loan loss provisioning requirements in 2002. Fourth, the team was able to process an average 250 calls per collector on a daily basis by heightening the productivity and efficiency of the collection business. It also developed a new automated collection system to be introduced in early 2003. Lastly, it was recognized for its excellent credit risk management, obtaining a 'satisfactory' rating in the examination of household loan risk management by the FSS.

OPERATING PLATFORMS

INFORMATION TECHNOLOGY

KorAm Bank has constructed a stable infrastructure for computerization to proactively cope with a rapidly changing financial environment, and support our efforts to accomplish management objectives. We are also devoted to providing consistent services and operating efficient systems while flexibly dealing with new products and diversifying service areas.

The bank has improved its business recovery services (BRS) as part of the decision to move the computerization center in 2000. Our disaster recovery systems, launched in June 2000, were additionally applied to a number of businesses in January 2002, including credit cards, external banking, access to automated systems, and electronic settlements. Also in pursuit is the construction of a disaster recovery system, slated for completion in February 2003. The system will enable the recovery of accidents in account businesses (deposits, loans and foreign exchange) within three hours (currently 24 hours), given our business continuity plan and recommendation by government authorities.

We are also constructing disaster recovery systems to minimize losses and guarantee stable solutions to customers when disasters occur. Furthermore, these systems will improve the stability and reliability of our services, as well as satisfy the government's requirements for countermeasures against emergencies in the information technology (IT) sector. In addition, we completed the extension of our information system in February 2002, and our core banking system in September 2002, to provide trouble-free services through a stable operating system.

We extended and upgraded all information security systems in order to eliminate diverse threats and risk factors that adversely affect information, privacy, and control access in line with the development of the IT sector. We have also devoted ourselves to minimizing security problems for our internal systems and customers by providing Internet banking customers with software protection.

We continue to reconstruct online terminals to Web versions in an effort to enhance the efficiency of business

REVIEW OF OPERATIONS

processes, enabling us to construct customer and marketing-oriented terminal systems. We also expect to improve branch business processes by curtailing the number of terminal operating windows, and utilizing account information through the construction of integrated terminal platforms. Above all, we boosted our business efficiency as we became able to actively and efficiently support customers, constructing a branch virtual private network (VPN) to heighten the Internet transmission speed at branches and strengthen security for internet usage (intrusion detection and illegal site block). Meanwhile, we were able to build up a variety of information providing systems, mainly by expanding business spheres through Data Warehouse Remodeling, while heightening effects from the construction of user-oriented information systems.

INTERNET BANKING

The bank continued its efforts in 2002 to secure a variety of communications and sales channels for Internet banking in order to compliment its branch network. First, with a view to securing communications channels, we sought to increase the number of Internet banking and email account customers. This led to a rise in the number of Internet banking customers by 127,450 YoY, while the number of email account customers rose by approximately 900,000, reaching a total of 1,211,676 Internet banking and email account customers as of 2002-end.

The portion of Internet banking transactions to total banking transactions also sharply climbed to the 13%-level from 3.8% in 2001, helping reduce expenses by absorbing a considerable portion of window transaction volume. The bank also introduced new Internet banking loan products including Internet deposits and installment savings-backed loans in addition to document-free and visits-free Quick Money Loans to solidify our earnings bases for Internet banking. As a result, loans through Internet banking amounted to about ₩94.3 billion at 2002-end.

Meanwhile, we are continuing to implement efficient online marketing strategies at lower costs relative to offline marketing through active emailing, targeting 1.2 million recipients. Furthermore, we are diversifying sales channels in order to enhance the profitability of Internet banking and

secure additional email accounts. We are also reinforcing our earnings base by opening specialized sites such as 'www.goodbankloan.com' and 'www.goodbankinvest.com' in addition to 'www.goodbankcard.com' with an aim to expand differentiated sales channels by customer group.

B2B/CAT-I

In 2002, the bank firmly secured its leadership in the corporate fund settlement market via 'Purchasing Card' and 'Reverse Purchasing Card,' plus a variety of financial products applying these systems. Specifically, we upgraded our data transmission methods to be web-based through the development of the CAT-i PRO System. We also completed our Corporate Internet Banking System, enabling companies to execute fund management and settlement transactions in a single web-based system, by combining the already-established Internet Procurement System (IPS) providing limited services, with the CAT-i, a corporate fund management system.

On the strength of these efforts, our sales and earnings from 'Purchasing Card' and 'Reverse Purchasing Card' shot up by 75.3% YoY and 47.5% YoY, respectively. We not only minimized loan risks, but we also prepared a foundation for stable expansion going forward by streamlining the 'Reverse Purchasing Card' system, which had continuously generated the largest customer base as well as the largest sales and earnings results in the domestic financial industry based on its advanced services and systems. Furthermore, in 2002 we looked to expand our earnings base, diversify customer industries, expand market share, develop a variety of settlement methods, employ the 'Purchasing Card' and 'Reverse Purchasing Card,' and implement new payment solutions to satisfy demand for short-term fund settlements including quick loans. In preparation for our advance into the B2B market, we also:

- Reduced loan risks of the 'Purchasing Card' to be generated from multilateral transactions through e-commerce (network-to-network transaction in the e-marketplace) by applying credit guarantee issued by the Korea Credit Guarantee Fund as security;
- Newly developed a process to obtain electronic credit guarantee as security;

- Completed 'Internet Payment Tool' in the basket form, which integrates products for funds settlements, such as secured receivables loans and loans for purchase in addition to 'Purchasing Card'; and
- Completed the development of the 'Real-Time Approval System' in the Interface form, targeting major e-marketplaces and enabling the bank to provide differentiated payment solutions.

We also participated in the B2B Electronic Network of the Financial Telecommunications & Clearings Institute in order to preoccupy the B2B market. Meanwhile, by taking initiative in the e-marketplace with a focus on large corporations, we also obtained know-how and strengthened relationships with participating companies.

In 2002, we moved into a position to provide a full array of services from corporate fund management (including collection, payment, foreign exchange) to corporate banking settlement services (such as Purchasing Card, Reverse Purchasing Card, purchasing loans, electronic bonds) and financial solutions to e-commerce among companies (B2B) by upgrading the CAT-i System to the CAT-i pro, an integrated operating system which simultaneously supports corporate settlement services in diverse forms through the Internet.

The Number of contracting companies amounted to 1,350 as of June-end 2002, and grew to 4,930 as of December-end 2002. Of note, this figure jumped 265% since the upgrading of the system.

CALL CENTER

The Call Center moved into the bank's annex building in Gangnam, Seoul, in May 2002. Now equipped with 480 consultation booths, a Quality Assurance (QA) Room, and four meeting rooms, the center is now able to accommodate more calls and improve service quality and productivity.

Above all, as a multimedia contact center, it is now able to provide more updated Internet call center services, such as Escorted Browsing, White Board and File Transfer. This also improved the average speed answer time (ASAT) and the abandon ratio (AR), which stand at 15 seconds and 4.3%, respectively, matching the level of the bank's management information systems' (MIS) leading indicators (ASAT of 15 sec, AR of 5%).

In addition, we also continued to demonstrate noticeable growth in the telemarketing sector, based on such stable call status. First, telemarketing efforts resulted in deposits of ₩589.4 billion in 2002, including new deposits of ₩102.4 billion and retained deposits of ₩487.0 billion. Meanwhile, loans increased by 67.7% YoY to ₩37.9 billion in 2002, from ₩22.6 billion in 2001. In addition, the loan retention telemarketing, introduced in 2002, generated credit loans of 63.8 billion (7,361 cases) and secured loans of ₩555.6 billion (13,322 cases).

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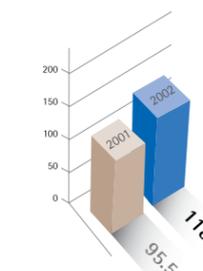
MANAGEMENT'S DISCUSSION AND ANALYSIS

< KEY FINANCIAL DATA* >

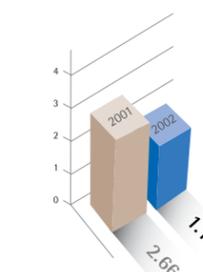
	<i>In billions of Korean Won, %</i>		
	2001	2002	Chg
Operating results			
Net interest income	₩ 719.2	₩ 958.9	239.7
Net non-interest income	242.9	195.7	-47.2
Net income	195.0	260.4	65.4
Per share data (won)			
Dividend per share	0	375	375
Earning per common share**	1,196	1,475	279
Profitability ratios			
ROA	0.69	0.79	0.10
ROE	16.37	17.18	0.81
Net interest margin	2.84	3.24	0.40
Net interest spread	3.13	3.30	0.17
Balance sheet data at year-end			
Total assets	28,699.9	37,097.4	8,397.5
Loans	18,109.1	24,953.4	6,844.3
Deposits	17,756.1	20,789.8	3,033.7
Securities	8,303.8	8,244.7	-59.1
Shareholder's equity	1,242.3	1,615.2	372.9
Asset quality ratios			
Coverage ratio	95.5	118.3	22.8
NPL ratio (Substandard and below)	2.66	1.13	-1.53
Capital ratios at year-end			
Total capital ratio	11.18	12.11	0.93
Tier I capital	5.79	6.53	0.74
Tier II capital	5.55	5.72	0.17

* Based on internal criteria
 ** Net income / No. of common shares

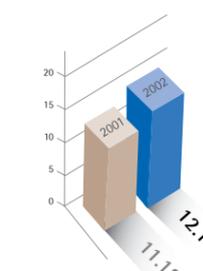
Coverage ratio (%)



NPL ratio (%)



Total capital ratio (%)



MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

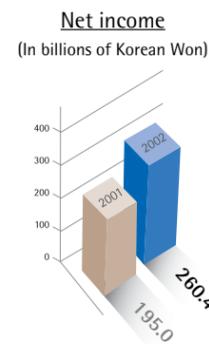
Despite 2002's overall poor business environment, featuring a downturn in market interest rates, intensified competition and tighter regulations, KorAm Bank was able to post across-the-board improvements. Net interest income surged, while net income soared 33.5% YoY. This enabled the bank to pay dividends of ₩375 per common share in 2002. Total assets in the bank account expanded ₩8,397.5 billion or 29.3% YoY to record ₩37,097.4 billion at year-end. Loans totaled ₩24,953.4 billion, jumping ₩6,844.3 billion for the year. Deposits climbed ₩3,033.7 billion or 17.1% YoY to ₩20,789.8 billion. Profitability also improved with advances in ROA and ROE, which edged up 0.10% and 0.81%, respectively, to 0.79% and 17.18%. Net interest spread (NIS) and net interest margin (NIM) grew by 0.17% and 0.40%, respectively, to 3.30% and 3.24% in 2002.

Meanwhile, the NPL ratio was cut by more than half, dropping to 1.13% by year-end, while the coverage ratio broadened 22.8% to 118.3%. Risk-weighted assets increased with a rise in total assets, but the BIS capital ratio moved up 0.93% YoY to record 12.11% at end-2002 due to advances in net income and equity capital following the issuance of global depository receipts (GDRs).

INCOME STATEMENT

Net interest income rocketed to ₩958.9 billion, up 33.3% YoY, a growth attributed to the solid advance of the bank's core business operations plus a decline in interest costs through an improved funding structure, aided by downward movement of interest rates. Net non-interest income fell ₩47.2 billion or 19.4% YoY to ₩195.7 billion. This decline was led by increases in various expenses, including marketing and acquisition costs due to rising numbers of mortgage loans and credit cards. Operating expenses swelled ₩54.4 billion or 15.1% YoY to ₩415.6 billion. This was influenced by (1) increased contributions to the Korea Credit Guarantee Fund (KCGF) following an ascent in loan assets and (2) increased mortgage loan-related expenses as the volume of these loans expanded. As a result, KorAm recorded net income after tax of ₩260.4 billion, an increase of ₩65.4 billion or 33.5% YoY on the back of significant rise in net interest income.

	In billions of Korean Won, %			
	2001	2002	Chg	YoY % Chg
Net interest income	719.2	958.9	239.7	33.3
Net won-currency interest	657.4	927.6	270.2	41.1
Net foreign-currency interest	61.8	31.3	-30.5	-49.4
Net non-interest income	242.9	195.7	-47.2	-19.4
Operating expense	361.2	415.6	54.4	15.1
Impairment loss	41.7	16.1	-25.6	-61.4
Provisions & insurance premiums	246.8	331.3	84.5	34.2
<Insurance premiums>	8.8	111.0	102.2	1,161.4
Net income	195.0	260.4	65.4	33.5



NET INTEREST INCOME

Net interest income ballooned ₩239.7 billion or 33.3% YoY to ₩958.9 billion by end-2002. This was attributed to (1) a climb in interest revenues, following increases in loans to small and medium sized enterprises (SMEs) and to individuals, plus greater credit card usage and a decline in NPLs, and (2) a retreat in interest expenses mainly due to continuing low market interest rates and the bank's

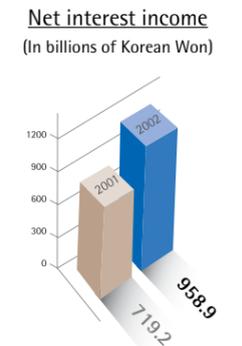
improved funding structure. Interest revenues advanced ₩156.4 billion or 7.7% YoY to reach ₩2,200.7 billion at year-end. Specifically, won-currency interest revenues amounted to ₩2,106.7 billion, up ₩246.6 billion from a year earlier, boosted by ₩149.2 billion growth in interest earnings due to solid growth of SME loans and individual loans. Almost doubling, credit card interest income shot up 96.9% YoY to ₩426.8 billion.

Interest expenses amounted to ₩1,241.8 billion, down ₩83.3 billion or 6.3% as compared to 2001 figures. Specifically, won-currency interest expenses eased 2.0% YoY behind overall stabilization of market interest rates and

improvements in funding. Foreign-currency interest expenses tumbled 48.7% YoY, as the downward movement of interest rates continued.

< NET INTEREST INCOME >

	In billions of Korean Won, %			
	2001	2002	Chg	YoY % Chg
Interest revenues (a)	2,044.3	2,200.7	156.4	7.7
Won Currency	1,860.1	2,106.7	246.6	13.3
(Loans)	1,014.5	1,163.7	149.2	14.7
(Securities)	589.6	500.6	-89.0	-15.1
(Deposits with Banks)	18.2	4.7	-13.5	-74.2
(Credit Cards)	216.8	426.8	210.0	96.9
(Others)	21.2	10.9	-10.3	-48.6
Foreign currency	184.2	94.0	-90.2	-49.0
(Loans)	48.7	29.0	-19.7	-40.5
(Securities)	21.8	22.8	1.0	4.6
(Deposits with Banks)	33.1	0.1	-33.0	-99.7
(FX Bills Purchased)	79.1	41.5	-37.6	-47.5
(Others)	1.5	0.6	-0.9	-60.0
Interest expenses (b)	1,325.1	1,241.8	-83.3	-6.3
Won Currency	1,202.9	1,179.1	-23.8	-2.0
(Deposits)	867.1	791.9	-75.2	-8.7
(Borrowings)	147.3	136.8	-10.5	-7.1
(Securities/Bills Sold)	104.9	63.5	-41.4	-39.5
(Others)	83.5	187.0	103.5	124.0
Foreign Currency	122.3	62.7	-59.6	-48.7
(Deposits)	23.2	6.1	-17.1	-73.7
(Borrowings)	88.3	32.8	-55.5	-62.9
(Debentures)	8.3	23.6	15.3	184.3
(Others)	2.6	0.3	-2.3	-88.5
Net interest income (a-b)	719.2	958.9	239.7	33.3



_Net Interest Spread and Net Interest Margin
_Net interest spread (NIS) edged up 0.17% YoY to stand at 3.30% during 2002.

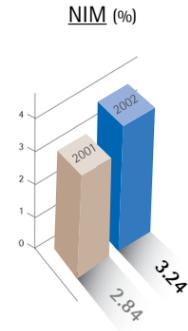
This rise was due to a narrower decline in loan interest rates than the drop on deposit interest rates while the bank experienced increases in relatively high-earning assets--such as SME and individual loans and credit cards--following an overall decline in market interest rates.

Of note, loan interest rates backed off 1.13% YoY to 7.57%, while deposit interest rates edged down 1.3% YoY to 4.27%. Net interest margin (NIM) sharply rose by 0.4% YoY to record 3.24% at year-end, maintaining a high level.

MANAGEMENT'S DISCUSSION AND ANALYSIS

< NET INTEREST SPREAD AND NET INTEREST MARGIN >

	In billions of Korean Won, %		
	2001	2002	Chg
NIS	3.13	3.30	0.17%P
Loan rate	8.70	7.57	-1.13%P
Deposit rate	5.57	4.27	-1.3%P
Net income	195.0	260.4	65.4
NIM	2.84	3.24	0.40%P



NON-INTEREST INCOME

Non-interest income declined ₩47.2 billion or 19.4% to reach ₩195.7 billion at the end of 2002. F/X gains expanded by ₩21.7 billion or 57.6% YoY to record ₩59.4 billion, due primarily to the activation of diverse transactions including options. The credit card & other category posted a net loss of ₩34.1 billion, down ₩14.5 billion from the 2001 record. Securities trading gains were relatively satisfactory standing

at ₩59.8 billion. Still it represented a downfall of 56.9% as compared to 2001 when securities-related gains amounted to ₩138.6 billion. Trust fees amounted to ₩69.4 billion, down ₩9.0 billion or 11.5% YoY. The decline was attributable to a decline in the balance following the prohibition of new trusts on book-value products which demonstrated relatively high trust fee rates amid a contraction in the trust market overall.

< NON-INTEREST INCOME >

	In billions of Korean Won, %			
	2001	2002	Chg.	YoY % Chg
Trust fees	78.4	69.4	-9.0	-11.5
Securities trading gains	138.6	59.8	-78.8	-56.9
F/X gains	37.7	59.4	21.7	57.6
Fees & commissions	36.8	41.2	4.4	12.0
<Mortgaged acquisition costs>	-7.3	-32.2	-24.9	N/A
Credit cards & others	-48.6	-34.1	14.5	N/A
<Marketing cost for credit cards>	-34.6	-86.0	-51.4	N/A
Net non-interest income	242.9	195.7	-47.2	-19.4

LOANS

Loans comprised 59% of corporate loans in 2002 while household loans, including credit cards, made up the other 41%, providing a comparatively well-balanced loan portfolio when compared to the 66%-34% ratio in the prior year. The portion of loans to large corporations diminished to 20% by end-2002, down from 28% in 2001. SME loans grew 19% YoY to account for 37% of total loans, while their asset quality further improved to record 0.46% in the NPL ratio. The weighting of household loans to total loans edged up 8% due to the activation of mortgage loans and credit loans, though the portion of credit card loans to total

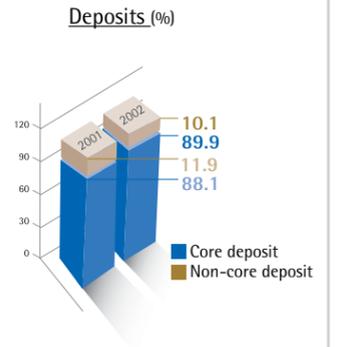
household loans did not change greatly from 2001 figures. The bank has set mid-term strategy to seek a 50%-50% balance between corporate and household loans.

DEPOSITS

Deposits totaled ₩20,790 billion, up ₩3,034 billion or 17.1% YoY. In particular, won-currency deposits jumped ₩3,072 billion or 19.3% YoY to reach ₩18,952 billion, contributing a majority of the growth in total deposits. Foreign-currency deposits edged up ₩8 billion or 1.4% YoY to ₩584 billion, while certificates of deposit (CDs) slipped ₩46 billion or 3.5% YoY to ₩1,254 billion at year-end.

< DEPOSITS >

	In billions of Korean Won, %					
	2001		2002		YoY	
	Amount	%	Amount	%	Amount	%
Deposits in won currency	15,880	89.4%	18,952	91.2%	3,072	19.3%
Demand deposits	1,359	7.7%	1,788	8.6%	429	31.6%
Savings & time deposits	14,277	80.4%	16,897	81.3%	2,620	18.4%
Mutual installment receipts	154	0.9%	124	0.6%	-30	-19.5%
Housing installment deposits	89	0.5%	143	0.7%	54	60.7%
Core deposit (Demand+savings)	15,636	88.1%	18,685	89.9%	3,049	19.5%
Deposits in foreign currencies	576	3.2%	584	2.8%	8	1.4%
Certificates of deposit	1,300	7.3%	1,254	6.0%	-46	-3.5%
Total deposits	17,756	100.0%	20,790	100.0%	3,034	17.1%



ASSET QUALITY

Total credits amounted to ₩26,825 billion at the end of 2002, an increase of ₩6,086 billion or 29.3% from end-2001. Importantly, substandard-or-below loans declined ₩248.2 billion to ₩304.0 billion at year-end, mainly due to active write-offs and exhaustive credit risk management. Consequently, the substandard-or-below ratio dropped 1.53%P YoY to a low 1.13%, enabling the bank to secure the

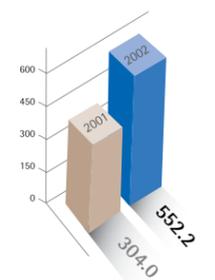
highest-level asset soundness in the domestic banking industry.

Such sharp downfalls in NPLs and conservative loan loss provisioning in line with international standards led to a 22.8%P YoY rise in the coverage ratio to 118.3%. Write-offs decreased by ₩766.4 billion over the year to record ₩348.2 billion, demonstrating a substantial improvement in asset quality as compared to last year.

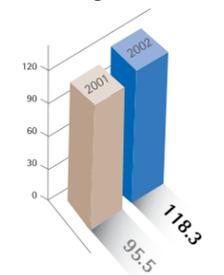
< ASSET QUALITY CLASSIFICATION >

	In billions of Korean Won, %			
	2001	2002	Chg	YoY % Chg
Total Credits	20,739.0	26,825.0	6,086.0	29.3
Normal	19,731.8	26,106.5	6,374.7	32.3
Precautionary	454.8	414.4	-40.4	-8.9
Substandard	166.4	227.1	60.7	36.5
Doubtful	329.1	51.0	-278.1	-84.5
Estimated loss	56.7	25.9	-30.8	-54.3
Precautionary and below	1,007	718	-289	-28.7
Ratio	4.86	2.68	-2.18	-44.9
Coverage ratio	52.3	50.1	-2.2	-4.2
Substandard and below	552.2	304.0	-248.2	-44.9
Ratio	2.66	1.13	-1.53	-57.5
Coverage ratio	95.5	118.3	22.8	23.9
Delinquency ratio	2.07	1.89	-0.18	-8.7
Loan loss provisions	526.8	359.6	-167.2	-31.7
NPL sold	258.0	0.0	-258.0	-100.0
Write-offs	1,114.6	348.2	-766.4	-68.8
Total	1,372.6	348.2	-1,024.4	-74.6

Substandard and below (In billions of Korean Won)



Coverage ratio (%)



MANAGEMENT'S DISCUSSION AND ANALYSIS

BIS CAPITAL RATIO

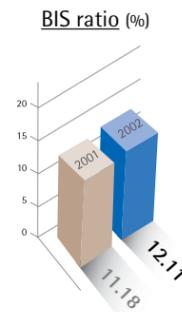
The Bank for International Settlement (BIS) based equity capital increased ₩717.1 billion or 39.0% over the year to reach ₩2,554.2 billion at the end of 2002. Tier I capital swelled ₩426.8 billion or 44.9% YoY to ₩1,377.8 billion, led by an increase in retained earnings following a rise in net income in addition to the bank's issuance of GDRs at the end of April. Tier II capital stood at ₩1,206.5 billion, up ₩295.0 billion or 32.4% over the year. Specifically,

subordinated debentures increased the most, up ₩217.4 billion YoY to reach ₩688.9 billion. Risk-weighted assets significantly rose by ₩4,653.4 billion or 28.3% YoY to ₩21,086 billion due to an expansion in asset volume. Accordingly, the BIS capital ratio moved up 0.93% YoY to 12.11%, while the Tier I capital ratio climbed 0.74% YoY to 6.53%, the highest among domestic commercial banks. The Tier II capital ratio also added 0.17% YoY to reach 5.72%.

< BIS CAPITAL RATIO >

In billions of Korean Won, %

	2001	2002
Tier I	951.0	1,377.8
Capital stock	971.3	993.3
Capital Surplus	0.5	152.5
Retained earnings	115.7	301.3
Deferred income tax debits	(134.5)	(48.2)
Treasury stock	(2.1)	(5.7)
Intangible asset, etc	0.0	(15.5)
Tier II	911.5	1,206.5
Loan loss reserves	114.0	190.5
Subordinated debts	471.5	688.9
Cumulative, participant preferred shares	100.0	100.0
Upper Tier II subordinated bonds	212.2	192.1
45% of valuation gains in investment securities	13.8	35.0
Investment in unconsolidated subsidiaries	25.4	30.1
Total risk-adjusted capital	1,837.1	2,554.2
Risk-weighted assets	16,432.8	21,086.2
BIS ratio	11.18	12.11
Tier I capital ratio	5.79	6.53
Tier II capital ratio	5.55	5.72



INDEPENDENT PUBLIC ACCOUNTANTS' REPORT

English Translation of a Report Originally Issued in Korean

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**Deloitte
Touche
Tohmatsu**

To the Shareholders and Board of Directors of Koram Bank:

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial positions of the Bank as of December 31, 2002 and 2001 and the results of its operations, the changes in its retained earnings and its cash flows for the years then ended, in conformity with financial accounting standards in the Republic of Korea (see Note 2) The translated amounts in the accompanying financial statements have been translated into U.S. dollars, solely for the convenience of the reader, on the basis set forth in Note 2.

As explained in Note 2, beginning in 2002, the Bank has increased its minimum rates of loss provision for household loans and credit card receivables and has provided additional provision for unused credit line for cash advances in accordance with the request of the Financial Supervisory Service, and based on the significant increase in the household loans and credit card receivables and deterioration of their delinquency ratios. As a result of this change in accounting estimates, in 2002, the Bank has provided an additional allowance for loans to households and credit card receivables amounting to ₩50,035 million (US\$41,682 thousand) and additional other allowance for unused credit line for cash advances amounting to ₩7,533 million (US\$6,275 thousand) when compared with the previous method.

As disclosed in Note 17, the Bank entered into an agreement to issue 20,000,000 global depositary shares (GDSs) on April 25, 2002 and brought in US\$198,730 thousand from the issuance of GDSs on April 30, 2002. The GDSs represent 20 million shares of common stock (issuance price: ₩13,000) and, accordingly, ₩100,000 million (US\$83,305 thousand) was recorded as capital stock and ₩152,405 million (US\$126,962 thousand), net of issuance cost, was recorded as paid-in capital in excess of par value in capital surplus.

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

Anjin & Co.

Anjin & Co.
An Associate Member Firm of Deloitte Touche Tohmatsu
Seoul, Korea, January 30, 2003

Notice to Readers

This report is effective as of January 30, 2003, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the accompanying financial statements and may result in modifications to the auditors' report.

NON-CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2002 AND 2001

Korean won / Translation into U. S. dollars (Note2)	(In millions)		(In thousands)	
	2002	2001	2002	2001
ASSET				
Cash and due from banks (Notes 3, 18, 19 and 20)	₩ 1,565,561	₩ 764,056	\$ 1,304,199	\$ 636,501
Trading securities (Notes 4, 18, 19 and 20)	264,343	297,358	220,212	247,716
Investment securities (Notes 5, 18, 19 and 20)	7,980,335	8,006,490	6,648,063	6,669,851
Loans (Notes 6, 7, 8, 18, 19 and 20)	24,626,127	17,658,554	20,514,934	14,710,558
Fixed assets (Notes 9, 11, 18 and 19)	389,828	359,600	324,748	299,567
Other assets (Notes 10, 18, and 19)	2,271,183	1,613,856	1,892,022	1,344,432
	₩37,097,377	₩28,699,914	\$ 30,904,178	\$ 23,908,625
LIABILITIES AND SHAREHOLDERS' EQUITY				
LIABILITIES				
Deposits (Notes 12, 18, 19 and 20)	₩ 20,789,818	₩ 17,756,068	\$ 17,319,075	\$ 14,791,793
Borrowings (Notes 13, 18, 19 and 20)	6,701,034	6,095,804	5,582,334	5,078,144
Debentures (Notes 14, 18, 19 and 20)	4,971,013	1,470,102	4,141,130	1,224,677
Other liabilities (Notes 16, 18, and 19)	3,020,293	2,135,665	2,516,072	1,779,127
	35,482,158	27,457,639	29,558,611	22,873,741
SHAREHOLDERS' EQUITY (Notes 17 and 19)				
Capital stock	1,093,334	1,071,334	910,808	892,481
Capital surplus	152,472	524	127,018	437
Retained earnings (Net income of ₩260,354 million in 2002 and ₩195,020 million in 2001)	294,700	111,070	245,501	92,527
Capital adjustments	74,713	59,347	62,240	49,439
	1,615,219	1,242,275	1,345,567	1,034,884
	₩37,097,377	₩28,699,914	\$ 30,904,178	\$ 23,908,625

See accompanying notes to non-consolidated financial statements.

NON-CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

Korean won / Translation into U. S. dollars (Note2)	(In millions except per share amounts)		(In thousands except per share amounts)	
	2002	2001	2002	2001
OPERATING INCOME:				
INTEREST INCOME:				
Interest on due from banks (Note 20)	₩ 4,774	₩ 15,838	\$ 3,977	\$ 13,194
Interest on trading securities (Note 20)	19,425	45,616	16,182	38,001
Interest on investment securities (Note 20)	503,961	564,800	419,827	470,510
Interest on loans (Note 20)	1,435,837	1,234,831	1,196,132	1,028,683
Other	9,166	22,191	7,636	18,486
	1,973,163	1,883,276	1,643,754	1,568,874
GUARANTEE FEES AND COMMISSIONS	330,963	236,833	275,711	197,295
OTHER OPERATING INCOME:				
Gain on disposal of trading securities	16,840	67,427	14,029	56,170
Gain on valuation of trading securities (Note 4)	2,152	2,641	1,793	2,200
Dividends from trading securities	411	4	342	3
Dividends from investment securities	1,757	1,842	1,464	1,535
Foreign exchange trading income	298,185	261,780	248,405	218,077
Fees and commissions from trust accounts (Note 27)	69,907	109,448	58,236	91,176
Reversal of allowance for possible losses on acceptances and guarantees	20,413	63,567	17,005	52,955
Gain on derivatives trading (Note 26)	816,792	344,254	680,433	286,783
Other	7,856	3,900	6,544	3,249
	1,234,313	854,863	1,028,251	712,148
Total operating income	3,538,439	2,974,972	2,947,716	2,478,317
OPERATING EXPENSES				
INTEREST EXPENSES:				
Interest on deposits (Note 20)	797,905	887,404	664,699	739,257
Interest on borrowings (Note 20)	233,174	343,425	194,247	286,092
Interest on debentures (Note 20)	189,409	66,298	157,788	55,230
Other	21,340	28,039	17,778	23,358
	1,241,828	1,325,166	1,034,512	1,103,937
COMMISSION EXPENSES	141,403	63,659	117,796	53,032

(continued)

NON-CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

Korean won / Translation into U. S. dollars (Note2)	(In millions except per share amounts)		(In thousands except per share amounts)	
	2002	2001	2002	2001
OTHER OPERATING EXPENSES:				
Loss on disposal of trading securities	₩ 11,182	₩ 58,758	\$ 9,315	\$ 48,949
Loss on valuation of trading securities (Note 4)	1,351	-	1,125	-
Foreign exchange trading loss	257,038	233,575	214,127	194,581
Loss on derivatives trading (Note 26)	790,249	338,774	658,321	282,218
Provision for possible loan losses (Note 8)	233,810	334,130	194,777	278,349
Others	182,151	52,005	151,743	43,322
	1,475,781	1,017,242	1,229,408	847,419
GENERAL AND ADMINISTRATIVE EXPENSES (Note 21)	410,626	358,740	342,074	298,850
Total operating expenses	3,269,638	2,764,807	2,723,790	2,303,238
OPERATING INCOME	268,801	210,165	223,926	175,079
NON-OPERATING INCOME (Note 22)	171,921	173,273	143,220	144,346
NON-OPERATING EXPENSES (Note 22)	69,358	90,428	57,779	75,331
ORDINARY INCOME	371,364	293,010	309,367	244,094
EXTRAORDINARY ITEMS	-	-	-	-
INCOME BEFORE INCOME TAX EXPENSE	371,364	293,010	309,367	244,094
INCOME TAX EXPENSE (Note 23)	111,010	97,990	92,478	81,631
NET INCOME	₩ 260,354	₩ 195,020	\$ 216,889	\$ 162,463
ORDINARY INCOME PER COMMON SHARE (Note 24)	₩ 1,326	₩ 1,016	\$ 1.11	\$ 0.85
NET INCOME PER COMMON SHARE (Note 24)	₩ 1,326	₩ 1,016	\$ 1.11	\$ 0.85
DILUTED ORDINARY INCOME PER COMMON SHARE (Note 24)	₩ 1,320	₩ 1,016	\$ 1.10	\$ 0.85
DILUTED NET INCOME PER COMMON SHARE (Note 24)	₩ 1,320	₩ 1,016	\$ 1.10	\$ 0.85

See accompanying notes to non-consolidated financial statements.

NON-CONSOLIDATED STATEMENTS OF APPROPRIATIONS OF RETAINED EARNINGS

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

Korean won / Translation into U. S. dollars (Note2)	(In millions)		(In thousands)	
	2002	2001	2002	2001
ACCUMULATED RETAINED EARNINGS BEFORE APPROPRIATION:				
Unappropriated accumulated retained earnings (undisposed accumulated deficit) carried over from prior years	₩ 70	₩ (65,061)	\$ 58	\$ (54,200)
Loss on valuation using equity method, net	-	(30)	-	(25)
Net income	260,354	195,020	216,889	162,463
	260,424	129,929	216,947	108,238
TRANSFER FROM OTHER STATUTORY RESERVES (Note 17)	-	1,546	-	1,288
APPROPRIATIONS (Note 17):				
Legal reserve	26,100	19,600	21,743	16,328
Voluntary reserve	157,500	91,400	131,206	76,142
Discount on stock issuance	-	3,845	-	3,203
Cash dividends (Note 25)	76,724	16,560	63,915	13,795
	260,324	131,405	216,864	109,468
UNAPPROPRIATED ACCUMULATED RETAINED EARNINGS TO BE CARRIED FORWARD TO SUBSEQUENT YEAR	₩ 100	₩ 70	\$ 83	\$ 58

See accompanying notes to non-consolidated financial statements.

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

Korean won / Translation into U. S. dollars (Note2)	(In millions)		(In thousands)	
	2002	2001	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income	₩ 260,354	₩ 195,020	\$ 216,889	\$ 162,463
Adjustments to reconcile net income to net cash provided by operating activities:				
Loss on disposal of trading securities	11,182	58,758	9,315	48,949
Loss on valuation of trading securities	1,351	-	1,125	-
Loss on derivatives instruments	288,468	76,818	240,310	63,994
Provision for possible loan losses	233,810	334,130	194,777	278,349
Provision for severance benefits	20,246	19,475	16,866	16,224
Depreciation and amortization	44,021	38,036	36,672	31,686
Loss on disposal of tangible assets	2,115	728	1,762	606
Loss on disposal of investment securities	24,430	13,180	20,352	10,980
Investment securities impairment loss	38,450	32,524	32,031	27,094
Loss on sales of loans	621	25,780	517	21,476
Other expenses not involving cash outflows	117,173	37,306	97,612	31,078
Gain on disposal of trading securities	(16,840)	(67,427)	(14,029)	(56,170)
Gain on valuation of trading securities	(2,152)	(2,641)	(1,793)	(2,200)
Gain on derivatives instruments	(273,421)	(62,449)	(227,775)	(52,024)
Reversal of allowance for possible loss on acceptances and guarantees	(20,413)	(63,567)	(17,005)	(52,955)
Gain on disposal of tangible assets	(5,672)	(47)	(4,725)	(39)
Gain on valuation using equity method	(7,150)	(8,731)	(5,956)	(7,273)
Gain on disposal of investment securities	(75,608)	(112,684)	(62,986)	(93,872)
Recovery of investment securities impairment loss	(22,352)	-	(18,620)	-
Gain on valuation of investment equity in fund	(765)	(22,528)	(637)	(18,767)
Gain on sales of loans	(21,831)	(11,712)	(18,187)	(9,757)
Other revenues not involving cash inflows	(23,613)	(20,335)	(19,671)	(16,941)
Changes in assets and liabilities resulting from operations:				
Increase in accounts receivable - other	(534,353)	(256,151)	(445,146)	(213,388)
Decrease in accrued income	31,246	34,021	26,030	28,341
Decrease (increase) in prepaid expenses	(2,615)	69,021	(2,179)	57,498
Decrease in deferred income tax assets	86,277	92,917	71,874	77,405
Increase in accounts payable-other	524,000	262,289	436,521	218,501
Increase (decrease) in accrued expense	56,653	(84,835)	47,195	(70,672)
Increase (decrease) in unearned income	6,158	(14,793)	5,130	(12,323)
Payment of severance benefits	(4,571)	(5,409)	(3,808)	(4,506)
Other, net	14,538	(43,932)	12,111	(36,598)
Net cash provided by operating activities	749,737	512,762	624,572	427,159

(continued)

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

Korean won / Translation into U. S. dollars (Note2)	(In millions)		(In thousands)	
	2002	2001	2002	2001
CASH FLOWS FROM INVESTING ACTIVITIES:				
Decrease in trading securities	₩ 39,474	₩ 591,889	\$ 32,884	\$ 493,077
Decrease in investment securities	193,922	226,957	161,548	189,068
Increase in loans	(7,238,449)	(2,249,194)	(6,030,031)	(1,873,704)
Proceeds from disposal of tangible assets	15,134	77	12,607	147
Acquisition of tangible assets	(86,050)	(49,027)	(71,684)	(40,842)
Decrease in other assets	29,874	31,913	24,887	26,585
Other, net	15,946	12,871	13,284	10,722
Net cash used in investing activities	(7,030,149)	(1,434,414)	(5,856,505)	(1,194,947)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Increase in deposits	3,033,750	292,101	2,527,283	243,337
Increase (decrease) in borrowings	605,230	(995,911)	504,190	(829,649)
Increase in debentures	3,366,051	836,690	2,804,108	697,009
Increase (decrease) in other liabilities	(97,519)	77,820	(81,239)	64,828
Proceeds from issuance of capital stock	252,4052	-	10,267	-
Reduction of capital stock by payment in cash	(78,000)	(52,000)	(64,978)	(43,319)
Other, net	(3,845)	-	-	(3,203)
Net cash provided by financing activities	7,081,917	154,855	5,899,631	129,003
NET INCREASE (DECREASE) IN CASH AND DUE FROM BANKS	801,505	(766,797)	667,698	(638,785)
CASH AND DUE FROM BANKS, BEGINNING OF YEAR (Note 31)	764,056	1,530,853	636,501	1,275,286
CASH AND DUE FROM BANKS, END OF YEAR (Note 31)	₩ 1,565,561	₩ 764,056	\$ 1,304,199	\$ 636,501

See accompanying notes to non-consolidated financial statements.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

1. GENERAL:

Koram Bank (the "Bank") was established in 1983 and is engaged in the commercial banking business under the Banking Law, trust business under the Trust Business Law and foreign exchange business with approval from the Bank of Korea (BOK) and the Ministry of Finance and Economy (MOFE). The Bank has its head office in Seoul, Korea and operates through 225 domestic branches and 4 overseas networks as of December 31, 2002. The Bank's common stock was listed on the Korea Securities Exchange on November 11, 1989. As of December 31, 2002, the Bank's common stock and preferred stock amounts to ₩915,334 million (US\$762,524 thousand), consisting of 183 million common shares issued and outstanding, and ₩178,000 million (US\$148,284 thousand), consisting of 35.6 million preferred shares issued and outstanding, respectively.

Based on the decision of the Financial Supervisory Commission in accordance with the Act concerning the Structure Improvement of the Financial Industry, the Bank purchased certain assets, including the loans classified as normal or precautionary, and assumed most of the liabilities of Kyungki Bank ("the P&A") in June 1998.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**Basis of Financial Statement Presentation**

The Bank maintains its official accounting records in Korean Won and prepares statutory non-consolidated financial statements in the Korean language (Hangul) in conformity with the accounting principles and banking accounting standards generally accepted in the Republic of Korea. Certain accounting principles and banking accounting standards applied by the Bank that conform

with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles and banking accounting practices in other countries. Accordingly, these financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying financial statements have been condensed, restructured and translated into English (with certain expanded descriptions) from the Korean language financial statements. Certain information included in the Korean language financial statements, but not required for a fair presentation of the Bank's financial position, results of operations or cash flows, is not presented in the accompanying financial statements.

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

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

Interest Income Recognition

The Bank applies the accrual basis in recognizing interest income related to deposits, loans and securities, except for non-secured uncollectible receivables. Interest on loans, whose principal or interest is past due at the balance sheet date, is generally not accrued, with the exception of interest on certain loans secured by guarantee of governments or government agencies, or collateralized by bank deposits. Previously accrued interest is generally reversed to income when a loan is placed on non-accrual status and deducted from current interest income and future interest income is recognized on cash basis in accordance with the accounting standards of the banking industries. The unrecorded accrued interest income on such loans based on the above criteria amounted to ₩23,706 million (US\$19,748 thousand) and ₩53,103 million (US\$44,238 thousand) as of December 31, 2002 and 2001, respectively.

Valuation of Trading Securities

Trading equity and debt securities are stated at acquisition cost plus incidental expenses. If the fair value of trading securities differs from the book value as determined by the individual moving average method (the specific identification method for debt securities), the

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

trading securities are stated at fair value and the valuation gain or loss is reflected in current operations.

Valuation of Investment Securities**(1) Equity Securities**

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

Equity securities held for investment in companies in which the Bank is able to exercise significant influence over the investees (if the Bank held 15 percent or more, the Bank is considered being able to exercise significant influence in accordance with the Bank Law) are accounted for using the equity method. The Bank's share in net income or net loss of investees is reflected in current operations. Changes in the retained earnings, capital surplus or other capital accounts of investees are accounted for as an adjustment to retained earnings or to capital adjustment.

The investment in the Stock Market Stabilization Fund (SMSF) is stated at fair value and the valuation gain or loss is credited or charged to current operations. The stocks distributed by SMSF are recorded as trading securities or equity securities held for investment at fair value and treated as a return of investment. Cash distributed by SMSF as dividends or as a return of investment equity is also treated as a return of investment.

(2) Debt Securities

Debt securities held for investment are classified as either held-to-maturity investment debt securities or available-for-sale investment debt securities at the time of purchase. Held-to-maturity investments debt securities are reclassified as available-for-sale investment debt securities as follows.

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

impairment loss

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

(3) Gain or Loss on Valuation of Investment Securities

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

(4) Recovery of Impaired Investment Securities

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

(5) Reclassification of Securities

If the Bank's objectives change, trading securities can be reclassified to investment securities, but only as of a balance sheet date. The difference between the fair value

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

of the security as of the balance sheet date and the book value is recognized as gain or loss on valuation of trading securities and credited or charged to current operations. The fair value of trading securities is the new cost basis of reclassified investment securities. Investment securities cannot be reclassified to trading securities.

Allowance for Possible Losses on Credits

The Supervisory Regulation of Banking Business (the "Supervisory Regulation") legislated by the Korean Financial Supervisory Commission (FSC) requires the Bank to classify all credits into five categories as normal, precautionary, substandard, doubtful, or estimated loss based on borrowers' repayment capability and historical financial transaction records. The Supervisory Regulation also requires the Bank to provide the minimum rate of loss provision for each category balance using the prescribed minimum percentages of 0.5 percent or more, 2 percent or more, 20 percent or more, 50 percent or more and 100 percent, respectively. The Bank complies with the minimum regulatory guidelines and the Bank's policy on the calculation of allowance for possible losses on credits are as follows.

As required by the Supervisory Regulation, the Bank classifies corporate credits (loans, confirmed acceptances and guarantees) based on borrowers' capability to repay in consideration of borrowers' business operation, financial position and future cash flows (Forward Looking Criteria) as well as past due period and status of any bankruptcy proceedings (Historical Repayment Criteria). Credits to small companies and to households, however, are classified not by evaluating the debt repayment capability of a borrower or customer but by past due period and status of bankruptcy proceedings. The Bank generally classifies all credits to a single borrower in the same category of classification but credits guaranteed or credits collateralized by bank deposits, real estate and other assets may be classified differently based on the guarantor's capability to service such guarantee or based on the value of collateral securing such credits.

Based on the Bank's corporate credit evaluation model, credits to a borrower are classified into eleven grades from one to ten (1, 2, 3, 4, 5, 6, 6w, 7, 8, 9 and 10). Credits of grades of 1 to 6W are classified as normal, credits of grade 7 as precautionary, credits of grade 8 as substandard, credits of grade 9 as doubtful, and credits of grade 10 as estimated loss. Credits are finally classified reflecting past due period and bankruptcy considerations.

The Historical Repayment Criteria are set forth as follows:

- Normal Loans in arrears for less than one month

- **Precautionary** Loans in arrears for one month or more but less than three months
- **Substandard** Collectible portion of loans in arrears for three months or more and/or loans extended to customers who are judged to have serious risks in collectibility due to the final default by non-payment of their promissory notes, liquidation or bankruptcy proceedings or closing of their businesses
- **Doubtful** Amount in excess of collectible portion of loans in arrears for three months or more but less than twelve months and/or loans extended to customers who are determined by the court to begin final restructuring plan prepared through court receivership or court mediation
- **Estimated loss** Amount in excess of collectible portion of loans in arrears for twelve months or more and/or loans extended to customers who are judged to have serious risks in collectibility due to final default by non-payment of their promissory notes, liquidation or bankruptcy proceedings or closing of their businesses

The Forward Looking Criteria based on ability to repay are set forth as follows:

- **Grade 1(Normal)** Credits extended to the customers, which do not raise concerns regarding their capability to repay the credits notwithstanding extreme stagnancy of business activities considering their business and operations, financial conditions and future cash flows.
- **Grade 2(Normal)** Credits extended to the customers, which do not raise concerns regarding their capability to repay the credits notwithstanding major business fluctuations considering their business and operations, financial conditions and future cash flows.
- **Grade 3(Normal)** Credits extended to the customers, which do not raise concerns regarding their capability to repay the credits notwithstanding short-term business fluctuations considering their business and operations, financial conditions and future cash flows.
- **Grade 4(Normal)** Credits extended to the customers, which do not raise concerns regarding their capability to repay, although they can be influenced by stagnancy of business activities considering their business and operations, financial conditions and future cash flows.
- **Grade 5(Normal)** Credits extended to the customers, which do not raise concerns regarding their capability to repay except in stagnancy of business activities considering their business and operations, financial conditions and future cash flows.
- **Grade 6(Normal)** Credits extended to the customers without collateral, which raise concerns regarding their

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

capability to repay considering their business and operations, financial conditions and future cash flows.

- **Grade 6W(Normal)** Credits extended to the customers, which can be classified as under grade 7 without overcoming their weakness or cannot be classified as grade 6 due to insufficient information, in spite of similarity to grade 6.
- **Grade 7(Precautionary)** Credits extended to the customers, which are judged to have potential risks with respect to their capability to repay the credits in the future without eliminating their potential weakness, although there have not occurred any immediate risks for default in repayment considering their business and operations, financial position and future cash flows.
- **Grade 8(Substandard)** Collectible portion of credits extended to the customers, which are judged to have incurred considerable risks for default in repayment as the customers' capability to repay has deteriorated considering their business and operations, financial position and future cash flows.
- **Grade 9(Doubtful)** Amount in excess of collectible portion of credits extended to customers, which are judged to have incurred serious risks for default in repayment due to noticeable deterioration in their capability to repay considering their business and operations, financial conditions and future cash flows.
- **Grade 10(Estimated loss)** Amount in excess of collectible portion of credits extended to customers, which are judged to have to be accounted for as loss as the inability to repay became certain due to serious deterioration in their capability to repay considering their business and operations, financial position and future cash flows.

An allowance is then calculated on the category balances using the prescribed percentages of 0.5-1.9 percent for normal, 2-19.9 percent for precautionary, 20-49.9 percent for substandard, 5-99.9 percent for doubtful and 100 percent for estimated loss. However, the Bank does not provide allowances for loans to the Korean government and local government entities, bonds bought under resale agreements and inter-bank loans that are classified as normal, as it is not required by the Accounting Standards for the Banking Industry.

In addition, as required by the Supervisory Regulation, based on the classification of household loans and credit card receivables by past due period and status of bankruptcy proceedings, allowance for household loans and credit card receivables are then calculated on the category balances using the prescribed minimum percentages of 0.75 percent and 1 percent for normal, 8

percent and 12 percent for precautionary, 20 percent for substandard, 55 percent and 60 percent for doubtful and 100 percent for estimated loss. In addition, as required by the Financial Supervisory Service, for the secured household loans newly placed after September 9, 2002, if the ratio of loans to collateral value (loan to value; LTV) exceeds 60 percent, the Bank provides the allowance for possible loan losses of 1 percent or more for normal and 10 percent or more for precautionary instead of providing 0.75 percent or more for normal and 8 percent or more for precautionary.

As required by the Supervisory Regulation, the Bank also provides an allowance for possible losses on confirmed acceptances and guarantees. Confirmed acceptances and guarantees are classified as of the balance sheet dates using the same loan classification criteria. An allowance is then calculated, using from 20 to 49 percent for substandard, from 50 to 99 percent for doubtful and 100 percent for estimated loss. No allowance is provided for those confirmed acceptances and guarantees classified as normal and precautionary. However, an allowance for confirmed acceptances and guarantees classified as precautionary to companies under workout is provided from 2 to 19 percent. The allowance for possible losses on confirmed acceptances and guarantees is presented in other liabilities.

In addition, as required by the Financial Supervisory Service, from the third quarter of 2002, the Bank provides an additional other allowance of 1 percent for certain portions of the unused cash advance facility (75 percent of the facility less used balance) of active credit card accounts having transaction records during the recent one year.

Restructuring of Loans

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

Valuation of Receivables and Payables at Present Value

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

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

Tangible Assets and Depreciation

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

Depreciation is computed using the straight-line method based on the estimated useful lives of the assets as follows:

	Years
Buildings	50
Equipment	5
Leasehold improvements	5

Intangible Assets

Intangible assets included in fixed assets are recorded at the production cost or purchase cost, plus incidental expenses. Intangible assets are amortized using the straight-line method over the estimated useful life of 5 years.

Recognition of Assets Impairment

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

Amortization of Discount (Premium) on Debentures

Discount or premium on debentures issued is amortized

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

Bonds under Resale or Repurchase Agreements

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

Accrued Severance Benefits

Employees and directors with more than one year of service are entitled to receive a lump-sum payment upon termination of their service with the Bank, based on their length of service and rate of pay at the time of termination. The accrued severance benefits that would be payable assuming all eligible employees and directors were to resign amount to ₩64,046 million (US\$53,354 thousand) and ₩48,371 million (US\$40,296 thousand) as of December 31, 2002 and 2001, respectively. The accrued severance benefits are included in other liabilities.

The funding of the severance liability is not required. However, the Bank has insured a portion of its obligations for severance benefits in order to obtain the related tax benefits, by making deposits with life insurance companies. The Bank has purchased severance insurance, which meets the funding requirement for tax purposes, and made deposits with Samsung Life Insurance and others. The individual severance insurance deposits, amounting to ₩52,682 million (US\$43,887 thousand) and ₩45,670 million (US\$38,046 thousand) as of December 31, 2002 and 2001, respectively, are presented as a deduction from accrued severance benefits because the severance insurance's beneficiaries are the Bank's employees.

Before April 1999, the Bank and its employees paid 3 percent and 6 percent, respectively, of monthly pay (as defined) to the National Pension Fund in accordance with the National Pension Law of Korea. The Bank paid half of the employees' 6 percent portion, which was paid as an advance for the future severance payment and deducted from the total severance indemnity payable at the termination. Such advance payment, totaling ₩2,571 million (US\$2,142 thousand) and ₩2,701 million (US\$2,250 thousand) as of December 31, 2002 and 2001, respectively, are presented as a deduction from accrued severance benefits. Since April 1999, according to a revision in the National Pension Law, the Bank and its employees each pay 4.5 percent of monthly pay to the Fund.

Actual payment of severance indemnities amounted to

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

₩4,571 million (US\$3,808 thousand) and ₩5,409 million (US\$4,506 thousand) in 2002 and 2001, respectively.

Accounting for Derivative Instruments

The Bank accounts for derivative instruments pursuant to the Interpretations on Financial Accounting Standards 53-70 on accounting for derivative instruments. Derivative instruments are classified as used for trading activities or for hedging activities according to their transaction purpose. All derivative instruments are accounted for at fair value with the valuation gain or loss recorded as an asset or liability. If the derivative instrument is not part of a transaction qualifying as a hedge, the adjustment to fair value is reflected in current operations.

The accounting for derivative transactions that are part of a qualified hedge based both on the purpose of the transaction and on meeting the specified criteria for hedge accounting differs depending on whether the transaction is a fair value hedge or a cash flow hedge. Fair value hedge accounting is applied to a derivative instrument designated as hedging the exposure to changes in the fair value of an asset or a liability or a firm commitment (hedged item) that is attributable to a particular risk. The gain or loss both on the hedging derivative instruments and on the hedged item attributable to the hedged risk is reflected in current operations. Cash flow hedge accounting is applied to a derivative instrument designated as hedging the exposure to variability in expected future cash flows of an asset or a liability or a forecasted transaction that is attributable to a particular risk. The effective portion of gain or loss on a derivative instrument designated as a cash flow hedge is recorded as a capital adjustment and the ineffective portion is recorded in current operations. The effective portion of gain or loss recorded as a capital adjustment is reclassified to current earnings in the same period during which the hedged forecasted transaction affects earnings. If the hedged transaction results in the acquisition of an asset or the incurrence of a liability, the gain or loss in capital adjustment is added to or deducted from the asset or the liability.

Accounting for Stock Options

Stock options are valued at fair value pursuant to the Interpretations on Financial Accounting Standards 39-35 on accounting for stock options. The fair value of stock options is charged to operating expense in the statement of operations and credited to capital adjustments as stock option cost over the contract term of the services provided.

Accounting for Trust Accounts

The Bank engages in trust business with the approval from the Ministry of Finance and Economy (MOFE) on

February 2, 1984 under Article 3 of the Trust Business Act. The Bank maintains the books of accounts and financial statements in connection with the trust operations (the trust accounts) separately from those of the bank accounts in accordance with the Trust Business Act. When surplus funds are generated through the management of trust assets, such funds are deposited with the Bank and are recorded as due to trust accounts of the bank accounts. The Bank receives the fees for operation and management of the trust business and accounts for them as fees and commissions from trust accounts.

With respect to certain trust account products, the Bank guarantees the repayment of the principal of the trust accounts and, in certain cases, a fixed rate of return. If income from such trust accounts is insufficient to pay the guaranteed amount, such a deficiency is satisfied by using special reserves maintained in the trust accounts, offsetting trust fee payable to bank accounts and receiving compensation contributions from the bank accounts of the Bank. If the Bank pays compensating contributions to the guaranteed return trusts to cover such deficiencies, these contributions are reflected as other operating expense of the bank accounts and as other income of the trust accounts. There is no assurance that the Bank will not be required to make such compensating transfers in the future or that the amounts of such transfers may not be significantly greater in the future.

Income Tax Expense

Income tax expense is the amount currently payable for the period added to or deducted from the changes in deferred income taxes. However, deferred income tax assets are recognized only if the future tax benefits from accumulated temporary differences and any tax loss carryforwards are realizable. The difference between the amount currently payable for the period and income tax expense is accounted for as deferred income tax assets or liabilities and offset against income tax assets and liabilities in future periods.

Accounting for Foreign Currency Transactions and Translation

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

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

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operations. Financial statements of overseas branches are translated based on BOK Basic Rate at balance sheet date.

Changes in Accounting Estimate

Depreciation calculation method for newly acquired tangible assets was changed to monthly basis from half-year basis in order to properly match expenses with revenues and reflect the economic substance of the transactions. The corresponding change in accounting estimate did not have significant effects on the non-consolidated financial statements.

Before April 2002, the minimum loan loss reserve ratio for household loans and credit card receivables had been 0.5 percent for normal, 2 percent for precautionary and 50 percent for doubtful. By adopting the new policy, the minimum loan loss reserve ratios for household loans and credit card receivables were changed to 0.75 percent and 1 percent for normal, 8 percent and 12 percent for precautionary and 55 percent and 60 percent for doubtful. In addition, for the secured household loans newly placed after September 9, 2002, if its collateral is real estate and located in the highly-speculative residential areas designated by the Korean Government and the ratio of loans to collateral value (loan to value; LTV) exceeds 60 percent, the Bank provides the allowance for possible loan losses of 1 percent or more for normal and 10 percent or more for precautionary. In addition, from the third quarter of 2002, the Bank provides other allowance of 1 percent for certain portions of the unused cash advance facility (75 percent of the facility less used balance) of active credit card accounts having transaction records during the recent one year. The aforementioned changes in allowance ratio for loans to households and credit card receivables and the additional provision for unused credit line for cash advances resulted from the recent significant increase of loans to households and credit card receivables as well as request by the Financial Supervisory Service, and were also based on historical migration analysis on default and collection of such loans. As a result of these changes in accounting estimates, an additional allowance for loans to households and credit card receivables amounting to ₩50,035 million (US\$41,682 thousand) and additional other allowance for unused credit line for cash advances amounting to ₩7,533 million (US\$6,275 thousand) were recognized in the current period.

Change in Accounting Principle

In accordance with the change in the Implementation Guideline of Supervisory Regulation of Banking Business issued by the Financial Supervisory Service in December 2002, the accounting treatment applied to Banker's Usance transactions was changed by the Bank. All banker's usance,

regardless of whether the Bank provides funded credit directly or not, are now accounted for as "loans" and "borrowings in foreign currencies" on the balance sheet rather than accounted for as "acceptances" using contra accounts as off-balance items. In addition, the Bank was required to provide allowances for credit losses based on its loan classification for the amount reclassified as loans. Due to the accounting change, total assets and total liabilities have increased by ₩472,028 million (US\$ 393,226 thousand) and ₩285,180 million (US\$237,571 thousand) as of December 31, 2002 and 2001, respectively, and the allowances for credit losses have increased by ₩2,360 million (US\$1,966 thousand) as of December 31, 2002 compared to the previous accounting treatment. For comparative purposes, the financial statements of 2001 were restated based on the change in the Supervisory Regulation of Banking Business issued by the Financial Supervisory Service.

Reclassification

Certain accounts of the prior period were reclassified to conform to the current period's presentation for comparative purposes. However, those reclassifications had no effect on the previously reported prior period net income or shareholders' equity of the Bank.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

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3. CASH AND DUE FROM BANKS**(1) Cash and due from banks in local currency and foreign currencies as of December 31, 2002 and 2001 consisted of the following:**

Korean won / Translation into U. S. dollars (Note2)	(In millions)		(In thousands)	
	2002	2001	2002	2001
Cash and checks	₩ 707,022	₩ 459,675	\$ 588,989	\$ 382,935
Foreign currencies	30,617	27,547	25,506	22,948
Due from banks in local currency	740,956	217,506	617,257	181,195
Due from banks in foreign currencies	86,966	59,328	72,447	49,423
	₩ 1,565,561	₩ 764,056	\$ 1,304,199	\$ 636,501

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

Korean won / Translation into U. S. dollars (Note2)	Financial institution	(In millions)		(In thousands)		Reason for restriction
		2002	2001	2002	2001	
Reserve deposits	BOK	₩ 655,970	₩ 178,025	\$ 546,459	\$ 148,305	BOK Act
Other deposits	Samsung life Insurance Co.	22,000	22,000	18,327	18,327	Subordinated borrowings
	Woori Bank	3,998	3,998	3,331	3,331	Escrow account for Daewoo Telecom
	Korea Stock Exchange	360	356	300	296	Deposits for securities transaction
	Kookmin Bank	4,533	326	3,776	272	Bond Market Stabilization Fund
	Samsung life Insurance Co. and others	-	1,099	-	915	Severance indemnities
Due from banks in foreign currencies	BOK	33,349	34,551	27,782	28,783	BOK Act
		₩ 720,210	₩ 240,355	\$ 599,975	\$ 200,229	

(3) Due from banks by financial institution as of December 31, 2002 and 2001 included the following:

Korean won / Translation into U. S. dollars (Note2)	Interest rate (%)	(In millions)		(In thousands)	
		2002	2001	2002	2001
Due from banks in local currency					
BOK	-	₩ 655,970	₩ 178,025	\$ 546,459	\$ 148,305
Other financial institutions	1.00 - 5.00	84,986	39,481	70,798	32,890
		740,956	217,506	617,257	181,195
Due from banks in foreign currencies					
BOK	-	₩ 33,349	₩ 34,551	\$ 27,782	\$ 28,783
Foreign financial institutions and others	-	53,617	24,777	44,665	20,640
		86,966	59,328	72,447	49,423
		₩ 827,922	₩ 276,834	\$ 689,704	\$ 230,618

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As of December 31, 2001, due from banks in local currency to other financial institution includes ₩9,448 million (US\$7,871 thousand) of deposit to closed merchant banks of which had been assumed by Resolution and

Finance Corporation, which was established for the restructuring of merchant banks. The Banks classified this amount as precautionary and provided an allowance for possible loan losses based on its classification

4. TRADING SECURITIES:

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

Korean won / Translation into U. S. dollars (Note2)	(In millions)		(In thousands)	
	2002	2001	2002	2001
Equity securities	₩ 14,889	₩ 23,914	\$ 12,403	\$ 19,922
Government and public bonds	87,025	273,444	72,497	227,794
Finance debentures	60,729	-	50,591	-
Corporate bonds	71,356	-	59,443	-
Other trading securities	30,344	-	25,278	-
	₩ 264,343	₩ 297,358	\$ 220,212	\$ 247,716

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

	Face value	Acquisition cost	Adjusted by effective interest method	
			Fair value	Fair value
Equity securities	₩ -	₩ 16,240	₩ -	₩ 14,889
Government and public bonds	85,890	85,541	86,045	87,025
Finance debentures	60,000	60,015	60,011	60,729
Corporate bonds	70,000	71,251	71,246	71,356
Other trading securities	29,846	30,000	30,000	30,344
	₩ 245,736	₩ 263,047	₩ 247,302	₩ 264,343

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

	Face value	Acquisition cost	Adjusted by effective interest method	
			Fair value	Fair value
Equity securities	₩ -	₩ 21,540	₩ -	₩ 23,914
Government and public bonds	258,473	274,173	273,177	273,444
	₩ 258,473	₩ 295,713	₩ 273,177	₩ 297,358

The fair values of trading debt securities in local currency as of December 31, 2002 were assessed by applying the average of base prices of the latest trading day from the balance sheet date, provided by Korea Bond Pricing & KMCC Co. and KIS Pricing Inc. while the trading debt securities in local currency as of December 31, 2001 were valued using the closing yields of bonds announced by the Korea Securities Dealers Association. Fair value of trading securities in foreign currencies is determined by the latest market prices, which are announced by market price

information providers or yields provided by professional dealers of bonds. Acquisition costs of trading securities in foreign currency are Korean Won equivalents of foreign currency denominated acquisition costs based on BOK Basic Rate on the balance sheet dates.

The Bank recorded gain on valuation of trading securities of ₩2,152 million (US\$1,793 thousand) and ₩2,641 million (US\$2,200 thousand) in 2002 and 2001, respectively, and loss on valuation of trading securities of ₩1,351 million (US\$1,125 thousand) in 2002.

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

Korean won / Translation into U. S. dollars (Note2)	(In millions)		(In thousands)		Percentage (%)	
	2002	2001	2002	2001	2002	2001
Financial industry	₩ -	₩ 3,831	\$ -	\$ 3,191	-	1.29
Government	219,832	278,299	183,132	231,839	83.16	93.59
Manufacturing	392	8,740	326	7,281	0.15	2.94
Construction	420	-	350	-	0.16	-
Wholesale and retail	-	4,312	-	3,592	-	1.45
Others	43,699	2,176	36,404	1,813	16.53	0.73
	₩ 264,343	₩ 297,358	\$ 220,212	\$ 247,716	100.00	100.00

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

Korean won / Translation into U. S. dollars (Note2)	(In millions)		(In thousands)		Percentage (%)	
	2002	2001	2002	2001	2002	2001
Stocks	₩ 14,889	₩ 23,914	\$ 12,403	\$ 19,922	5.64	8.04
Fixed rate bonds	147,754	273,444	123,087	227,794	55.89	91.96
Floating rate bonds	71,356	-	59,444	-	26.99	-
Beneficiary certificates	30,344	-	25,278	-	11.48	-
	₩ 264,343	₩ 297,358	\$ 220,212	\$ 247,716	100.00	100.00

(5) All trading securities as of December 31, 2002 and 2001 were issued in Korea.

5. INVESTMENT SECURITIES:

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

Korean won / Translation into U. S. dollars (Note2)	(In millions)		(In thousands)	
	2002	2001	2002	2001
Equity securities	₩ 177,249	₩ 188,692	\$ 147,658	\$ 157,191
Equity investments	5,237	7,953	4,363	6,625
Government and public bonds	1,999,399	1,772,009	1,665,610	1,476,182
Finance debentures	3,481,652	2,536,186	2,900,410	2,112,784
Corporate bonds	1,909,580	2,523,330	1,590,786	2,102,074
Investment securities in foreign currencies	407,192	469,028	339,214	390,726
Others	26	509,292	22	424,269
	₩ 7,980,335	₩ 8,006,490	\$ 6,648,063	\$ 6,669,851

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(2) Investment equity securities, including in foreign currencies, as of December 31, 2002 were as follows:

Korean won / Translation into U. S. dollars (Note2)	(In millions)		(In thousands)	
	Acquisition cost	Book value	Acquisition cost	Book value
Equity securities accounted for using equity method	₩ 51,501	₩ 30,071	\$ 42,903	\$ 25,051
Marketable investment equity securities	137,886	69,617	114,867	57,995
Unlisted investment equity securities	162,263	77,561	135,174	64,612
	351,650	177,249	292,944	147,658
Investment equity securities in foreign currencies	285	285	237	237
	₩ 351,935	₩ 177,534	\$ 293,181	\$ 147,895

Investment equity securities, including in foreign currencies, as of December 31, 2001 were as follows:

Korean won / Translation into U. S. dollars (Note2)	(In millions)		(In thousands)	
	Acquisition cost	Book value	Acquisition cost	Book value
Equity securities accounted for using equity method	₩ 55,705	₩ 25,399	\$ 46,405	\$ 21,159
Marketable investment equity securities	185,686	101,520	154,687	84,572
Unlisted investment equity securities	102,934	61,773	85,750	51,460
	344,325	188,692	286,842	157,191
Investment equity securities in foreign currencies	315	315	262	262
	₩ 344,640	₩ 189,007	\$ 287,104	\$ 157,453

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

	Book value before valuation	Book value after valuation	Gain (Loss) on valuation using equity method	Presented in retained earnings	Presented in capital adjustments
Hanmi Capital Co., Ltd.	₩ 8,419	₩ 15,026	₩ 6,393	₩ -	₩ 214
Hanmi Technology Investment Co., Ltd.	9,666	8,289	1,025	-	(2,173)
SK Investment Trust Management Co., Ltd.	7,314	6,756	(268)	-	(110)
	₩ 25,399	₩ 30,071	₩ 7,150	₩ -	₩ (2,069)

Dividends of ₩229 million (US\$191 thousand) and ₩180 million (US\$150 thousand) received from Hanmi Technology Investment Co., Ltd. and SK Investment Trust Management Co., Ltd. in 2002, respectively, were deducted from the book value. Goodwill and negative goodwill resulting from equity method of accounting are amortized over five years using the straight-line method. Such amortized amounts of negative goodwill in 2002 were ₩3,849 million (US\$3,206 thousand).

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

	Percentage of ownership (%)	Closing month	Balance sheet date
Hanmi Capital Co., Ltd.	28.76	March	December
Hanmi Technology Investment Co., Ltd.	25.73	December	December
SK Investment Trust Management Co., Ltd.	20.00	March	December

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2) Marketable investment equity securities as of December 31, 2002 were as follows (Unit: Won in millions):

	Shares	Percentage of ownership (%)	Acquisition cost	Book value before valuation	Fair value	Book value
Kabool Co., Ltd	3,069,810	1.77	₩ 1,985	₩ 1,578	₩ 3,315	₩ 3,315
Daewoo Engineering & Construction Co., Ltd.	3,138,748	1.88	7,824	8,673	8,161	8,161
Daewoo International Corporation	612,099	1.43	1,448	1,690	1,402	1,402
Daewoo Precision Industries Co., Ltd.	434,334	4.49	2,514	2,093	6,406	6,406
Daewoo Securities Co., Ltd.	3,130,000	1.65	55,215	31,926	14,148	14,148
Saehan Industries Inc.	1,892,000	1.68	8,355	4,087	3,898	3,898
Shin Won Corporation	3,058,550	1.50	6,372	2,031	1,178	1,178
SsangYong Motor Company	618,679	0.51	7,566	6,779	3,099	3,099
KP Chemical	974,593	1.03	2,746	534	2,973	2,973
Hankang Restructuring Fund	1,260,000	0.99	4,147	2,708	2,646	2,646
Korea Electric Power Corporation	100,000	0.02	1,971	1,971	1,825	1,825
Hyundai Engineering & Construction Co., Ltd.	5,987,276	0.01	29,936	19,459	9,610	9,610
HungChang Co., Ltd	180,610	6.90	-	-	2,384	2,384
KT Corporation	39,000	0.01	1,892	1,892	1,977	1,977
LG Electronics Inc.	30,000	0.02	981	981	1,239	1,239
SK Telecom	5,705	0.01	541	325	1,306	1,306
Others			4,393	4,727	4,050	4,050
			₩ 137,886	₩ 91,454	₩ 69,617	₩ 69,617

Marketable investment equity securities as of December 31, 2001 were as follows (Unit: Won in millions):

	Shares	Percentage of ownership (%)	Acquisition cost	Book value before valuation	Fair value	Book value
Kohap Corp.	3,820,000	9.08	₩ 19,100	₩ 3,209	₩ 2,082	₩ 2,082
Daewoo Engineering & Construction Co., Ltd.	339,348	0.24	98	64	947	947
Daewoo International Corporation	176,499	0.49	51	34	294	294
Daewoo Electronics Co., Ltd.	4,537,142	5.06	21,483	21,483	16,560	16,560
Daewoo Shipbuilding & Marine Engineering Co., Ltd.	1,000,000	0.50	3,500	3,500	6,350	6,350
Daewoo Heavy Industry & Machinery Co., Ltd.	1,382,542	0.82	4,444	4,444	2,606	2,606
Daewoo Securities Co., Ltd.	3,130,000	2.03	55,215	15,963	31,926	31,926
Daewoo Telecom. Ltd.	1,559,000	4.78	3,180	1,497	1,185	1,185
Saehan Industries Inc.	2,365,000	11.99	10,444	10,444	5,108	5,108
Shin Won Corporation	3,264,750	1.88	6,801	2,167	2,971	2,167
Ssangyong Engineering & Construction Co., Ltd.	2,470,000	2.00	12,350	865	1,210	865
Hankang Restructuring Fund	1,260,000	0.99	6,300	3,396	4,114	4,114
Hyundai Engineering & Construction Co., Ltd.	7,200,876	1.49	36,004	36,004	23,403	23,403
Others			6,716	3,295	4,098	3,913
			₩ 185,686	₩ 106,365	₩ 102,854	₩ 101,520

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FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

Marketable investment equity securities were stated at fair value with a valuation gain or loss recorded as a capital adjustment. If the fair value declined compared to acquisition cost and was not expected to recover (impaired investment security), the value of the equity security was adjusted to fair value, with the valuation loss charged to

current operations. Investment securities impairment loss on marketable investment equity securities was ₩14,931 million (US\$12,438 thousand) and ₩27,443 million (US\$22,861 thousand) in 2002 and 2001, respectively, and recovery of impairment loss was ₩2,633 million (US\$2,193 thousand) in 2002.

3) Unlisted investment equity securities as of December 31, 2002 were as follows (Unit: Won in millions):

	Shares	Percentage of ownership (%)	Acquisition cost	Book value before valuation	Net Asset value	Book value
Daewoo Electronics Co., Ltd.	1,180,540	1.13	₩ 590	₩ 590	₩ 6,026	₩ 590
Daewoo Capital CRV	301,376	1.00	3,014	3,014	3,014	3,014
Korea Housing Guarantee Co., Ltd.	5,457,600	0.94	8,292	3,092	8,527	3,092
Mukunghwa Structure Control Fund	1,260,000	1.89	6,183	6,242	5,394	5,394
BC Card Co., Ltd.	87,120	1.98	1,331	1,331	2,606	1,331
Samsung Life Insurance	74,786	0.37	20,192	20,192	19,877	20,192
Samsung Capital Co., Ltd.	2,105,556	5.05	11,372	11,372	25,844	11,372
Seoul Debt Control Fund	2,220,000	1.85	4,951	4,986	4,820	4,820
Arirang Structure Control Fund	1,260,000	1.89	5,481	4,991	4,389	4,389
Kiwoom.com Securities Co., Ltd.	500,000	5.00	2,500	2,500	2,574	2,500
Final Data Inc.	33,330	0.67	1,000	1,000	162	1,000
Korea Securities Finance Corp.	1,003,217	1.48	5,019	5,037	6,396	5,037
Korea Aerospace Industries Co., Ltd.	475,400	0.51	2,377	1,703	1,575	1,575
Others			89,961	33,708	8,764	13,255
			₩ 162,263	₩ 99,758	₩ 99,968	₩ 77,561

Unlisted investment equity securities as of December 31, 2001 were as follows (Unit: Won in millions):

	Shares	Percentage of ownership (%)	Acquisition cost	Book value before valuation	Net Asset value	Book value
Korea Housing Guarantee Co., Ltd.	5,457,600	0.94	₩ 8,292	₩ 3,092	₩ 4,738	₩ 3,092
Mukunghwa Structure Control Fund	1,260,000	1.89	6,300	6,300	6,360	6,360
BC Card Co., Ltd.	87,120	1.98	1,331	1,331	1,830	1,331
Samsung Capital Co., Ltd.	2,105,556	5.05	11,372	11,372	15,576	11,372
Seoul Debt Control Fund	2,220,000	1.85	10,879	10,879	10,956	10,956
Arirang Structure Control Fund	1,260,000	1.89	6,300	6,300	5,737	5,737
Kiwoom.com Securities Co., Ltd.	500,000	5.00	2,500	2,500	2,118	2,500
Final Data Inc.	33,330	0.67	1,000	1,000	164	1,000
Korea Securities Finance Corp.	1,003,217	1.48	5,019	5,038	6,185	5,038
Korea Aerospace Industries Co., Ltd.	475,400	0.51	2,377	2,377	1,703	1,703
Others			47,564	13,215	8,448	12,684
			₩ 102,934	₩ 63,404	₩ 63,815	₩ 61,773

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Unlisted investment equity securities were stated at acquisition cost. If the net equity value declined compared to acquisition cost and was not expected to recover (impaired investment security), the value of the equity security was adjusted to net equity value, with the valuation loss charged to current operations. Investment securities impairment loss on unlisted investment equity securities was

₩20,581 million (US\$17,145 thousand) and ₩1,205 million (US\$1,004 thousand) in 2002 and 2001, respectively.

4) Investment in equity securities in foreign currencies of December 31, 2002 and 2001 were securities issued by Balkan Fund (198,020 shares) and were stated at acquisition cost.

(3) As of December 31, 2002 and 2001, the equity investments were as follows:

	2002		2001	
	Acquisition cost	Book value	Acquisition cost	Book value
SMSF	₩ 2,262	₩ 3,437	₩ 5,208	₩ 6,153
KAMCO	1,300	1,300	1,300	1,300
Others	500	500	500	500
	₩ 4,062	₩ 5,237	₩ 7,008	₩ 7,953

The Bank's investment in Stock Market Stabilization Fund (SMSF) (0.91 percent owned as of December 31, 2002) was stated at net asset value while the investment in KAMCO (0.93 percent owned as of December 31, 2002) was stated at acquisition cost.

Gain or loss on valuation of SMSF investment was reflected in non-operating income or expenses. Gain on valuation of SMSF was ₩765 million (US\$637 thousand) and ₩3,847 million (US\$3,205 thousand) in 2002 and 2001, respectively.

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

	Face value	Acquisition cost	Adjusted by effective interest method	Fair value (book value)
Available-for-sale				
Government and public bonds	₩ 1,565,875	₩ 1,517,469	₩ 1,574,912	₩ 1,604,368
Finance debentures	1,612,000	1,600,178	1,600,705	1,609,211
Corporate bonds	1,287,836	1,282,648	1,282,005	1,306,015
Other investment securities in foreign currencies	325,730	330,402	333,784	340,006
	4,791,441	4,730,697	4,791,406	4,859,600
Held-to-maturity				
Government and public bonds	388,042	399,828	395,031	395,031
Finance debentures	1,890,000	1,874,022	1,872,441	1,872,441
Corporate bonds	601,858	604,773	603,565	603,565
Other investment securities in foreign currencies	64,821	66,990	66,901	66,901
	2,944,721	2,945,613	2,937,938	2,937,938
	₩ 7,736,162	₩ 7,676,310	₩ 7,729,344	₩ 7,797,538

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

	Face value	Acquisition cost	Adjusted by effective interest method	Fair value (book value)
Available-for-sale				
Government and public bonds	₩ 1,364,097	₩ 1,270,998	₩ 1,301,392	₩ 1,337,847
Finance debentures	407,690	397,094	396,525	398,188
Corporate bonds	1,642,505	1,636,167	1,600,168	1,615,599
Other investment securities in foreign currencies	473,129	463,659	468,577	468,713
	3,887,421	3,767,918	3,766,662	3,820,347
Held-to-maturity				
Government and public bonds	433,095	434,988	434,162	434,162
Finance debentures	2,210,000	2,148,643	2,137,998	2,137,998
Corporate bonds	908,904	903,773	907,731	907,731
	3,551,999	3,487,404	3,479,891	3,479,891
	₩ 7,439,420	₩ 7,255,322	₩ 7,246,553	₩ 7,300,238

Book values of government and public bonds, finance debentures, and corporate bonds are the sum of fair values of available-for-sale investment debt securities and amounts adjusted by effective interest rate method of held-to-maturity investment debt securities. Book value of other investment securities in foreign currency in the balance sheets is the sum of fair value of available-for-sale other investment securities in foreign currency, amounts adjusted by effective interest rate method of held-to-maturity investment securities in foreign currency and stocks in foreign currency in Note 5(2).

The fair values of available-for-sale investment debt securities in local currency and held-to-maturity investment debt securities in local currency as of December 31, 2002 were assessed by applying the average of base prices of the latest trading day from the balance sheet date, provided by Korea Bond Pricing & KMCC Co. and KIS Pricing Inc. while available-for-sale investment debt securities in local currency and held-to-maturity investment debt securities in local currency as of December 31, 2001 were valued using the closing yields of bonds announced by the Korea Securities Dealers Association. The fair values of other investment securities in foreign

currency were calculated based on the latest market value announced by price information provider, or yield provided by professional dealers. Acquisition costs of other investment securities in foreign currency are Korean Won equivalents of foreign currency denominated acquisition costs at BOK Basic Rate on the balance sheet dates. Book value and fair value of held-to-maturity investment securities in foreign currency are amounts adjusted by effective interest rate method.

Investment securities impairment loss on investment debt securities was ₩2,938 million (US\$2,448 thousand) and ₩3,876 million (US\$3,229 thousand) in 2002 and 2001, respectively, and recovery of impairment loss was ₩19,719 million (US\$16,427 thousand) in 2001.

In addition, hedging the exposure of the interest rate risk and foreign exchange rate risk, the Bank is engaged in swap transactions. For these swap transactions, the Bank recorded gain on fair value hedge of ₩7,856 million (US\$6,544 thousand) and ₩3,607 million (US\$3,005 thousand) in 2002 and 2001, respectively, and loss on fair value hedge of ₩1,781 million (US\$1,484 thousand) and ₩430 million (US\$358 thousand) in 2002 and 2001, respectively.

(5) Other investment securities as of December 31, 2002 and 2001 were as follows (Unit: Won in millions):

	2002		2001	
	Acquisition cost	Fair value	Acquisition cost	Fair value
Investments in beneficiary certificates	₩ -	₩ -	₩ 260,400	₩ 289,949
Treasury stock fund (Note 17)	-	-	9,317	9,317
Others	32	26	210,032	210,026
	₩ 32	₩ 26	₩ 479,749	₩ 509,292

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Gain on valuation of investments in beneficiary bond market stabilization, was credited to non-operating certificates amounting to ₩18,681 million (US\$15,562 thousand) in 2001, which were related to the investment in income.

(6) The gain (loss) on valuation of investment securities for the year ended December 31, 2002 reflected in capital adjustments consisted of the following:

	Korean won / Translation into U. S. dollars (Note2)		(In millions)		(In thousands)	
	January 1, 2002	Increase (Decrease)	December 31, 2002	December 31, 2002	December 31, 2002	December 31, 2002
Investment equity securities	₩ (22,607)	₩ (13,641)	₩ (36,248)	\$ (30,196)		
Investment debt securities	53,549	50,324	103,873	86,532		
Securities denominated in foreign currencies	136	6,086	6,222	5,183		
Other investment securities	2,282	(2,282)	-	-		
	₩ 33,360	₩ 40,487	₩ 73,847	\$ 61,519		

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

	Korean won / Translation into U. S. dollars (Note2)		(In millions)		(In thousands)		Percentage (%)	
	2002	2001	2002	2001	2002	2001	2002	2001
Korea	₩ 7,887,928	₩ 7,938,817	\$ 6,571,083	\$ 6,613,476	98.84	99.15		
U.S.A.	12,064	39,166	10,050	32,627	0.15	0.49		
Hong Kong	30,001	-	24,993	-	0.38	-		
Singapore	36,012	-	30,000	-	0.45	-		
Thailand	7,941	21,366	6,615	17,799	0.10	0.27		
Indonesia	-	318	-	265	-	-		
Others	6,389	6,823	5,322	5,684	0.08	0.09		
	₩7,980,335	₩ 8,006,490	\$ 6,648,063	\$ 6,669,851	100.00	100.00		

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

	Korean won / Translation into U. S. dollars (Note2)		(In millions)		(In thousands)		Percentage (%)	
	2002	2001	2002	2001	2002	2001	2002	2001
Financial Services	₩ 565,626	₩ 666,690	\$ 471,198	\$ 555,390	7.09	8.33		
Government	6,867,292	6,099,925	5,720,836	5,081,577	86.06	76.19		
Manufacturing	296,704	592,214	247,171	493,347	3.71	7.40		
Construction	135,190	94,601	112,621	78,808	1.69	1.18		
Wholesale and retail	1,760	10,737	1,466	8,944	0.02	0.13		
Others	113,763	542,323	94,771	451,785	1.43	6.77		
	₩7,980,335	₩ 8,006,490	\$ 6,648,063	\$ 6,669,851	100.00	100.00		

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

	Korean won / Translation into U. S. dollars (Note2)		(In millions)		(In thousands)		Percentage (%)	
	2002	2001	2002	2001	2002	2001	2002	2001
Stocks	₩ 177,534	₩ 189,007	\$ 147,896	\$ 157,453	2.23	2.36		
Fixed rate bonds	6,050,926	5,194,883	5,040,758	4,327,626	75.82	64.88		
Floating rate bonds	1,600,129	1,994,636	1,332,997	1,661,643	20.05	24.91		
Convertible bonds	98,455	71,553	82,018	59,607	1.23	0.90		
Beneficiary certificates	-	289,949	-	241,544	-	3.62		
Others	53,291	266,462	44,394	221,978	0.67	3.33		
	₩7,980,335	₩8,006,490	\$ 6,648,063	\$ 6,669,851	100.00	100.00		

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FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

(10) The portfolio of investment securities in foreign currencies, by foreign currency and type, as of December 31, 2002 and 2001 was as follows:

Korean won / Translation into U. S. dollars (Note2)		(In millions)		(In thousands)		Percentage (%)	
Currency	Type	2002	2001	2002	2001	2002	2001
USD	Floating rate notes	₩ 129,895	₩ 149,257	\$ 108,210	\$ 124,339	31.90	31.82
	Bonds	139,854	208,677	116,506	173,840	34.35	44.49
	Convertible bonds	18,081	20,067	15,063	16,717	4.44	4.28
	Exchange bonds	70,995	45,270	59,143	37,712	17.44	9.65
	Stocks	285	315	237	262	0.07	0.07
	Credit-linked notes	48,028	39,166	40,010	32,628	11.79	8.35
			407,138	462,752	339,169	385,498	99.99
HKD	Bonds	54	60	45	50	0.01	0.01
CHF	Convertible bond	-	6,216	-	5,178	-	1.33
		₩ 407,192	₩ 469,028	\$ 339,214	\$ 390,726	100.00	100.00

(11) The Bank had investment securities issued by Daewoo Group companies of ₩20,214 million (US\$16,839 thousand), which was the net amount after deducting investment securities impairment loss of ₩17,495 million (US\$14,574 thousand) and adding recovery of impairment loss of ₩421 million (US\$351 thousand) in 2002. In addition, the Bank had investment securities of workout companies (including private workout and leasing companies) other than Daewoo Group companies amounting to ₩20,417 million (US\$17,008 thousand), which was the net amount after deducting investment securities impairment loss of ₩6,692 million (US\$5,575 thousand) and adding recovery of impairment loss of ₩2,212 million (US\$1,843 thousand) in 2002.

(12) The Bank had investment securities issued by Hyundai Engineering and Construction of ₩10,120 million (US\$8,431 thousand), which was the net amount after deducting investment securities impairment loss of ₩12,743 million (US\$10,616 thousand) in 2002.

(13) The Bank acquired 78,278 thousand shares of Hynix Semiconductor Inc. through a debt-equity swap on May 31, 2002. The acquisition cost of the securities was recorded at book value of the loan amounting to ₩45,253 million (US\$37,698 thousand) pursuant to the case of the interpretations on Financial Accounting Standards 2001-15. During the current year, the Bank sold all the shares and recorded loss on disposal of investment securities of ₩14,841 million (US\$12,363 thousand).

In addition, the Bank had investment securities issued by Hynix Semiconductor Inc. of ₩295 million (US\$246 thousand) other than investment securities described above, which was the net amount after deducting investment securities impairment loss of ₩31 million (US\$26 thousand) in 2002.

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FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

(14) As of December 31, 2002 and 2001, investment securities, which were provided as collateral, were as follows:

Korean won / Translation into U. S. dollars (Note2)		(In millions)		(In thousands)		Provided for
Provided to	2002	2001	2002	2001		
Korea Securities Depository	₩ 1,326,254	₩ 1,300,320	\$ 1,104,843	\$ 1,083,239	Customer RP	
Bank of Korea	1,445,161	1,398,579	1,203,900	1,165,094	RP of Bank of Korea	
Bank of Korea	203,369	138,458	169,418	115,343	Inter-bank settlement	
Bank of Korea	522,057	730,852	434,903	608,840	Loans with credit limit from Bank of Korea	
Bank of Korea	106,482	104,909	88,705	87,395	Borrowings from Bank of Korea	
Korea Asset Management Corporation	4,079	13,735	11,729	11,442	Settlement of non-performing loan	
Seoul Guarantee Insurance Company	35,921	88,957	29,924	74,106	Guarantee for construction execution	
Korea Construction Financial Cooperative	26,309	-	21,917	-	Guarantee for construction execution	
UBS Warburg	75,091	-	62,555	-	Repo transaction	
LG Investment & Securities Co., Ltd. and other	41,742	16,116	34,773	13,426	Futures	
	₩ 3,796,465	₩ 3,791,926	\$ 3,162,667	\$ 3,158,885		

6. LOANS:**(1) Loans as of December 31, 2002 and 2001 consisted of the following:**

Korean won / Translation into U. S. dollars (Note2)		(In millions)		(In thousands)	
	2002	2001	2002	2001	
Loans in local currency	₩ 16,835,708	₩ 12,387,822	\$ 14,025,082	\$ 10,319,745	
Loans in foreign currencies	1,098,931	669,013	915,471	557,325	
Bills bought in local currency	779,469	246,931	649,341	205,708	
Bills bought in foreign currencies	1,259,804	1,167,882	1,049,487	972,911	
Advances for customers	2,784	42,516	2,319	35,418	
Credit card accounts	2,506,454	1,936,849	2,088,016	1,613,503	
Call loans	795,867	408,656	663,001	340,433	
Privately placed bonds	751,642	604,464	626,159	503,552	
Loans to be converted to equity securities	22,626	121,481	18,849	101,200	
Domestic import usance	653,673	523,475	544,546	436,084	
Factoring receivables	246,451	-	205,307	-	
	24,953,409	18,109,089	20,787,578	15,085,879	
Allowance for possible loan losses (Note 8)	(322,942)	(437,213)	(269,029)	(364,223)	
Present value discounts (Note 7)	(4,340)	(13,322)	(3,615)	(11,098)	
	₩ 24,626,127	₩ 17,658,554	\$ 20,514,934	\$ 14,710,558	

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

Korean won / Translation into U. S. dollars (Note2)	(In millions)		(In thousands)	
	2002	2001	2002	2001
(Loans in local currency)				
Loans to enterprise				
Working capital	₩ 6,995,550	₩ 6,892,989	\$ 5,827,682	\$ 5,742,244
Facilities and equipment	1,529,804	674,348	1,274,412	561,769
	8,525,354	7,567,337	7,102,094	6,304,013
Loans to households				
Overdrafts	15	9	12	8
General purpose	6,708,046	3,932,949	5,588,176	3,276,365
Installment saving	8,637	4,564	7,195	3,802
	6,716,698	3,937,522	5,595,383	3,280,175
Loans to public sector and other				
Working capital	306,254	183,647	255,127	152,988
Facilities and equipment	20,521	19,860	17,095	16,545
	326,775	203,507	272,222	169,533
Housing	859,163	243,186	715,731	202,587
Inter-bank loans	407,718	436,270	339,652	363,437
	₩16,835,708	₩12,387,822	\$ 14,025,082	\$ 10,319,745
(Loans in foreign currency)				
Loans in foreign currencies	₩ 950,247	₩ 246,577	\$ 791,609	\$ 205,412
Off- shore loans in foreign currencies	148,684	186,390	123,862	155,273
Inter-bank loans in foreign currencies	-	236,046	-	196,640
	₩ 1,098,931	₩ 669,013	\$ 915,471	\$ 557,325

(3) Loans in local currency and loans in foreign currencies, by borrower's country, as of December 31, 2002 and 2001 were as follows:

Korean won / Translation into U. S. dollars (Note2)	(In millions)		(In thousands)		Percentage (%)	
	2002	2001	2002	2001	2002	2001
Korea	₩ 17,302,438	₩ 12,237,352	\$ 14,413,894	\$ 10,194,395	98.72	98.81
U.S.A.	996	1,654	830	1,378	0.01	0.01
Russia	43,214	47,740	36,000	39,770	0.25	0.39
Indonesia	2,107	2,990	1,755	2,491	0.01	0.02
Overseas branches	171,973	92,474	143,263	77,036	0.98	0.75
Others	6,193	2,309	5,159	1,923	0.03	0.02
	₩17,526,921	₩12,384,519	\$ 14,600,901	\$ 10,316,993	100.00	100.00

(*) The above loans excluded inter-bank loans and inter-bank loans in foreign currencies.

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FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

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

Korean won / Translation into U. S. dollars (Note2)	(In millions)		(In thousands)		Percentage (%)	
	2002	2001	2002	2001	2002	2001
Large corporations	₩ 1,687,340	₩ 1,807,712	\$ 1,405,648	\$ 1,505,925	9.63	14.60
Medium and small corporations	7,764,972	6,100,118	6,468,654	5,081,738	44.30	49.25
Households	7,575,861	4,180,708	6,311,114	3,482,762	43.23	33.76
Others	326,775	203,507	272,222	169,532	1.86	1.64
Overseas branches	171,973	92,474	143,263	77,036	0.98	0.75
	₩17,526,921	₩12,384,519	\$ 14,600,901	\$ 10,316,993	100.00	100.00

(*) The above loans excluded inter-bank loans and inter-bank loans in foreign currencies.

Korean won / Translation into U. S. dollars (Note2)	(In millions)		(In thousands)		Percentage (%)	
	2002	2001	2002	2001	2002	2001
Manufacturing	₩ 4,536,148	₩ 4,334,484	\$ 3,778,864	\$ 3,610,866	25.88	35.00
Wholesale and retail	1,080,095	1,284,722	899,779	1,070,245	6.16	10.37
Finance and insurance	519,336	417,133	432,636	347,495	2.96	3.37
Construction	176,881	173,904	147,352	144,872	1.01	1.40
Transportation, storage and communication	564,491	511,590	470,252	426,183	3.22	4.13
Real estate and renting	1,330,961	485,806	1,108,765	404,703	7.60	3.92
Food and accommodations	221,230	142,666	184,297	118,849	1.26	1.15
Others	1,349,945	761,032	1,124,579	633,982	7.70	6.15
Overseas branches	171,973	92,474	143,263	77,036	0.98	0.75
Sub-total	9,951,060	8,203,811	8,289,787	6,834,231	56.77	66.24
Loan to households	7,575,861	4,180,708	6,311,114	3,482,762	43.23	33.76
	₩17,526,921	₩12,384,519	\$ 14,600,901	\$ 10,316,993	100.00	100.00

(*) The above loans excluded inter-bank loans and inter-bank loans in foreign currencies.

(6) Loans to financial institutions as of December 31, 2002 and 2001 consisted of the following:

Korean won / Translation into U. S. dollars (Note2)	(In millions)		(In thousands)	
	2002	2001	2002	2001
Banks	₩ 52,298	₩ 83,154	\$ 43,567	\$ 69,272
Special purpose companies	27,187	36,420	22,648	30,340
Leasing companies	23,495	37,450	19,573	31,198
Mutual savings and finance companies	2,000	993	1,666	827
Credit card companies	242,463	125,000	201,985	104,132
Investment trust companies	13,642	33,804	11,365	28,161
Investment banking	19,820	23,601	16,511	19,661
Finance companies	11,663	39,455	9,716	32,868
Other financial institutions	126,768	37,256	105,605	31,036
	₩ 519,336	₩ 417,133	\$ 432,636	\$ 347,495

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FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

[7] Daewoo Group companies, which were placed under a workout in August 1999 due to their liquidity problems, are undergoing a workout or court receivership as of December 31, 2002. As of December 31, 2002, the Bank had loans outstanding (including confirmed acceptances and guarantees and trust accounts with guaranteed return) to Daewoo Group companies of ₩83,623 million (US\$69,663 thousand). For these credits, the Bank provided an allowance for possible loan losses (including allowance for possible losses on confirmed acceptances and guarantees) of ₩16,598 million (US\$13,827 thousand) based on its loan classification.

The recovery of loans outstanding to Daewoo Group companies is highly dependent on the results of the business restructuring; accordingly, the potential impact on the Bank's operations of the workout program and of the difficulties Daewoo Group companies are facing cannot presently be determined.

[8] As of December 31, 2002, amounts owed by companies under workout program excluding Daewoo Group companies amounted to ₩29,654 million (US\$24,703 thousand). After deducting present value discounts of ₩4,540 million (US\$3,782 thousand), the Bank provided an allowance for possible loan losses (including allowance for possible losses on confirmed acceptances and guarantees) of ₩9,188 million (US\$7,654 thousand). The collectibility of these loans may be affected

[11] The classification of asset quality for loans, net of present value discount, as of December 31, 2002 is summarized as follows (Unit: Won in millions):

	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total
Loans in local currency	₩ 16,585,719	₩ 166,547	₩ 55,357	₩ 16,482	₩ 11,361	₩ 16,835,466
Loans in foreign currencies	1,055,475	11,197	29,255	3,004	-	1,098,931
Bills bought in local currency	773,469	6,000	-	-	-	779,469
Bills bought in foreign currencies	1,254,480	4,406	372	46	500	1,259,804
Advances for customers	250	144	1,373	459	532	2,758
Credit card loans	2,210,140	143,224	127,105	14,852	11,133	2,506,454
Privately placed bonds	712,877	13,590	8,320	11,223	1,560	747,570
Loans to be converted to equity securities	-	22,626	-	-	-	22,626
Domestic import usance	649,123	570	-	3,913	67	653,673
Factoring receivables	246,451	-	-	-	-	246,451
Others (*)	795,894	79	369	515	427	797,284
	₩ 24,283,878	₩ 368,383	₩ 222,151	₩ 50,494	₩ 25,580	₩ 24,950,486
Composite ratio (%)	97.33	1.48	0.89	0.20	0.10	100.00

by the outcome of the restructuring of these companies under workout program.

[9] As of December 31, 2002, amounts owed by Hyundai Group companies, which include Hyundai Petrochemical and Hyundai Merchant Marine amounted to ₩76,875 million (US\$64,041 thousand) including confirmed acceptances and guarantees. The Bank has provided an allowance for possible loan losses (including allowance for possible losses on confirmed acceptances and guarantees) of ₩20,611 million (US\$17,170 thousand) based on its loan classification. Hyundai Group companies are presently undergoing a liquidity problem and the potential impact on the Bank's operations of the difficulties these companies are facing cannot presently be determined.

[10] The Banks sold its non-performing loans of ₩306,062 million (US\$254,967 thousand) including trust accounts with guaranteed return in 3 different batches to Korea Asset Management Corporation since December 1997. As of December 31, 2002, the unsettled amount was ₩79,350 million (US\$66,103 thousand) including trust accounts with guaranteed return of ₩38,900 million (US\$32,406 thousand). The Bank has provided an allowance for possible loan losses totaling ₩44,541 million (US\$37,105 thousand) including trust accounts with guaranteed return of ₩20,117 million (US\$16,759 thousand).

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The classification of asset quality for loans, net of present value discount, as of December 31, 2001 is summarized as follows (Unit: Won in millions):

	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total
Loans in local currency	₩ 12,144,939	₩ 136,519	₩ 78,126	₩ 13,986	₩ 13,228	₩ 12,386,798
Loans in foreign currencies	577,871	53,601	33,100	4,441	-	669,013
Bills bought in local currency	235,931	11,000	-	-	-	246,931
Bills bought in foreign currencies	1,032,764	4,947	122	126,251	3,798	1,167,882
Advances for customers	181	1,121	1,289	26,234	13,660	42,485
Credit card loans	1,817,251	70,137	28,369	16,119	4,973	1,936,849
Privately placed bonds	524,325	27,816	8,984	31,071	1	592,197
Loans to be converted to equity securities	-	55,421	-	66,060	-	121,481
Domestic import usance	523,475	-	-	-	-	523,475
Others (*)	408,683	9,461	692	963	1,010	420,809
	₩ 17,265,420	₩ 370,023	₩ 150,682	₩ 285,125	₩ 36,670	₩ 18,107,920
	95.35	2.04	0.83	1.58	0.20	100.00

(*) consisting of call loans (excluding inter-banks reconciliation funds), suspense receivable as credit, due from banks in local currency, and accounts receivable reclassified from dishonored bills bought in foreign currencies

As explained in Note 2, for comparative purposes, the banker's usance as of December 31, 2001 amounting to ₩285,180 million (US\$237,571 thousand) has been reclassified into loans (domestic import usance) from the acceptance (off-balance sheet items) in accordance with the change in accounting treatment in 2002.

7. RESTRUCTURING LOANS:

[1] Present value discounts related to outstanding restructured loans as of December 31, 2002 were as follows (Unit: Won in millions):

Type	Discount rate (%)	Loans	Present value discounts			Ending Balance
			Beginning balance	Increase	Decrease (*)	
Composition	13.75 - 14.25	₩ 343	₩ 54	₩ -	₩ 22	₩ 32
Workout programs	10.00 - 13.50	16,438	13,268	392	9,352	4,308
		₩ 16,781	₩ 13,322	₩ 392	₩ 9,374	₩ 4,340

(*) composed of amortization of present value discount of ₩2,813 million, reversal of present value discount of ₩6,115 million due to advanced redemption and foreign exchange trading income of ₩446 million.

Present value discounts related to outstanding restructured loans as of December 31, 2001 were as follows (Unit: Won in millions):

Type	Discount rate (%)	Loans	Present value discounts (*)			Ending Balance
			Beginning balance	Increase	Decrease (*)	
Court receivership	11.00	₩ -	₩ 47	₩ -	₩ 47	₩ -
Composition	9.54 - 15.95	1,155	2,073	-	2,019	54
Workout programs	11.00	51,754	96,828	6,289	89,849	13,268
		₩ 52,909	₩ 98,948	₩ 6,289	₩ 91,915	₩ 13,322

(*) composed of amortization of present value discount of ₩14,733 million and reversal of present value discount of ₩77,182 million due to advanced redemption a

(*)2 excluded the present value discount provided for Korea Leasing Co. not related to restructured loans

Cash flow from outstanding fixed rate loans are discounted by the original agreed interest rate, and cash flows from matured fixed rate loans and floating rate loans are discounted by the interest rate reflecting debtors' credit at the time of restructuring of the loans.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

(2) Debt restructuring for the year ended December 31, 2002 was as follows (Unit: Won in millions):

Type	Amount before restructuring	Principal exemption	Debt-equity swap (declared)	Debt-equity swap (stock)	Transferred to CB	Interest reduction
Court receivership	₩ 86,638	₩ 53,399	₩ -	₩ 27,423	₩ -	₩ 5,816
Composition	994	339	-	655	-	-
Workout programs	89,703	-	25,083	62,223	-	2,397
	₩ 177,335	₩ 53,738	₩ 25,083	₩ 90,301	₩ -	₩ 8,213

Debt restructuring for the year ended December 31, 2001 was as follows (Unit: Won in millions):

Type	Amount before restructuring	Principal exemption	Debt-equity swap (declared)	Debt-equity swap (stock)	Transferred to CB	Interest reduction
Court receivership	₩ 4,250	₩ -	₩ -	₩ 4,250	₩ -	₩ -
Composition	856	-	-	856	-	-
Workout programs	74,916	-	-	38,320	15,138	21,458
Others	212,834	139,307	55,421	18,106	-	-
	₩ 292,856	₩ 139,307	₩ 55,421	₩ 61,532	₩ 15,138	₩ 21,458

8. ALLOWANCE FOR POSSIBLE LOAN LOSSES:

(1) As of December 31, 2002 and 2001, the Bank complied with the minimum regulatory guideline for loan loss provision, as described in Note 2, announced by the Korean Financial Supervisory Commission (FSC). The allowance for possible loan losses as of December 31, 2002 and 2001 is summarized as follows (Unit: Won in millions):

	2002						2001
	Normal	Precautionary	Substandard	Doubtful	Loss	Total	Total
Loans in local currency	₩ 99,761	₩ 15,933	₩ 12,947	₩ 9,927	₩ 11,361	₩ 149,929	₩ 112,913
Loans in foreign currencies	5,572	224	14,598	1,502	-	21,896	23,969
Bills bought in local currency	3,867	1,194	-	-	-	5,061	2,474
Bills bought in foreign currencies	6,333	88	75	23	500	7,019	117,782
Advances for customers	1	3	275	230	532	1,041	27,180
Credit card loans	22,101	17,187	25,421	8,911	11,133	84,753	29,196
Privately placed loans	3,564	2,495	1,784	5,726	1,560	15,129	32,289
Loans to be converted to equity securities	-	4,503	-	-	-	4,503	61,308
Domestic import usance	3,246	11	-	1,957	67	5,281	1,191
Factoring receivables	1,232	-	-	-	-	1,232	-
Others (*)	-	2	16,822	7,942	2,332	27,098	28,911
	₩ 145,677	₩ 41,640	₩ 71,922	₩ 36,218	₩ 27,485	₩ 322,942	₩ 437,213

(*) including an allowance for possible loan losses of ₩24,424 million (US\$20,346 thousand) provided for unsettled non-performing loans sold [Note 6(10)]

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

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

Korean won / Translation into U. S. dollars (Note2)	(In millions)		(In thousands)	
	2002	2001	2002	2001
Beginning balance	₩ 437,213	₩ 1,110,781	\$ 364,223	\$ 925,342
Written-off charged to present value discount	(392)	(6,289)	(327)	(5,239)
Loans written-off	(345,349)	(972,621)	(287,695)	(810,247)
Conversion to equity securities	(44,590)	(28,443)	(37,146)	(23,694)
Sales of loans	(5,486)	(101,603)	(4,570)	(84,641)
Collection of previously written-off loans	15,946	12,871	13,284	10,722
Repurchase of NPLs sold	37,763	1,106	31,459	921
Termination of restructuring	6,115	74,745	5,094	62,267
Other	(12,088)	12,536	(10,070)	10,443
Provision for possible loan losses	233,810	334,130	194,777	278,349
Ending balance	₩ 322,942	₩ 437,213	\$ 269,029	\$ 364,223

(3) The allowance for possible loan losses compared to total loans, net of present value discount, is summarized as follows:

Korean won / Translation into U. S. dollars (Note2)	(In millions)	(In thousands)	Allowance for possible loan losses		Percentage (%)
			Total loans (*)	(In thousands)	
Dec 31, 2001	₩ 23,746,901	\$ 19,782,490	₩ 322,942	\$ 269,029	1.36
Dec 31, 2001	17,026,947	14,184,394	437,213	364,223	2.57
Dec 31, 2000	15,357,425	12,793,590	1,110,781	925,342	7.23

(*) excluding call loans and inter-bank loans classified as normal

9. FIXED ASSETS:**(1) Fixed assets as of December 31, 2002 and 2001 consisted of the following:**

Korean won / Translation into U. S. dollars (Note2)	(In millions)		(In thousands)	
	2002	2001	2002	2001
Tangible assets	₩ 533,555	₩ 489,839	\$ 444,481	\$ 408,063
Less: Accumulated depreciation	(159,220)	(130,463)	(132,639)	(108,683)
Intangible assets	15,493	224	12,906	187
	₩ 389,828	₩ 359,600	\$ 324,748	\$ 299,567

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

Korean won / Translation into U. S. dollars (Note2)	(In millions)	(In thousands)	Acquisition cost		Accumulated depreciation	
			(In millions)	(In thousands)	(In millions)	(In thousands)
Land	₩ 119,045	\$ 99,171	₩ -	\$ -		
Buildings	149,003	124,128	17,655	14,707		
Equipment and furniture	224,141	186,722	121,384	101,120		
Leasehold improvements	40,712	33,915	20,181	16,812		
Construction in process	654	545	-	-		
	₩ 533,555	\$ 444,481	₩ 159,220	\$ 132,639		

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Tangible assets as of December 31, 2001 consisted of the following:

Korean won / Translation into U. S. dollars (Note2)	(In millions)		(In thousands)	
	Acquisition cost		Accumulated depreciation	
Land	₩ 124,966	\$ 104,103	₩ -	\$ -
Buildings	149,626	124,647	14,835	12,358
Equipment and furniture	182,300	151,866	97,048	80,847
Leasehold improvements	32,293	26,902	18,580	15,478
Construction in process	654	545	-	-
	₩ 489,839	\$ 408,063	₩ 130,463	\$ 108,683

As of December 31, 2002 and 2001, the published value of land was ₩71,524 million (US\$59,583 thousand) and ₩74,829 million (US\$62,337 thousand), respectively, using the disclosed public land price announced annually by the Government pursuant to the Laws on Disclosure of Land Price and Valuation of Land.

10. OTHER ASSETS:**(1) Other assets as of December 31, 2002 and 2001 consisted of the following:**

Korean won / Translation into U. S. dollars (Note2)	(In millions)		(In thousands)	
	2002	2001	2002	2001
Guarantee deposits	₩ 264,488	₩ 234,500	\$ 220,333	\$ 195,352
Accounts receivable (Note 26)	1,099,020	564,667	915,545	470,399
Accrued income (Note 2)	257,649	288,895	214,636	240,666
Prepaid expenses	138,936	136,321	115,742	113,563
Deferred income tax assets (Note 23)	48,175	134,452	40,132	112,006
Derivatives assets (Note 26)	271,341	69,777	226,042	58,128
Domestic exchange settlements debits	181,679	175,272	151,349	146,011
Sundry assets	9,895	9,972	8,243	8,307
	₩ 2,271,183	₩ 1,613,856	\$ 1,892,022	\$ 1,344,432

(2) Sundry assets among other assets as of December 31, 2002 and 2001 consisted of the following:

Korean won / Translation into U. S. dollars (Note2)	(In millions)		(In thousands)	
	2002	2001	2002	2001
Suspense receivables	₩ 6,521	₩ 7,800	\$ 5,432	\$ 6,498
Deposit money to court	1,701	1,272	1,417	1,059
Other	1,673	900	1,394	750
	₩ 9,895	₩ 9,972	\$ 8,243	\$ 8,307

11. INSURED ASSETS:**Assets insured as of December 31, 2002 were as follows (Unit: Won in millions):**

Type of insurance	Assets	Book value	Insured amount	Insurance companies
Property composite	Buildings (*)	₩ 151,879	₩ 120,457	Samsung Fire and Marine Insurance
	Equipment and furniture	102,757	56,608	Samsung Fire and Marine Insurance
		₩ 254,636	₩ 177,065	

(*) including leasehold improvements.

The Bank also has compensation liability insurance for officers and compensation liability insurance for business.

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12. DEPOSITS:**(1) Deposits as of December 31, 2002 and 2001 consisted of the following:**

Korean won / Translation into U. S. dollars (Note2)	(In millions)		(In thousands)	
	2002	2001	2002	2001
Deposits in local currency	₩ 18,951,615	₩ 15,880,078	\$ 15,787,750	\$ 13,228,989
Deposits in foreign currencies	583,706	576,354	486,260	480,135
Certificates of deposits	1,254,497	1,299,636	1,045,065	1,082,669
	₩20,789,818	₩17,756,068	\$ 17,319,075	\$ 14,791,793

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

Korean won / Translation into U. S. dollars (Note2)	(In millions)		(In thousands)	
	2002	2001	2002	2001
Demand deposits	₩ 1,787,763	₩ 1,359,278	\$ 1,489,306	\$ 1,132,354
Savings deposits	16,896,623	14,277,365	14,075,827	11,893,840
Mutual installment receipts	124,396	154,414	103,629	128,635
Housing installment deposits	142,833	89,021	118,988	74,160
	₩18,951,615	₩15,880,078	\$ 15,787,750	\$ 13,228,989

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

Korean won / Translation into U. S. dollars (Note2)	(In millions)		(In thousands)	
	2002	2001	2002	2001
Current deposits	₩ 38,041	₩ 38,814	\$ 31,690	\$ 32,334
Passbook deposits	249,094	207,964	207,509	173,246
Notice deposits	2,586	2,882	2,155	2,401
Time deposits	293,338	325,627	244,367	271,265
Temporary deposits	647	1,067	539	889
	₩ 583,706	₩ 576,354	\$ 486,260	\$ 480,135

(4) Deposits with financial institutions as of December 31, 2002 and 2001 were as follows:

Korean won / Translation into U. S. dollars (Note2)	(In millions)		(In thousands)	
	2002	2001	2002	2001
Deposits in local currency				
Banks	₩ 123,204	₩ 146,207	\$ 102,636	\$ 121,799
Securities companies	52,380	54,725	43,635	45,589
Insurance companies	430,542	213,868	358,666	178,163
Other financial institution	522,255	1,143,150	435,067	952,308
	1,128,381	1,557,950	940,004	1,297,859
Deposits in foreign currencies				
Banks	48,024	302	40,007	252
Securities companies	1,407	-	1,172	-
Insurance companies	120	3	100	2
Other financial institution	13,964	9,811	11,633	8,173
	63,515	10,116	52,912	8,427
	₩ 1,191,896	₩ 1,568,066	\$ 992,916	\$ 1,306,286

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

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13. BORROWINGS:

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

Korean won / Translation into U. S. dollars (Note2)	(In millions)		(In thousands)	
	2002	2001	2002	2001
Borrowings in local currency	₩ 1,507,186	₩ 1,830,724	\$ 1,255,570	\$ 1,525,095
Borrowings in foreign currencies	2,468,345	1,690,764	2,056,269	1,408,500
Bonds sold under repurchase agreements	1,298,781	883,184	1,081,957	735,741
Bills sold	26,376	244,839	21,972	203,965
Due to BOK in foreign currencies	15,334	32,425	12,774	27,012
Call money	1,385,012	1,413,868	1,153,792	1,177,831
	₩ 6,701,034	₩ 6,095,804	\$ 5,582,334	\$ 5,078,144

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

Korean won / Translation into U. S. dollars (Note2)	Annual interest rate (%)	(In millions)		(In thousands)	
		2002	2001	2002	2001
Institution					
BOK	2.50	₩ 347,393	₩ 543,188	\$ 289,398	\$ 452,506
Borrowing from government fund	4.50	50,036	49,176	41,683	40,966
Small & Medium-Sized Business Development and others	2.00 - 10.00	1,109,757	1,238,360	924,489	1,031,623
		₩ 1,507,186	₩ 1,830,724	\$ 1,255,570	\$ 1,525,095

The details of subordinated borrowings, included in others, as of December 31, 2002 and 2001 consisted of the following:

Korean won / Translation into U. S. dollars (Note2)	Annual interest rate (%)	Condition of borrowings	(In millions)		(In thousands)	
			2002	2001	2002	2001
Institution						
Samsung Life Insurance	6.06 - 9.98	Lump sum reimbursement	₩ 100,000	₩ 100,000	\$ 83,305	\$ 83,305
Korea Life Insurance	10.00	Lump sum reimbursement	30,000	30,000	24,992	24,992
			₩ 130,000	₩ 130,000	\$ 108,297	\$ 108,297

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

Korean won / Translation into U. S. dollars (Note2)	Annual interest rate (%)	(In millions)		(In thousands)	
		2002	2001	2002	2001
Institution					
Development Bank of Singapore and others	0.15 - 4.05	₩ 2,336,541	₩ 1,519,328	\$ 1,946,469	\$ 1,265,685
Natexis Banques Populaires and others	1.65 - 2.00	131,804	171,436	109,800	142,815
		₩ 2,468,345	₩ 1,690,764	\$ 2,056,269	\$ 1,408,500

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(4) Due to BOK in foreign currencies as of December 31, 2002 and 2001 was received from BOK for the purpose of re-lending pursuant to government policies (funds for import facility) and annual interest rate was 1.40 - 1.88 percent in 2002.

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

Korean won / Translation into U. S. dollars (Note2)	Institution	Annual interest rate (%)	(In millions)		(In thousands)	
			2002	2001	2002	2001
Local currency	Mirae Asset and others	4.10 - 4.15	₩ 1,258,500	₩ 1,395,700	\$ 1,048,401	\$ 1,162,696
Foreign currencies	Den Norske Bank and others	2.53 - 7.05	6,347	396	5,287	330
Inter-bank reconciliation	Shinhan Bank and others	-	120,165	17,772	100,104	14,805
			₩ 1,385,012	₩ 1,413,868	\$ 1,153,792	\$ 1,177,831

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

Korean won / Translation into U. S. dollars (Note2)	(In millions)		(In thousands)	
	2002	2001	2002	2001
BOK	₩ 347,393	₩ 543,188	\$ 289,398	\$ 452,506
Banks	1,500,436	1,381,947	1,249,947	1,151,239
Insurance companies	130,000	130,000	108,297	108,297
Other financial institution	-	4,215	-	3,511
	₩ 1,977,829	₩ 2,059,350	\$ 1,647,642	\$ 1,715,553

14. DEBENTURES:

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

Korean won / Translation into U. S. dollars (Note2)	(In millions)		(In thousands)	
	2002	2001	2002	2001
Debentures in local currency	₩ 4,619,392	₩ 1,134,390	\$ 3,848,211	\$ 945,010
Less: Discounts	(94,900)	(16,100)	(79,058)	(13,412)
Debentures in foreign currencies	451,600	360,460	376,208	300,283
Less: Discounts	(5,079)	(5,038)	(4,231)	(4,197)
Less: Adjustment for conversion rights	-	(3,610)	-	(3,007)
	₩ 4,971,013	₩ 1,470,102	\$ 4,141,130	\$ 1,224,677

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(2) Debentures in local currency as of December 31, 2002 and 2001 were as follows:

Korean won / Translation into U. S. dollars (Note2)			Annual interest rate (%)		(In millions)		(In thousands)	
Type	Issuance date	Expiration date	2002	2001	2002	2001	2002	2001
Debenture	Dec. 1997	Dec. 2002	10.57	₩ 1	₩ 1	\$ 1	\$ 1	
	Apr. 1998	Apr. 2001	11.42	2	6	2	5	
	Mar. 1999	Mar. 2002	-	-	7	-	6	
	May 1999	May 2002	-	-	15,003	-	12,498	
	July 1999	July 2002	5.87	-	50,000	-	41,653	
	Sep. 2000	Sep. 2003	6.87	10,000	10,000	8,331	8,331	
	Nov. 2000	Nov. 2003	7.48	10,000	10,000	8,331	8,331	
	Dec. 2000	Dec. 2002	-	-	10,000	-	8,331	
	Feb. 2001	Feb. 2003	5.76	10,000	10,000	8,331	8,331	
	Mar. 2001	Mar. 2002	-	-	106,000	-	88,304	
	Mar. 2001	Mar. 2003	5.86 - 6.13	15,000	15,000	12,496	12,496	
	Apr. 2001	Apr. 2002	6.09	-	40,000	-	33,322	
	Apr. 2001	Apr. 2003	6.40	10,000	10,000	8,331	8,331	
	May 2001	May 2002	-	-	46,000	-	38,320	
	May 2001	May 2003	6.27	24,000	24,000	19,993	19,993	
	July 2001	July 2002	5.17	-	20,000	-	16,661	
	Aug. 2001	Aug. 2002	4.86	-	6,000	-	4,998	
	Sep. 2001	Sep. 2002	4.39	-	120,000	-	99,966	
	Oct. 2001	Oct. 2002	4.23	-	5,000	-	4,165	
	Nov. 2001	Nov. 2002	-	-	40,000	-	33,322	
	Nov. 2001	Nov. 2004	5.68 - 5.72	20,000	20,000	16,661	16,661	
	Dec. 2001	Dec. 2002	-	-	10,000	-	8,331	
	Feb. 2002	Feb. 2003	5.13 - 5.25	120,000	-	99,967	-	
	Feb. 2002	Feb. 2004	5.51	₩ 30,000	₩ -	\$ 24,992	\$ -	
	Jan. 2002	Jan. 2003	4.97 - 5.06	90,000	-	74,975	-	
	Jan. 2002	Jan. 2004	5.69	30,000	-	24,992	-	
	Jan. 2002	Jan. 2005	(*1)	120,000	-	99,967	-	
	Mar. 2002	Mar. 2003	5.22 - 5.39	368,238	-	306,763	-	
	Mar. 2002	Mar. 2005	6.68 - 6.75	90,000	-	74,975	-	
	Apr. 2002	Apr. 2003	5.29 - 5.37	235,000	-	195,768	-	
	Apr. 2002	Apr. 2009	7.36	70,000	-	58,314	-	
	May 2002	May 2003	5.31 - 5.34	220,000	-	183,272	-	
	June 2002	June 2003	5.25 - 5.31	150,000	-	124,958	-	
	June 2002	June 2005	6.50	60,000	-	49,983	-	
	July 2002	July 2003	4.99 - 5.33	310,000	-	258,247	-	
	Aug. 2002	Aug. 2003	4.88 - 4.99	505,000	-	420,693	-	
	Sep. 2002	Sep. 2003	4.85 - 4.95	690,000	-	574,808	-	
	Sep. 2002	Sep. 2005	5.72	90,000	-	74,975	-	
	Oct. 2002	Oct. 2003	4.89 - 4.99	145,000	-	120,793	-	
	Oct. 2002	Oct. 2005	5.68 - 5.74	150,000	-	124,958	-	
	Nov. 2002	Nov. 2003	4.86 - 4.90	260,000	-	216,594	-	
	Dec. 2002	Dec. 2003	4.91	130,000	-	108,297	-	
Sub-ordinated	Dec. 1997	Mar. 2003	-	-	71,000	-	59,147	
	Dec. 1998	Mar. 2004	(*2)	133,300	133,300	111,046	111,046	
	Dec. 1998	Mar. 2004	(*3)	63,100	63,100	52,566	52,566	
	Mar. 2000	June 2005	10.50 - 10.60	99,993	99,993	83,300	83,300	
	May 2001	Jan. 2007	7.60 - 7.65	99,980	99,980	83,289	83,289	
	Sep. 2001	Mar. 2007	6.80 - 6.84	100,000	100,000	83,305	83,305	
	July 2002	July 2008	7.10 - 7.25	150,000	-	124,958	-	
				4,608,614	1,134,390	3,839,232	945,010	
Loss on valuation of fair market value risk hedge				10,778	-	8,979	-	
				₩ 4,619,392	₩ 1,134,390	\$ 3,848,211	\$ 945,010	

(*1) 6.39 percent + interest rate of 3-year treasury bond - interest rate of 91-day CD

(*2) depository rate of public capital managing funds

(*3) depository rate of public capital managing funds + 1 percent

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

Korean won / Translation into U. S. dollars (Note2)			Annual interest rate (%)		(In millions)		(In thousands)	
Type	Issuance date	Expiration date	2002	2001	2002	2001	2002	2001
Subordinated debentures	May 1997	May. 2007	6.88	₩ 16,715	₩ 15,588	\$ 13,924	\$ 12,986	
Subordinated convertible bonds	Aug. 1997	Aug. 2007	0.25	1,212	132,610	1,010	110,471	
Subordinated debentures	Dec. 2001	Dec. 2011	6.95	192,064	212,176	160,000	176,754	
Subordinated debentures	Sep. 2002	Sep. 2012	5.64	240,080	-	200,000	-	
				450,071	360,374	374,934	300,211	
Loss (gain) on valuation of fair market value risk hedge (prior year) (*1)				1,443	(293)	1,202	(244)	
Loss on valuation of fair market value risk hedge (current year)				86	379	72	316	
				₩ 451,600	₩ 360,460	\$ 376,208	\$ 300,283	

(*1) including foreign exchange trading loss of ₩86 million.

The major terms relating to the subordinated convertible bonds shown above are as follows:

Agreement Terms	
Conversion price	₩13,203
Number of shares to be converted	6,775,796 shares of common stock
Conversion exchange rate	₩894.60 /US\$1
Put Option	137.74% of principal after 5 years from issue date (Put premium: 6.836%)
Call Option	100% of principal after 5 years from issue date
Conversion period	September 25, 1997 - July 26, 2007
Interest payment	Once at every year end (End-of-period)
Other	Non-guaranteed subordinated debentures

Through the exercise of put option of the subordinated convertible bonds, the amount of US\$ 98,990,000 among the total amount of US\$ 100,000,000 was redeemed in 2002.

15. ACCEPTANCES AND GUARANTEES AND ALLOWANCES FOR POSSIBLE LOSSES:**(1) Acceptances and guarantees as of December 31, 2002 and 2001 were as follows:**

Korean won / Translation into U. S. dollars (Note2)		(In millions)		(In thousands)	
		2002	2001	2002	2001
Confirmed acceptances and guarantees in local currency					
Payment guarantee for issuance of debenture	₩ 658	₩ 17,507	\$ 548	\$ 14,584	
Payment guarantee for loan	19,867	23,187	16,551	19,316	
Others	192,973	187,407	160,757	156,121	
		213,498	228,101	177,856	190,021

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Korean won / Translation into U. S. dollars (Note2)	(In millions)		(In thousands)	
	2002	2001	2002	2001
Confirmed acceptances and guarantees in foreign currencies				
Acceptances for letter of credit	120,645	67,778	100,504	56,463
Letters of guarantees for importers	41,048	28,706	34,195	23,914
Guarantees on credit derivatives	84,028	39,783	70,000	33,141
Others (*)	150,789	188,655	125,616	157,160
	396,510	324,922	330,315	270,678
	₩ 610,008	₩ 553,023	\$ 508,171	\$ 460,699
Unconfirmed acceptances and guarantees				
Customer's liability on letter of credit	₩ 515,605	₩ 544,039	\$ 429,528	\$ 453,215
Others	-	35,100	-	29,240
	₩ 515,605	₩ 579,139	\$ 429,528	\$ 482,455

(*) acceptances and guarantees for the return of advances related to export, overseas bidding, contractual obligations, payment guarantee for other borrowings in foreign currencies.

As explained in Note 2, the banker's usance as of December 31, 2001, amounting to ₩285,180 million (US\$237,571 thousand) has been reclassified into loans (domestic import usance) on the balance sheet from the confirmed acceptances and guarantees in foreign currencies of off-balance items in accordance with the change in the Supervisory Regulation of Banking Business issued by the Financial Supervisory Service, and excluded in the total acceptances and guarantees above.

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

Korean won / Translation into U. S. dollars (Note2)	(In millions)		(In thousands)		Percentage (%)	
	2002	2001	2002	2001	2002	2001
Large enterprise	₩ 663,751	₩ 707,503	\$ 552,942	\$ 589,389	58.97	62.49
Small and medium enterprise	461,403	424,141	384,374	353,333	40.99	37.46
Others	459	518	383	432	0.04	0.05
	₩1,125,613	₩1,132,162	\$ 937,699	\$ 943,154	100.00	100.00

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

Korean won / Translation into U. S. dollars (Note2)	(In millions)		(In thousands)		Percentage (%)	
	2002	2001	2002	2001	2002	2001
Manufacturing	₩ 681,153	₩ 658,810	\$ 567,438	\$ 548,825	60.51	58.19
Finance and insurance	62,982	144,375	52,468	120,273	5.60	12.75
Construction	24,949	54,447	20,784	45,357	2.22	4.82
Wholesale and retail	249,140	167,834	207,547	139,815	22.13	14.82
Others	107,389	106,696	89,462	88,884	9.54	9.42
	₩1,125,613	₩1,132,162	\$ 937,699	\$ 943,154	100.00	100.00

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

Korean won / Translation into U. S. dollars (Note2)	(In millions)		(In thousands)		Percentage (%)	
	2002	2001	2002	2001	2002	2001
Korea	₩ 1,105,166	₩ 1,123,491	\$ 920,665	\$ 935,930	98.18	99.23
China	8,443	8,273	7,034	6,892	0.75	0.73
United Kingdom	12,004	398	10,000	332	1.07	0.04
	₩1,125,613	₩1,132,162	\$ 937,699	\$ 943,154	100.00	100.00

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

Korean won / Translation into U. S. dollars (Note2)	(In millions)		(In thousands)	
	2002	2001	2002	2001
Classification				
Normal	₩ 585,084	₩ 496,312	\$ 487,408	\$ 413,456
Precautionary	24,910	33,585	20,751	27,978
Substandard	-	169	-	141
Doubtful	1	7,498	1	6,246
Estimated loss	13	15,459	11	12,878
	₩ 610,008	₩ 553,023	\$ 508,171	\$ 460,699
Allowance for possible losses	₩ 100	₩ 20,923	\$ 83	\$ 17,430
Ratio (%)	0.02	3.78	0.02	3.78

(6) As of December 31, 2002, confirmed acceptances and guarantees to Daewoo Group companies and Hyundai Group companies amounted to ₩106 million (US\$88 thousand) and ₩24,620 million (US\$20,510 thousand), respectively, for which an allowance for possible losses of ₩19 million (US\$16 thousand) had been provided based on the Bank's loan classification.

16. OTHER LIABILITIES:

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

Korean won / Translation into U. S. dollars (Note2)	(In millions)		(In thousands)	
	2002	2001	2002	2001
Accrued severance benefits (Note 2)	₩ 64,046	₩ 48,371	\$ 53,354	\$ 40,296
Less: Transfer to National Pension	(2,571)	(2,701)	(2,142)	(2,250)
Less: Individual severance insurance deposits	(52,682)	(45,670)	(43,887)	(38,046)
Allowance for possible losses on confirmed acceptances and guarantees (Note 15)	100	20,923	83	17,430
Borrowings from trust accounts (Note 27)	273,774	465,731	228,069	387,980
Foreign exchange remittance pending	75,748	21,284	63,102	17,731
Accounts payable (Note 26)	1,176,222	592,041	979,859	493,203
Accrued expenses	437,993	381,340	364,873	317,678
Unearned revenues	51,458	45,300	42,867	37,737
Deposits for letter of guarantees and other	27,116	25,247	22,589	21,032
Derivative liabilities (Note 26)	289,335	88,464	241,032	73,695
Local exchange settlement credits	329,073	268,310	274,136	223,517
Sundry liabilities	350,681	227,025	292,137	189,124
	₩ 3,020,293	₩ 2,135,665	\$ 2,516,072	\$ 1,779,127

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(2) Sundry liabilities among other liabilities as of December 31, 2002 and 2001 consisted of the following:

Korean won / Translation into U. S. dollars (Note2)	(In millions)		(In thousands)	
	2002	2001	2002	2001
Suspense payable	₩ 50,058	₩ 57,400	\$ 41,701	\$ 47,817
Cash received from other banks	1,100	1,180	917	983
Withholding taxes	30,999	34,177	25,824	28,471
Guarantee deposits for securities subscription	27,381	2,661	22,810	2,217
Liability incurred by agency relationship	152,422	94,374	126,976	78,619
Account for agency businesses	54,196	36,099	45,148	30,073
Other allowance (Note 2)	9,777	985	8,145	821
Others	24,748	149	20,616	124
	₩ 350,681	₩ 227,025	\$ 292,137	\$ 189,124

17. SHAREHOLDERS' EQUITY:**(1) Common stock and preferred stock**

As of December 31, 2002 and 2001, the Bank has 600 million authorized shares (₩5,000 par value), of which 183,066,765 shares (₩915,334 million) and 163,066,765 shares (₩815,334 million), respectively, had been issued as common stock, and 35,600,000 shares (₩178,000 million) and 51,200,000 shares (₩256,000 million), respectively, had been issued as preferred stock. The Bank's major shareholders of common stock were J.P. Morgan & Carlyle Consortium (35.72 percent) and Samsung Group (13.89 percent) as of December 31, 2002.

With approval at the general shareholders' meeting, on March 22, 2002, the Bank paid ₩78,000 million (US\$ 64,978 thousand) to reduce 15,600,000 shares of preferred stock, which were issued to the Korea Deposit Insurance

Corporation, in accordance with the P&A agreement for Kyunggi Bank.

The Bank entered into an agreement to issue 20,000,000 global depository shares (GDSs) on April 25, 2002 and brought in US\$198,730 thousand from the issuance of GDSs on April 30, 2002. The GDSs represent 20 million shares of common stock (issuance price: ₩13,000) and, accordingly, ₩100,000 million (US\$83,305 thousand) was recorded as capital stock and ₩152,405 million (US\$126,962 thousand), net of issuance cost, was recorded as paid-in capital in excess of par value in capital surplus.

(2) Capital surplus

Capital surplus, other than described above, amounting to ₩67 million (US\$56 thousand) resulted from the disposition of Treasury Stock Fund.

(3) Retained earnings

Retained earnings as of December 31, 2002 and 2001 are summarized as follows:

Korean won / Translation into U. S. dollars (Note2)	(In millions)		(In thousands)	
	2002	2001	2002	2001
Legal reserve	₩ 45,700	₩ 19,600	\$ 38,071	\$ 16,328
Voluntary reserve	248,900	91,400	207,347	76,141
Unappropriated accumulated retained earnings	100	70	83	58
	₩ 294,700	₩ 111,070	\$ 245,501	\$ 92,527

1) Legal reserve

The Korean Banking Law requires a bank to appropriate at least 10 percent of net income after income tax to legal reserve, until such reserve equals 100 percent of its paid-in

capital. This reserve is not available for payment of cash dividends; however, it can be used to reduce deficit or transfer to capital.

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2) Reserves for overseas investment loss and technological development The Bank had recorded reserves for overseas investment loss and technological development based on the Regulation of Tax Reduction and Exemption Act, and had followed the related tax regulations in providing for and disposal of such reserves.

3) Reserve for financial structure improvement (voluntary reserve) In 2002, the Finance Supervisory Service recommended banks to appropriate at least 10 percent of net income after accumulated deficit to reserve for financial structure improvement, until simple capital ratio equals 5.5 percent. This reserve is not available for

payment of cash dividends; however, it can be used to reduce deficit or transfer to capital.

4) Retained earnings appropriated for accumulated deficit conservation. The Bank appropriated capital surplus, legal reserve and other reserve amounting to ₩348,363 million (US\$290,206 thousand) for accumulated deficit conservation, pursuant to the approval at the shareholders' meeting on March 9, 2001.

5) Changes in unappropriated retained earnings carried over from prior years

Changes in 2002 and 2001 in the unappropriated retained earnings carried over from prior years consisted of credits for the following:

Korean won / Translation into U. S. dollars (Note2)	(In millions)		(In thousands)	
	2002	2001	2002	2001
Loss on valuation using the equity method, net	₩ -	₩ (30)	\$ -	\$ (25)
	₩ -	₩ (30)	\$ -	\$ (25)

(4) Capital adjustments**Capital adjustments as of December 31, 2002 and 2001 were as follows:**

Korean won / Translation into U. S. dollars (Note2)	(In millions)		(In thousands)	
	2002	2001	2002	2001
Treasury stock	₩ (5,655)	₩ (2,138)	\$ (4,711)	\$ (1,781)
Gain on valuation of investment securities-net (Note 5)	73,847	33,360	61,519	27,791
Stock option cost	8,433	3,853	7,025	3,210
Other	(1,912)	24,272	(1,593)	20,219
	₩ 74,713	₩ 59,347	\$ 62,240	\$ 49,439

1) Treasury stock

The Bank deposited ₩10,000 million (US\$8,331 thousand) on the Treasury Stock Fund of Daehan Investment Trust Securities in 1998. With the disposition of Treasury Stock Fund in 2002, the Bank recorded gain on disposal of treasury stock in capital surplus amounting to ₩67 million (US\$56 thousand) as of December 31, 2002. As of December 31, 2001, the Bank recorded the fair value of the treasury stock included in Treasury Fund as the balance of treasury stock. The difference between the fair value and the book value was recognized as gain or loss on disposal of treasury stock in capital surplus or capital adjustment. The remainder of the Treasury Stock Fund was recorded as investment securities.

The Bank acquired 650,000 common shares in 2002 in preparation for the exercise of the stock option and stated the treasury stock at acquisition cost of ₩5,655 million (US\$4,711 thousand).

2) Stock option cost

On March 20, 2000, the Bank granted stock options to purchase 1,620,500 shares to 460 employees and directors (first-awarded stock options) at the exercise price of ₩7,190 per share (a third of the granted shares were accounted for at ₩9,740 per share as of December 31, 2002, by reflecting the increase in the average stock price index of banking industry on the minimum exercise price stipulated in the relevant regulation). The Bank has the

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option to choose one of settlement methods either through issuance of new shares or payment of the difference between the market price and the exercise price in cash or treasury stock, if the stock options are exercised. The stock options are exercisable during a three-year period beginning after three years from the grant date. The Bank cancelled 118,500 shares of the first-awarded stock options based on the resolution of board of directors on June 29, 2002 and acquired 650,000 common shares and 237,680 common shares in December 2002 and January 2003, respectively, in preparation for the exercise of the stock options.

In addition, on May 17, 2001, the Bank granted stock options to purchase 3,560,500 shares to 480 employees and directors including the president (second-awarded stock options) at the exercise price of ₩7,310 per share. The stock options with a graded vesting schedule are exercisable during an eight-year period, after minimum two years from the grant date, beginning at an irrevocable date set by the board of directors. The Bank has the option to choose one of settlement methods either through issuance of new shares or payment of the difference between the market price and the exercise price in cash or treasury stock, if the stock options are exercised. The Bank

cancelled 514,800 shares of second-awarded stock options based on the resolution of board of directors on June 29, 2002.

In addition, on March 22, 2002, the Bank granted stock options to purchase 1,366,000 shares to 51 employees and directors including the president (third-awarded stock options) at the exercise price of ₩12,580 per share. The stock options with a graded vesting schedule are exercisable during an eight-year period, after minimum two years from the grant date, beginning at an irrevocable date set by the board of directors. The Bank has the option to choose one of settlement methods either through issuance of new shares or payment of the difference between the market price and the exercise price in cash or treasury stock, if the stock options are exercised.

The Bank valued the stock options at fair value and charged to expense ₩4,580 million (US\$3,815 thousand) in 2002 and ₩3,853 million (US\$3,210 thousand) in prior years, and credited ₩8,433 million (US\$7,025 thousand) to capital adjustment as of December 31, 2002. The amount of ₩6,020 million (US\$5,015 thousand) will be expensed in the future.

18. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES:

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

	(In thousands)		(In millions)	
	2002	2001	2002	2001
	U.S. Dollar equivalent	KRW equivalent	U.S. Dollar equivalent	KRW equivalent
Assets				
Foreign currencies	\$ 25,506	₩ 30,617	\$ 20,772	₩ 27,547
Due from banks-foreign currencies	72,447	86,966	44,739	59,328
Investment securities-foreign currencies	339,214	407,192	353,691	469,028
Loans in foreign currencies	915,471	1,098,931	504,497	669,013
Bills bought in foreign currencies	1,049,487	1,259,804	880,689	1,167,882
Domestic import usance	544,546	653,673	394,266	522,835
Call loans	163,168	195,867	81,936	108,656
Privately placed bonds	1,846	2,216	7,742	10,267
Other assets	426,773	512,298	228,487	302,997
	\$ 3,538,458	₩ 4,247,564	\$ 2,516,819	₩ 3,337,553

(*) Foreign currencies other than U.S. dollars were translated into U.S. dollars at the appropriate exchange rates at balance sheet dates.

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	(In thousands)		(In millions)	
	2002	2001	2002	2001
	U.S. Dollar equivalent	KRW equivalent	U.S. Dollar equivalent	KRW equivalent
Liabilities				
Deposits-foreign currencies	\$ 486,260	₩ 583,706	\$ 434,623	₩ 576,354
Borrowings-foreign currencies	2,056,269	2,468,345	1,274,990	1,690,764
Due to BOK	12,774	15,334	24,451	32,425
Call money	5,287	6,347	299	396
Debentures-foreign currencies	374,934	450,071	271,755	360,374
Foreign exchange remittance pending	63,102	75,748	16,051	21,284
Other liabilities	682,904	819,758	177,161	234,933
	\$ 3,681,530	₩ 4,419,309	\$ 2,199,330	₩ 2,916,530

(*) Foreign currencies other than US dollars were translated into US dollars at the appropriate exchange rates at balance sheet dates.

19. TERM STRUCTURE OF ASSETS AND LIABILITIES:

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

	Less than 3 months	Less than 6 months	Less than 1 year	Less than 3 years	More than 3 years	Total
Assets in local currency:						
Due from banks	₩ 128,868	₩ 4,533	₩ 50,360	₩ 557,195	₩ -	₩ 740,956
Securities	6,449,656	111,151	115,687	892,635	268,357	7,837,486
Loans	3,597,933	2,498,867	3,661,218	5,160,468	1,917,222	16,835,708
Advances for customers	394	-	-	-	2,390	2,784
Allowance for possible loan losses	-	-	-	-	(288,465)	(288,465)
Present value discounts	-	-	-	-	(2,446)	(2,446)
Other	3,584,475	287,993	401,148	1,179,891	2,270,283	7,723,790
	₩13,761,326	₩ 2,902,544	₩ 4,228,413	₩ 7,790,189	₩ 4,167,341	₩32,849,813
Liabilities & shareholders' equity in local currency:						
Deposits	₩ 5,485,280	₩ 1,877,716	₩ 5,829,084	₩ 2,034,486	₩ 3,725,049	₩ 18,951,615
Certificate deposit	1,045,519	197,003	11,246	729	-	1,254,497
Borrowing	368,017	5,219	43,514	185,567	904,869	1,507,186
Shareholders' equity	-	-	-	-	1,619,545	1,619,545
Other	4,344,210	816,139	2,175,081	1,323,706	686,089	9,345,225
	₩11,243,026	₩ 2,896,077	₩ 8,058,925	₩ 3,544,488	₩ 6,935,552	₩32,678,068
Assets in foreign currencies:						
Due from banks	₩ 53,617	₩ -	₩ -	₩ 33,349	₩ -	₩ 86,966
Securities	406,852	-	-	-	55	406,907
Loans (*)	803,715	186,255	450,171	93,254	70,525	1,603,920
Bills bought in foreign currencies	959,018	265,853	21,780	45	13,108	1,259,804
Offshore assets (*)	1,519	17,188	2,486	58,652	69,124	148,969
Allowance for possible loan losses	-	-	-	-	(34,477)	(34,477)
Other	756,617	-	-	18,240	618	775,475
	₩ 2,981,338	₩ 469,296	₩ 474,437	₩ 203,540	₩ 118,953	₩ 4,247,564

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	Less than 3 months	Less than 6 months	Less than 1 year	Less than 3 years	More than 3 years	Total
Liabilities in foreign currencies:						
Deposits	₩ 310,884	₩ 26,043	₩ 5,829	₩ 141	₩ 240,809	₩ 583,706
Borrowings (*3)	1,627,159	481,916	115,673	126,885	242	2,351,875
Offshore liabilities (*4)	8,163	-	123,641	-	18,243	150,047
Other	799,679	55,398	-	36,189	442,415	1,333,681
	₩ 2,745,885	₩ 563,357	₩ 245,143	₩ 163,215	₩ 701,709	₩ 4,419,309

(*1) Including domestic import usance in foreign currencies and excluding offshore loans in foreign currencies

(*2) Consisting of offshore loans in foreign currencies and offshore securities in foreign currencies

(*3) Including due to BOK in foreign currencies and excluding offshore borrowings in foreign currencies

(*4) Consisting of offshore borrowings in foreign currencies and offshore debenture in foreign currencies

20. INTEREST REVENUE AND EXPENSES:

The average balance of the interest bearing assets and liabilities, and the related interest revenue and expense as of and for the year ended December 31, 2002 were as follows:

	Korean won / Translation into U. S. dollars (Note2)		(In millions)		(In thousands)	
	Average balance	Interest revenue/expense	Average balance	Interest revenue/expense	Percentage (%)	
Assets						
Due from Banks (*1)	₩ 112,260	₩ 4,774	\$ 93,519	\$ 3,977	4.25	
Trading securities	344,115	19,425	286,667	16,182	5.64	
Investment securities	8,009,651	503,961	6,672,485	419,827	6.29	
Loans (*2)	20,140,578	1,435,837	16,778,222	1,196,132	7.13	
	₩ 28,606,604	₩ 1,963,997	\$ 23,830,893	\$ 1,636,118	6.87	
Liabilities						
Deposits	₩ 19,905,800	₩ 797,905	\$ 16,582,639	\$ 664,699	4.01	
Borrowings	5,975,664	233,174	4,978,061	194,247	3.90	
Debenture	3,088,849	189,409	2,573,183	157,788	6.13	
	₩ 28,970,313	₩ 1,220,488	\$ 24,133,883	\$ 1,016,734	4.21	

The average balance of the interest bearing assets and liabilities, and the related interest revenue and expense as of and for the year ended December 31, 2001 were as follows:

	Korean won / Translation into U. S. dollars (Note2)		(In millions)		(In thousands)	
	Average balance	Interest revenue/expense	Average balance	Interest revenue/expense	Percentage (%)	
Assets						
Due from Banks (*1)	₩ 289,755	₩ 15,838	\$ 241,382	\$ 13,194	5.47	
Trading securities	738,916	45,616	615,558	38,001	6.17	
Investment securities	8,075,470	564,800	6,727,316	470,510	6.99	
Loans (*2)	15,842,867	1,234,831	13,197,990	1,028,683	7.79	
	₩ 24,947,008	₩ 1,861,085	\$ 20,782,246	\$ 1,550,388	7.46	
Liabilities						
Deposits	₩ 17,267,640	₩ 887,404	\$ 14,384,905	\$ 739,257	5.14	
Borrowings	6,567,881	343,425	5,471,410	286,092	5.23	
Debenture	937,366	66,298	780,878	55,230	7.07	
	₩ 24,772,887	₩ 1,297,127	\$ 20,637,193	\$ 1,080,579	5.24	

(*1) excluding the average balance of due from BOK

(*2) including the average balance of the credit card account

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21. GENERAL AND ADMINISTRATIVE EXPENSES:

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

	Korean won / Translation into U. S. dollars (Note2)		(In millions)		(In thousands)	
	2002	2001	2002	2001	2002	2001
Salaries	₩ 169,163	₩ 151,186	\$ 140,922	\$ 125,946		
Provision for severance benefits	20,246	19,475	16,866	16,224		
Other employee benefits	29,626	26,420	24,680	22,009		
Rent	7,857	7,416	6,545	6,178		
Entertainment	4,558	3,909	3,797	3,256		
Depreciation	42,862	37,976	35,706	31,636		
Amortization of intangible assets	1,159	60	966	50		
Taxes and dues	48,686	30,790	40,558	25,650		
Advertising	19,930	18,296	16,603	15,242		
Others (Note 30)	66,539	63,212	55,431	52,659		
	₩ 410,626	₩ 358,740	\$ 342,074	\$ 298,850		

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

	Korean won / Translation into U. S. dollars (Note2)		(In millions)		(In thousands)	
	2002	2001	2002	2001	2002	2001
Salaries	₩ 169,163	₩ 151,186	\$ 140,922	\$ 125,946		
Provision for severance benefits	20,246	19,475	16,866	16,224		
Other employee benefits	29,626	26,420	24,680	22,009		
Rent	7,857	7,416	6,545	6,178		
Depreciation	42,862	37,976	35,706	31,636		
Taxes and dues	48,686	30,790	40,558	25,650		
	₩ 318,440	₩ 273,263	\$ 265,277	\$ 227,643		

22. NON-OPERATING INCOME AND EXPENSES:

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

	Korean won / Translation into U. S. dollars (Note2)		(In millions)		(In thousands)	
	2002	2001	2002	2001	2002	2001
Non-operating income:						
Gain on disposal of tangible assets	₩ 5,672	₩ 47	\$ 4,725	\$ 39		
Rent income	1,851	2,524	1,542	2,103		
Gain on valuation using equity method (Note 5)	7,150	8,731	5,956	7,273		
Gain on disposal of investment securities	75,608	112,684	62,986	93,872		
Recovery of investment securities impairment loss (Note 5)	22,352	-	18,620	-		
Gain on valuation of investment equity in fund (Note 5)	765	22,528	637	18,767		
Gain on sales of loans	21,831	11,712	18,187	9,757		
Other	36,692	15,047	30,567	12,535		
	₩ 171,921	₩ 173,273	\$ 143,220	\$ 144,346		

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Korean won / Translation into U. S. dollars (Note2)	(In millions)		(In thousands)	
	2002	2001	2002	2001
Non-operating expenses:				
Loss on disposal of tangible assets	₩ 2,115	₩ 728	\$ 1,762	\$ 606
Loss on disposal of investment securities	24,430	13,180	20,352	10,980
Investment securities impairment loss (Note 5)	38,450	32,524	32,031	27,094
Loss on sales of loans	621	25,780	517	21,476
Other	3,742	18,216	3,117	15,175
	₩ 69,358	₩ 90,428	\$ 57,779	\$ 75,331

23. INCOME TAX EXPENSE:

(1) The differences between pretax accounting income and taxable income pursuant to Korean Corporate Income Tax Law for the years ended December 31, 2002 and 2001 are summarized as follows:

Korean won / Translation into U. S. dollars (Note2)	(In millions)		(In thousands)	
	2002	2001	2002	2001
Income before income tax	₩ 371,364	₩ 293,010	\$ 309,367	\$ 244,094
Taxable and non-deductible items				
Temporary difference	335,718	423,376	279,672	352,696
Permanent difference	29,422	12,333	24,510	10,274
	365,140	435,709	304,182	362,970
Deductible and non-taxable items				
Temporary difference	(488,822)	(785,396)	(407,216)	(654,279)
Permanent difference	(19,122)	(3,402)	(15,930)	(2,834)
	(507,944)	(788,798)	(423,146)	(657,113)
Tax loss carryforwards	(136,711)	(63,391)	(113,888)	(52,808)
Tax loss	₩ 91,849	₩ (123,470)	\$ 76,515	\$ (102,857)

(2) The tax effects on temporary differences and tax loss carryforwards that gave rise to significant portions of the deferred income tax assets as of December 31, 2002 were as follows:

Korean won / Translation into U. S. dollars (Note2)	(In millions)				(In thousands)
	Beginning of year(*)	Deduction	Addition	End of year	End of year
Allowance for possible loan losses	₩ 140,948	₩ 140,948	₩ -	₩ -	\$ -
Allowance for possible losses of confirmed acceptances and guarantees	20,923	20,923	100	100	83
Accrued income	(144,465)	(23,980)	(28,287)	(148,772)	(123,935)
Restructuring of loans	9,936	9,936	4,104	4,104	3,419
Valuation of securities	102,968	148,585	201,467	155,850	129,832
Valuation loss on derivatives financial instruments	19,061	19,061	9,271	9,271	7,723
Valuation loss from debt-for-equity swap	79,609	39,007	44,590	85,192	70,970
Others	86,330	82,075	52,206	56,461	47,035
	315,310	436,555	283,451	162,206	135,127
Tax loss carryforwards	136,711	136,711	-	-	-
	452,021	573,266	283,451	162,206	135,127
Statutory tax rate	29.7%	29.7%	29.7%	29.7%	29.7%
Deferred income tax assets	₩ 134,250	₩ 170,260	₩ 84,185	₩ 48,175	\$ 40,132

(*) Adjusted based on the final tax return.

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The tax effects on temporary differences and tax loss carryforwards that gave rise to significant portions of the deferred income tax assets as of December 31, 2001 were as follows:

Korean won / Translation into U. S. dollars (Note2)	(In millions)				(In thousands)
	Beginning of year(*)	Deduction	Addition	End of year	End of year
Allowance for possible loan losses	₩ 415,786	₩ 415,786	₩ 140,948	₩ 140,948	\$ 117,418
Allowance for possible losses of confirmed acceptances and guarantees	84,628	84,628	20,923	20,923	17,430
Accrued income	(147,702)	(41,743)	(38,877)	(144,836)	(120,656)
Restructuring of loans	96,009	96,009	9,882	9,882	8,232
Valuation of securities	102,703	102,703	126,810	126,810	105,640
Valuation loss on derivatives financial instruments	28,638	28,638	18,688	18,688	15,568
Valuation loss from debt-for-equity swap	60,135	7,713	28,443	80,865	67,365
Others	25,958	11,042	61,036	75,952	63,272
	666,155	704,776	367,853	329,232	274,269
Tax loss carry forwards	63,391	-	60,079	123,470	102,857
	729,546	704,776	427,932	452,702	377,126
Statutory tax rate	30.8%	29.7%	29.7%	29.7%	29.7%
Deferred income tax assets	₩ 224,700	₩ 209,318	₩ 127,096	₩ 134,452	\$ 112,006

(*) Adjusted based on the final tax return.

(3) Income tax expense for the years ended December 31, 2002 and 2001 is summarized as follows:

Korean won / Translation into U. S. dollars (Note2)	(In millions)		(In thousands)	
	2002	2001	2002	2001
Income tax currently payable	₩ 24,733	₩ -	\$ 20,604	\$ -
Additional income tax payable for prior years(*)	-	7,742	-	6,450
Changes in deferred tax assets				
Tax effect on cumulative temporary differences	45,674	107,394	38,049	89,465
Tax effect on tax loss carry forwards	40,603	(17,146)	33,825	(14,284)
Income tax expense	₩ 111,010	₩ 97,990	\$ 92,478	\$ 81,631

(*) representing additional income tax payment for prior years due to tax examination by tax authorities.

(4) The Bank is subject to corporate income tax at 15 percent (16 percent in 2001) of the first ₩100 million of taxable income and 27 percent (28 percent in 2001) of the excess. Added to this is a resident surtax of 10 percent of the corporate income tax due. Due to the differences between pretax accounting income and taxable income pursuant to Korean Corporate Income Tax Law, the effective income tax rate is approximately 29.89 percent and 33.4 percent in 2002 and 2001, respectively.

(5) As of December 31, 2002, changes in tax loss carryforwards were as follows (Unit: Won in millions):

Year	Incurred	Deduction	Remaining	Expiration
2000	₩ 63,391	₩ 63,391	₩ -	2005
2001	73,320	73,320	-	2006
	₩ 136,711	₩ 136,711	₩ -	

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24. EARNINGS PER SHARE:

(1) Ordinary income per share and net income per share
 Earnings per share in 2002 and 2001 were calculated for common stock and for participating preferred stock by dividing net income available to common shareholders and participating preferred shareholders, respectively, by the weighted average number of outstanding common stock of 176,522,872 shares and 163,066,765 shares, respectively, and outstanding participating preferred stock of 20,000,000 shares, respectively.

Earnings per share for common stock and for preferred stock in 2002 were computed as follows (Korean Won in millions except per share amounts):

	Common stock	Participating preferred stock	Ordinary preferred stock	Total
Dividends (Note 25)	₩ 68,444	₩ 7,500	₩ 780	₩ 76,724
Income available for additional dividends (*)	165,544	18,086	-	183,630
Net income	233,988	25,586	₩ 780	₩ 260,354
Number of shares outstanding	176,522,872	20,000,000		
Earnings per share (in currency unit)	₩ 1,326	₩ 1,279		

(*) Income available for additional dividends = Net income - Dividends
 Income available for additional dividends attributable to common stock
 = ₩183,630 million × 915,334 million ÷ (915,334 million + 100,000 million)
 = ₩165,544 million
 Income available for additional dividends attributable to participating preferred stock
 = ₩183,630 million × 100,000 million ÷ (915,334 million + 100,000 million)
 = ₩18,086 million

Earnings per share for common stock and for preferred stock in 2001 were computed as follows (Korean Won in millions except per share amounts):

	Common stock	Participating preferred stock	Ordinary preferred stock	Total
Dividends (Note 25)	₩ -	₩ 7,500	₩ 1,560	₩ 9,060
Income available for additional dividends (*)	165,644	20,316	-	185,960
Net income	165,644	27,816	₩ 1,560	₩ 195,020
Number of shares outstanding	163,066,765	20,000,000		
Earnings per share (in currency unit)	₩ 1,016	₩ 1,391		

(*) Income available for additional dividends = Net income - Dividends
 Income available for additional dividends attributable to common stock
 = ₩185,960 million × 815,334 million ÷ (815,334 million + 100,000 million)
 = ₩165,644 million
 Income available for additional dividends attributable to participating preferred stock
 = ₩185,960 million × 100,000 million ÷ (815,334 million + 100,000 million)
 = ₩20,316 million

Participating preferred stock consisted of cumulative, participating preferred stock, which was issued in the form of public placement on June 30, 2000 (issue amount per share: ₩5,000, total issue amount: ₩100,000 million). This preferred stock can be converted to common stock after stipulated dividends (7.5% per annum) paid for three years (i.e. 7.5% X 3 years = 22.5%) with the conversion ratio of one for one, resulting in 20,000,000 common shares to be issued.

Since there is no extraordinary gain or loss in 2002 and 2001, ordinary income available to common stock and preferred stock are same with the net income available to common stock and preferred stock.

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

Diluted net income (ordinary income) per share in 2002 represents diluted net income (ordinary income) divided by

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

the number of common shares and diluted securities. Diluted net income (ordinary income) was computed by adding net income to convertible preferred stock (dividends and income available for additional dividends attributable to participating preferred stock) and interest expense, net of tax, of the convertible bonds to net income (ordinary income) to common stock. Convertible preferred stock and convertible bonds were assumed to be converted to common stock at the beginning of the year.

Diluted net income (ordinary income) per share for the year ended December 31, 2002 was computed as follows:

1) Number of diluted securities:

	Common stocks to be issued	Fraction of period	Weighted-average shares
Convertible bonds	68,434	365/365	68,434
Convertible preferred stock	20,000,000	365/365	20,000,000
			20,068,434

2) Diluted net income (ordinary income) (Unit: Won in millions):

	Amount
Income available to common stock	₩ 233,988
Income impact of assumed conversions	
Income available to preferred stock	₩ 25,586
Interest on convertible bonds, net of tax	2
Diluted net income	₩ 259,576

3) Diluted net income (ordinary income) per share
 = ₩259,576 million ÷ (176,522,872 shares + 20,068,434 shares) = ₩1,320

Diluted ordinary income per common share and diluted net income per common share in 2001 were not computed since there are no dilutive effects for all dilutive potential common shares.

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

	Face value	Exercise period	Common stocks to be issued	Remark
Convertible preferred stock	₩ 100,000	After payment of stipulated dividends	20,000,000	Conversion rate is 1:1
Convertible bonds	1,212	1997. 9. 25 - 2007. 7. 26	68,434	See Note 14
Stock option	-	2003. 3. 21 - 2006. 3. 20	1,502,000	See Note 17
Stock option	-	2003. 5. 18 - 2009. 5. 17	3,045,700	See Note 17
Stock option	-	2004. 3. 23 - 2010. 3. 22	1,366,000	See Note 17

25. DIVIDENDS:

(1) Dividends per share in 2002 were ₩375 for common stock and participating preferred stock and ₩50 for ordinary preferred stock. Details of dividends were as follows:

Korean won / U. S. dollars (Note2)	(In millions)			(In thousands)	
	No. of shares subject to receive dividend	Par value	Dividends rate(%)	Dividends	Dividends
Common stock:	182,516,765	₩ 5,000	7.5	₩ 68,444	\$ 57,017
Preferred stock:					
Participating	20,000,000	₩ 5,000	7.5	7,500	6,248
Ordinary	15,600,000	5,000	1.0	780	650
	218,116,765			₩ 76,724	\$ 63,915

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FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

Dividends per share in 2001 were ₩750 for participating preferred stock, ₩50 for ordinary preferred stock and no dividends for common stock. Details of dividends were as follows:

Korean won / U. S. dollars (Note2)	No. of shares subject to receive dividend	(In millions)		(In thousands)	
		Par value	Dividends rate(%)	Dividends	Dividends
Shares					
Preferred stock:					
Participating	20,000,000	₩ 5,000	15.0	₩ 15,000	\$ 12,495
Ordinary	31,200,000	5,000	1.0	1,560	1,300
	51,200,000			₩ 16,560	\$ 13,795

(2) Propensity to dividend and dividend yield ratio in 2002 and 2001 were as follows:

Classification	Computation	2002	2001	Remarks
Propensity to dividend	Dividend amount / Net income	29.47%	8.49%	
Dividend yield ratio (*)	Dividend per share / Stock price (Closing price at balance sheet date)	5.07%	-	Common stock
		5.21%	7.77%	Participating preferred stock

(*) Yield of ordinary preferred stock that has no closing price available is not calculated

26. CONTINGENCIES AND COMMITMENTS:

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

(1) As of December 31, 2002, the Bank has ₩1,989 million (US\$1,657 thousand) of endorsed notes for sales, which had been purchased on discount.

(2) The Bank manages written-off loans whose time period for legal claim has not elapsed amounting to ₩1,149,868 million (US\$957,904 thousand) as of December 31, 2002.

(3) The Bank sold its non-performing loans of ₩306,062 million (US\$254,967 thousand) in 3 different batches to Korea Asset Management Corporation since December 1997. As of December 31, 2002, the amount of these unsettled non-performing loans (including trust account) was ₩79,350 million (US\$66,103 thousand).

(4) As of December 31, 2002, the Bank had receivables of unsettled spot foreign currency transactions of ₩1,088,332 million (US\$906,641 thousand) and payables of ₩1,090,706 million (US\$908,619 thousand).

(5) As of December 31, 2002, the Bank has been engaged to provide credit line commitment with the limit of ₩2,032,160 million (US\$1,692,902 thousand), for the support of payments for bonds issued by New Millennium Special Purpose Company and others. As of December 31, 2002, ₩3,487 million (US\$2,905 thousand) had been used.

(6) The Export-Import Bank of Korea (EIBK) filed a lawsuit against the Bank, demanding the issuance of the certification of payment guarantee amounting to US\$60 million in connection with the loans previously provided by EIBK to Daewoo Corporation, and demanding the confirmation of existence of guarantee liabilities. On a similar case, which EIBK claimed against Korea First Bank, the local court ruled in the first trial on May 30, 2002 that Korea First Bank would issue the guarantee letter, but rejected the demand of the confirmation of existence of guarantee liabilities. The lawsuit against the Bank is on going and the outcome of the lawsuit against the Bank cannot presently be determined.

In addition, there are pending legal actions instituted by the Bank such as claims for auction concerning compensation of loans. The outcome of these lawsuits cannot presently be determined.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

(7) Derivative instruments as of December 31, 2002 were as follows (Unit: Won in millions):

Type	Outstanding contract amount		
	Trading	Hedging	Total
Currency:			
Currency forwards (*)	₩ 6,584,886	₩ -	₩ 6,584,886
Currency futures (*)	420	-	420
Currency swaps (*)	1,551,068	16,715	1,567,783
Currency options purchased	1,115,772	-	1,115,772
Currency options sold	1,406,925	-	1,406,925
	10,659,071	16,715	10,675,786
Interest rate:			
Interest rate swaps (*)	5,564,636	482,237	6,046,873
Interest rate futures	224,985	-	224,985
Interest rate options	10,000	-	10,000
	5,799,621	482,237	6,281,858
Stock:			
Stock index futures	9,302	-	9,302
Stock index options	94,782	-	94,782
	104,084	-	104,084
	₩ 16,562,776	₩ 498,952	₩ 17,061,728

Type	Gain (loss) on valuation (P/L)			Gain (loss) on valuation (B/S)
	Trading	Hedging	Total	
Currency:				
Currency forwards (*)	₩ 69,191	₩ -	₩ 69,191	₩ 67,940
	(92,811)	-	(92,811)	(85,223)
Currency swaps (*)	66,446	4,667	71,113	62,119
	(78,442)	-	(78,442)	(69,912)
Currency options purchased	30,190	-	30,190	40,969
	-	-	-	-
Currency options sold	-	-	-	-
	(20,937)	-	(20,937)	(36,112)
	165,827	4,667	170,494	171,028
	(192,190)	-	(192,190)	(191,247)
Interest rate:				
Interest rate swaps (*)	88,096	12,558	100,654	99,408
	(86,145)	(7,846)	(93,991)	(95,577)
Interest rate options	-	-	-	-
	(90)	-	(90)	(157)
	88,096	12,558	100,654	99,408
	(86,235)	(7,846)	(94,081)	(95,734)
Stock:				
Stock index options	2,273	-	2,273	905
	(2,197)	-	(2,197)	(2,354)
	₩ 256,196	₩ 17,225	₩ 273,421	₩ 271,341
	(280,622)	(7,846)	(288,468)	(289,335)

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

Derivative instruments as of December 31, 2001 were as follows (Unit: Won in millions):

Type	Outstanding contract amount			Total
	Trading	Hedging		
Currency:				
Currency forwards (*)	₩ 3,918,736	₩ -	₩ 3,918,736	
Currency futures (*)	3,424	-	3,424	
Currency swaps (*)	594,945	15,588	610,533	
Currency options purchased	315,612	-	315,612	
Currency options sold	294,394	-	294,394	
	5,127,111	15,588	5,142,699	
Interest rate:				
Interest rate swaps (*)	633,261	72,161	705,422	
Interest rate futures	35,283	-	35,283	
	668,544	72,161	740,705	
	₩ 5,795,655	₩ 87,749	₩ 5,883,404	

Type	Type	Gain (loss) on valuation (P/L)		Gain (loss) on valuation (B/S) Total
		Trading	Hedging	
Currency:				
Currency forwards (*)	₩ 45,481	₩ -	₩ 45,481	₩ 46,252
	(57,291)	-	(57,291)	(58,212)
Currency swaps (*)	12,206	-	12,206	15,551
	(7,901)	(1,571)	(9,472)	(16,076)
Currency options purchased	1,446	-	1,446	4,627
	-	-	-	-
Currency options sold	-	-	-	-
	(2,420)	-	(2,420)	(5,185)
	59,133	-	59,133	66,430
	(67,612)	(1,571)	(69,183)	(79,473)
Interest rate:				
Interest rate swaps (*)	2,886	430	3,316	3,347
	(2,434)	(5,201)	(7,635)	(8,991)
	₩ 62,019	₩ 430	₩ 62,449	₩ 69,777
	(70,046)	(6,772)	(76,818)	(88,464)

(*) For transaction between Korean Won to foreign currencies, unsettled amount of transaction is presented using transaction basic foreign exchange rate based on the transaction amount in foreign currencies. For transaction between foreign currencies to foreign currencies, unsettled amount is presented using transaction basic foreign exchange rate based on foreign currencies purchased

Outstanding contract amount and gain or loss on valuation for hedging purpose in the table included or resulted from both derivative instruments accounted for as hedge accounting pursuant to the Interpretations on Financial Accounting Standards 53-70. Hedged items, to which fair value hedge accounting was applied, consisted of investment securities in foreign currencies, debentures in local currency and debentures in foreign currencies and hedging derivative instruments such as currency swaps and interest rate swaps, which were used to cover exposures to changes in fair value of hedged items resulting from

interest rate changes. As a result of the valuation of hedged items accounted for as fair value hedges, gain on valuation of ₩7,856 million (US\$6,544 thousand) on investment securities, and loss on valuation of ₩1,781 million (US\$1,484 thousand) on investment securities and loss on valuation of ₩12,135 million (US\$10,109 thousand) on debenture were reflected in current operations (see Notes 5(4) and 14(2), (3)), and opposite corresponding amounts of gain or loss from valuation of derivative instruments accounted for as fair value hedge accounting were reflected in assets or liabilities.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

27. TRUST ACCOUNTS:**(1) As of December 31, 2002 and 2001, major financial information related to the trust accounts and significant balances were as follows:**

Korean won / Translation into U. S. dollars (Note2)	(In millions)		(In thousands)	
	2002	2001	2002	2001
Operating revenue of trust operation:				
Trust fees and commissions from trust accounts	₩ 69,907	₩ 109,448	\$ 58,236	\$ 91,176
Commissions from termination of commodities in trust accounts	265	741	221	617
Interest income on loans to trust accounts	-	2,932	-	2,443
	₩ 70,172	₩ 113,121	\$ 58,457	\$ 94,236
Operating expenses of trust operation:				
Interest expense on borrowings from trust accounts	₩ 10,414	₩ 12,501	\$ 8,675	\$ 10,414
Assets:				
Accrued receivable trust fees	₩ 6,818	₩ 35,745	\$ 5,680	\$ 29,778
Liabilities:				
Borrowings from trust accounts	₩ 273,774	₩ 465,731	\$ 228,069	\$ 387,980

(2) In connection with the guarantees for a fixed rate of return on, and the repayment of, principal, the possible losses the Bank account may bear due to the difference between the book value and the fair market value as of December 31, 2002 consisted of the following (Unit: Won in millions):

Classification	Book value	Fair market value	Charge to the Bank account
Trust accounts guaranteeing a fixed rate of return on, and the repayment of principal:			
Development Money Trust	₩ 28,356	₩ 28,356	₩ -
Unspecified Monetary Trust	187	187	-
	28,543	28,543	-
Trust accounts guaranteeing the repayment of principal:			
Old age Pension Trust	106,982	107,827	-
Personal Pension Trust	226,306	227,634	-
Pension Trust	8,544	8,544	-
Retirement Trust	162,313	162,313	-
New Personal Pension Trust	14,159	14,159	-
New Old-age Pension Trust	59,601	59,601	-
	577,905	580,078	-
	₩ 606,448	₩ 608,621	₩ -

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

28. TRANSACTIONS WITH RELATED PARTIES:

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

Korean won / Translation into U. S. dollars (Note2)	(In millions)		(In thousands)	
	2002	2001	2002	2001
Assets:				
Trust accounts of the Bank (Note 27)	₩ 6,818	₩ 35,745	\$ 5,680	\$ 29,778
Samsung Electronics	257,944	280,155	214,882	233,385
Samsung Life Insurance	27,088	46,359	22,566	38,620
Samsung Corporation	16,568	13,774	13,802	11,474
Hanmi Technology Investment	-	500	-	416
Hanmi Capital	9,090	9,060	7,572	7,547
	₩ 317,508	₩ 385,593	\$ 264,502	\$ 321,220
Liabilities:				
Trust accounts of the Bank (Note 27)	₩ 273,774	₩ 465,731	\$ 228,069	\$ 387,980
Samsung Electronics	362,521	221,940	302,000	184,888
Samsung Life Insurance	26,766	244,654	22,298	203,811
Samsung Corporation	-	3	-	2
Samsung Fire and Marine Insurance	6,051	1,510	5,041	1,258
Hanmi Technology Investment	4,329	3,405	3,606	2,837
Hanmi Capital	7,156	29,764	5,961	24,795
SK Investment Trust Management	43	1,084	36	903
Carlyle Korea	512	258	427	215
	₩ 681,152	₩ 968,349	\$ 567,438	\$ 806,689

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

Korean won / Translation into U. S. dollars (Note2)	(In millions)		(In thousands)	
	2002	2001	2002	2001
Revenues:				
Trust accounts of the Bank (Note 27)	₩ 70,172	₩ 113,121	\$ 58,457	\$ 94,236
Samsung Electronics	6,955	2,149	5,794	1,790
Samsung Life Insurance	1,457	2,879	1,214	2,399
Samsung Corporation	519	553	433	461
Samsung Fire and Marine Insurance	17	13	14	11
Hanmi Technology Investment	6	4	5	3
Hanmi Capital	15	-	12	-
Carlyle Korea	15	-	12	-
	₩ 79,156	₩ 118,719	\$ 65,941	\$ 98,900
Expenses:				
Trust accounts of the Bank (Note 27)	₩ 10,414	₩ 12,501	\$ 8,675	\$ 10,414
Samsung Electronics	17,584	3,955	14,648	3,295
Samsung Life Insurance	1,433	15,139	1,194	12,612
Samsung Corporation	66	160	55	133
Samsung Fire and Marine Insurance	262	279	218	232
Hanmi Technology Investment	181	197	151	164
Hanmi Capital	612	654	510	545
SK Investment Trust Management	-	424	-	353
Carlyle Korea	3	3	3	3
	₩ 30,555	₩ 33,312	\$ 25,454	\$ 27,751

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

(3) The Bank has provided acceptances and guarantees to Samsung Life Insurance amounting to ₩27 million (US\$22 thousand) as of December 31, 2002 and to Samsung Corporation amounting to ₩4,211 million (US\$3,508 thousand) as of December 31, 2001.

(4) The Bank's business building and equipment and furniture are covered by general property insurance with Samsung Fire and Marine Insurance (Note 11).

29. EMPLOYEE BENEFITS:

The Bank has employee benefits programs such as support for purchase or rent of houses, cafeteria, scholarship medical insurance, accident compensation, compensated leave, gym facilities and other benefits.

30. EXPERT TRAINING EXPENSES:

The Bank paid ₩2,758 million (US\$2,298 thousand) and ₩1,763 million (US\$1,468 thousand) for expert training to local and foreign training institutes during the years ended December 31, 2002 and 2001, respectively.

31. STATEMENTS OF CASH FLOWS:

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

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

Korean won / Translation into U. S. dollars (Note2)	(In millions)		(In thousands)	
	2002	2001	2002	2001
Write-offs of loans	₩ 345,349	₩ 972,621	\$ 287,695	\$ 810,247
Debt to equity swap	102,267	61,532	85,194	51,260
Write-off of loan loss reserve resulting from the debt to equity swap	44,590	28,443	37,146	23,694
Increase in borrowings from trust accounts due to debt to equity swap in trust accounts	20,533	-	17,105	-
Increase in capital adjustments due to valuation of investment securities	40,487	5,132	33,728	4,275
Decrease in retained earnings due to valuation of equity securities using equity method	-	30	-	25
Increase of dividends payable	76,724	16,560	63,915	13,795
Decrease in capital adjustments due to valuation of derivatives instruments	1,912	-	1,593	-

INDEPENDENT PUBLIC ACCOUNTANTS' REPORT

English Translation of a Report Originally Issued in Korean

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**To the Shareholders and Board of Directors of
 Koram Bank:**

We have audited the accompanying consolidated balance sheets of Koram Bank (the "Bank") and its subsidiaries as of December 31, 2002 and 2001 and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the years then ended, all expressed in Korean Won. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

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

As explained in Note 2, beginning in 2002, the Bank has increased its minimum rates of loss provision for household loans and credit card receivables and has provided additional provision for unused credit line for cash advances in accordance with the request of the Financial Supervisory Service, and based on the significant increase in the household loans and credit card receivables and deterioration of their delinquency ratios. As a result of this change in accounting estimates, in 2002, the Bank has provided an additional allowance for loans to households and credit card receivables amounting to ₩50,035 million (US\$41,682 thousand) and additional other allowance for unused credit line for cash advances amounting to ₩7,533 million (US\$6,275 thousand) when compared with the previous method.

As disclosed in Note 15, the Bank entered into an agreement to issue 20,000,000 global depositary shares (GDSs) on April 25, 2002 and brought in US\$198,730 thousand from the issuance of GDSs on April 30, 2002. The GDSs represent 20 million shares of common stock (issuance price: ₩13,000) and, accordingly, ₩100,000 million (US\$83,305 thousand) was recorded as capital stock and ₩152,405 million (US\$126,962 thousand), net of issuance cost, was recorded as paid-in capital in excess of par value in capital surplus.

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

Anjin & Co.
 An Associate Member Firm of Deloitte Touche Tohmatsu
 Seoul, Korea, January 30, 2003

Notice to Readers

This report is effective as of January 30, 2003, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the accompanying financial statements and may result in modifications to the auditors' report.

CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2002 AND 2001

Korean won / Translation into U. S. dollars (Note2)	(In millions)		(In thousands)	
	2002	2001	2002	2001
ASSETS				
Cash and due from banks (Notes 3 and 16)	₩ 1,565,561	₩ 764,056	\$ 1,304,199	\$ 636,501
Trading securities (Note 4)	693,486	756,589	577,712	630,281
Investment securities (Notes 5, 9 and 16)	7,980,335	8,006,490	6,648,064	6,669,851
Loans (Notes 6 and 16)	24,705,248	17,980,879	20,580,846	14,979,073
Fixed assets (Note 7)	389,828	359,600	324,749	299,567
Other assets (Note 8)	2,287,050	1,603,386	1,905,240	1,335,710
	₩37,621,508	₩29,471,000	\$ 31,340,810	\$24,550,983
LIABILITIES AND SHAREHOLDERS' EQUITY				
LIABILITIES				
Deposits (Notes 10 and 16)	₩ 21,354,839	₩ 18,579,686	\$ 17,789,769	\$ 15,477,912
Borrowings (Notes 11 and 16)	6,701,034	6,095,804	5,582,334	5,078,144
Debentures (Notes 12 and 16)	4,971,013	1,470,102	4,141,131	1,224,677
Other liabilities (Notes 13 and 14)	2,972,775	2,078,465	2,476,487	1,731,477
	35,999,661	28,224,057	29,989,721	23,512,210
SHAREHOLDERS' EQUITY (Note 15)				
Capital stock	1,093,334	1,071,334	910,808	892,481
Capital surplus	152,472	524	127,018	437
Retained earnings (Net income of ₩260,354million in 2002 and ₩195,020 million in2001)	301,328	115,738	251,023	96,416
Capital adjustments	74,713	59,347	62,240	49,439
	1,621,847	1,246,943	1,351,089	1,038,773
	₩37,621,508	₩29,471,000	\$ 31,340,810	\$24,550,983

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

Korean won / Translation into U. S. dollars (Note2)	(In millions except per share amounts)		(In thousands except per share amounts)	
	2002	2001	2002	2001
OPERATING INCOME				
INTEREST INCOME:				
Interest on due from banks	₩ 4,774	₩ 15,838	\$ 3,977	\$ 13,194
Interest on trading securities	46,841	89,599	39,021	74,641
Interest on investment securities	503,961	564,800	419,827	470,510
Interest on loans	1,446,820	1,263,125	1,205,282	1,052,253
Other (Note 23)	10,245	22,384	8,535	18,647
	2,012,641	1,955,746	1,676,642	1,629,245
GUARANTEE FEES AND COMMISSIONS	331,088	237,491	275,815	197,843
OTHER OPERATING INCOME:				
Gain on disposal of trading securities	18,775	97,415	15,641	81,152
Gain on valuation of trading securities	2,428	2,644	2,023	2,203
Dividends from trading securities	411	4	343	3
Dividends from investment securities	1,757	1,842	1,464	1,535
Foreign exchange trading income	298,185	261,780	248,405	218,078
Fees and commissions from trust accounts (Note 23)	49,307	57,819	41,075	48,166
Reversal of allowance for possible losses on acceptances and guarantees	20,413	63,567	17,005	52,955
Gain on derivatives trading (Note 22)	817,312	346,814	680,866	288,915
Other	7,866	3,900	6,552	3,249
	1,216,454	835,785	1,013,374	696,256
Total operating income	3,560,183	3,029,022	2,965,831	2,523,344
OPERATING EXPENSES				
INTEREST EXPENSES:				
Interest on deposits	828,753	922,697	690,398	768,658
Interest on borrowings	233,174	343,425	194,247	286,092
Interest on debentures	189,409	66,298	157,788	55,230
Other (Note 23)	19,783	25,854	16,480	21,538
	1,271,119	1,358,274	1,058,913	1,131,518
COMMISSION EXPENSES	141,578	63,908	117,942	53,239
OTHER OPERATING EXPENSES:				
Loss on disposal of trading securities	12,586	99,049	10,485	82,513
Loss on valuation of trading securities	1,351	2,385	1,125	1,987
Foreign exchange trading loss	257,038	233,575	214,127	194,581
Loss on derivatives trading (Note 22)	791,467	344,940	659,336	287,354

CONSOLIDATED STATEMENTS OF OPERATIONS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

Korean won / Translation into U. S. dollars (Note2)	(In millions except per share amounts)		(In thousands except per share amounts)	
	2002	2001	2002	2001
Provision for possible loan losses	₩ 230,535	₩ 303,226	\$ 192,048	\$ 252,604
Others	184,734	55,643	153,895	46,354
	1,477,711	1,038,818	1,231,016	865,393
GENERAL AND ADMINISTRATIVE EXPENSES (Note 17)	410,626	358,740	342,074	298,850
Total operating expenses	3,301,034	2,819,740	2,749,945	2,349,000
OPERATING INCOME	259,149	209,282	215,886	174,344
NON-OPERATING INCOME (Note 18)	181,634	176,681	151,311	147,185
NON-OPERATING EXPENSES (Note 18)	69,419	92,953	57,830	77,435
ORDINARY INCOME	371,364	293,010	309,367	244,094
EXTRAORDINARY ITEMS	-	-	-	-
INCOME BEFORE INCOME TAX EXPENSE	371,364	293,010	309,367	244,094
INCOME TAX EXPENSE (Note 19)	111,010	97,990	92,478	81,631
NET INCOME	₩ 260,354	₩ 195,020	\$ 216,889	\$ 162,463
BASIC ORDINARY INCOME PER COMMON SHARE (Note 20)	₩ 1,326	₩ 1,016	\$ 1.11	\$ 0.85
BASIC NET INCOME PER COMMON SHARE (Note 20)	₩ 1,326	₩ 1,016	\$ 1.11	\$ 0.85
DILUTED ORDINARY INCOME PER COMMON SHARE (Note 20)	₩ 1,320	₩ 1,016	\$ 1.10	\$ 0.85
DILUTED NET INCOME PER COMMON SHARE (Note 20)	₩ 1,320	₩ 1,016	\$ 1.10	\$ 0.85

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	Korean won / Translation into U. S. dollars (Note2)		(In millions)			(In thousands)	
	Capital stock	Consolidated capital surplus	Consolidated retained earnings	Consolidated capital adjustments	Total	Total	
January 1, 2001	₩ 1,123,334	₩ -	₩ (61,316)	₩ 44,755	₩ 1,106,773	\$ 922,003	
Capital reduction	(52,000)	-	-	-	(52,000)	(43,319)	
Valuation of treasury stock funds	-	524	-	-	524	436	
Transferred to special reserve for the trust account	-	-	2,469	-	2,469	2,057	
Net income	-	-	195,020	-	195,020	162,463	
Change of capital adjustment	-	-	-	14,592	14,592	12,156	
Adjustment of retained earnings using the equity method	-	-	(30)	-	(30)	(25)	
Dividends (Note 2)	-	-	(16,560)	-	(16,560)	(13,795)	
Amortization of discount on stock issuance	-	-	(3,845)	-	(3,845)	(3,203)	
December 31, 2001	₩ 1,071,334	₩ 524	₩ 115,738	₩ 59,347	₩ 1,246,943	\$ 1,038,773	
January 1, 2002	₩ 1,071,334	₩ 524	₩ 115,738	₩ 59,347	₩ 1,246,943	\$ 1,038,773	
Paid-in capital increase (Note 15)	100,000	152,405	-	-	252,405	210,267	
Capital reduction (Note 15)	(78,000)	-	-	-	78,000	(64,978)	
Net income	-	-	260,354	-	260,354	216,889	
Dividends (Note 21)	-	-	(76,724)	-	(76,724)	(63,915)	
Transferred to special reserve for the trust account	-	-	1,960	-	1,960	1,633	
Treasury stock purchase	-	-	-	(5,655)	(5,655)	(4,711)	
Disposition of treasury stock fund	-	(457)	-	2,138	1,681	1,400	
Change of capital adjustment	-	-	-	18,883	18,883	15,731	
December 31, 2002	₩ 1,093,334	₩ 152,472	₩ 301,328	₩ 74,713	₩ 1,621,847	\$ 1,351,089	

See accompanying notes to consolidate financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	Korean won / Translation into U. S. dollars (Note2)		(In millions)		(In thousands)	
	2002	2001	2002	2001	2002	2001
CASH FLOWS FROM INVESTING						
ACTIVITIES:						
Cash and checks	₩ 260,354	₩ 195,020	\$ 216,889	\$ 162,463		
Adjustments to reconcile net income to net cash provided by operating activities:						
Loss on disposal of trading securities	12,586	99,049	10,485	82,513		
Loss on valuation of trading securities	1,351	2,385	1,125	1,987		
Loss on derivatives instruments	288,468	76,818	240,310	63,994		
Provision for possible loan losses	230,535	304,038	192,048	253,281		
Provision for severance benefits	20,246	19,475	16,866	16,224		
Depreciation and amortization	44,021	38,036	36,672	31,686		
Loss on disposal of tangible assets	2,115	728	1,762	606		
Loss on disposal of investment securities	24,430	13,180	20,352	10,980		
Investment securities impairment loss	38,450	32,524	32,031	27,094		
Loss on sales of loans	621	28,290	517	23,567		
Other expenses not involving cash outflows	119,133	39,802	99,245	33,157		
Gain on disposal of trading securities	(18,775)	(97,415)	(15,641)	(81,152)		
Gain on valuation of trading securities	(2,428)	(2,644)	(2,023)	(2,203)		
Gain on derivatives instruments	(273,421)	(62,449)	(227,775)	(52,023)		
Reversal of allowance for possible loss on acceptances and guarantees	(20,413)	(63,567)	(17,005)	(52,955)		
Gain on disposal of tangible assets	(5,672)	(47)	(4,725)	(39)		
Gain on valuation using the equity method	(7,150)	(8,731)	(5,956)	(7,273)		
Gain on disposal of investment securities	(75,608)	(112,684)	(62,986)	(93,872)		
Recovery of investment securities impairment loss	(22,352)	-	(18,620)	-		
Gain on valuation of investment equity in fund	(765)	(22,528)	(637)	(18,767)		
Gain on sales of loans	(31,438)	(14,280)	(26,190)	(11,896)		
Other revenues not involving cash inflows	(24,693)	(23,461)	(20,570)	(19,545)		
Changes in assets and liabilities resulting from operations:						
Increase in accounts receivable - other	(534,248)	(256,256)	(445,058)	(213,476)		
Decrease in accrued income	4,804	72,530	4,002	60,422		
Decrease (increase) in prepaid expenses	(2,615)	69,021	(2,179)	57,498		
Decrease in deferred income tax assets	86,277	92,917	71,874	77,405		
Increase in accounts payable-other	524,266	262,323	436,742	218,530		
Increase (decrease) in accrued expense	54,386	(82,401)	45,307	(68,645)		
Increase (decrease) in unearned income	4,401	(14,776)	3,666	(12,309)		
Payment of severance benefits	(4,571)	(5,409)	(3,808)	(4,506)		
Other, net	14,539	(43,932)	12,112	(36,598)		
Net cash provided by operating activities	706,834	535,556	588,832	446,148		

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2002

Korean won / Translation into U. S. dollars (Note2)	(In millions)		(In thousands)	
	2002	2001	2002	2001
CASH FLOWS FROM INVESTING				
ACTIVITIES:				
Decrease in trading securities	₩ 70,369	₩ 511,336	\$ 58,621	\$ 425,971
Decrease in investment securities	193,922	226,957	161,548	189,068
Increase in loans	(6,977,020)	(2,368,368)	(5,812,246)	(1,972,982)
Proceeds from disposal of tangible assets	15,134	177	12,607	147
Acquisition of tangible assets	(86,050)	(49,027)	(71,684)	(40,842)
Decrease (increase) in other assets	29,874	(63,039)	24,886	(52,515)
Other, net	11,683	12,871	9,733	10,722
Net cash used in investing activities	(6,742,088)	(1,729,093)	(5,616,535)	(1,440,431)
CASH FLOWS FROM FINANCING				
ACTIVITIES:				
Increase in deposits	2,775,153	568,314	2,311,857	473,437
Increase (decrease) in borrowings	605,230	(995,911)	504,190	(829,649)
Increase in debentures	3,366,051	836,690	2,804,108	697,009
Increase (decrease) in other liabilities	(63,563)	73,492	(52,951)	61,223
Proceeds from issuance of capital stock	252,405	-	210,267	-
Reduction of capital stock by payment in cash	(78,000)	(52,000)	(64,978)	(43,319)
Other, net	(20,517)	(3,845)	(17,092)	(3,203)
Net cash provided by financing activities	6,836,759	426,740	5,695,401	355,498
NET INCREASE (DECREASE) IN CASH AND DUE FROM BANKS	801,505	(766,797)	667,698	(638,785)
CASH AND DUE FROM BANKS, BEGINNING OF THE YEAR (Note 24)	764,056	1,530,853	636,501	1,275,286
CASH AND DUE FROM BANKS, END OF THE YEAR (Note 24)	₩ 1,565,561	₩ 764,056	\$ 1,304,199	\$ 636,501

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2002 AND 2001

1. GENERAL:

Koram Bank (the "Bank") was established in 1983 and is engaged in the commercial banking business under the Banking Law, trust business under the Trust Business Law and foreign exchange business with approval from the Bank of Korea (BOK) and the Ministry of Finance and Economy (MOFE). The Bank has its head office in Seoul, Korea and operates through 225 domestic branches and 4 overseas networks as of December 31, 2002. The Bank's common stock was listed in the Korea Securities Exchange on November 11, 1989. As of December 31, 2002, the Bank's common stock and preferred stock amounts to ₩915,334 million (US\$762,524 thousand), consisting of 183 million common shares issued and outstanding, and ₩178,000 million (US\$148,284 thousand), consisting of 35.6 million preferred shares issued and outstanding, respectively.

Based on the decision of the Financial Supervisory Commission in accordance with the Act concerning the Structure Improvement of the Financial Industry, the Bank purchased certain assets, including the loans classified as normal or precautionary, and assumed most of the liabilities of Kyungki Bank ("the P&A") in June 1998.

In response to general unstable economic conditions, the Korean government and the private sector have been

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

Scope of Consolidation and Accounting using the Equity Method

The consolidated financial statements include the banking accounts and the trust accounts of the Bank. Certain trust accounts whose principal is not guaranteed by the Bank are excluded from the consolidated financial statements in accordance with the accounting guidelines of the Financial Supervisory Commission in the Republic of Korea. The trust accounts included in the consolidation as of December 31, 2002 and 2001 are as follows (Unit: Won in millions):

Korean won / Translation into U. S. dollars (Note2)	Total assets		Total revenue	
	2002	2001	2002	2001
Subsidiaries				
Trust accounts	₩ 578,186	₩ 864,339	₩ 26,612	₩ 91,725

Subsidiaries accounted for using the equity method as of December 31, 2002 are as follows (Unit: Won in millions):

	Capital stock	Business	Share owned	Percentage of ownership (%)	Closing month
Hanmi Capital Co., Ltd.	₩ 185,852	Leasing	10,691,129	28.76	March
Hanmi Technology Investment Co., Ltd.	17,867	Investment	919,520	25.73	December
SK Investment Trust Management Co., Ltd.	30,000	Trust management	1,200,000	20.00	March

The balance sheet dates of the financial statements of the companies used for equity method were December 31, 2002 and 2001.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Consolidated Financial Statement Presentation

The Bank and its subsidiaries maintain their official accounting records in Korean Won and prepares statutory consolidated financial statements in the Korean language

(Hangul) in conformity with the accounting principles and banking accounting standards generally accepted in the Republic of Korea consisting of the Financial Accounting Standards, the Rules for Accounting for Banks, the Rules

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2002 AND 2001

for Preparation of Consolidated Financial Statements and banking regulations promulgated by Financial Supervisory Commission in the Republic of Korea. Certain accounting principles and banking accounting standards applied by the Bank that conform with the accounting principles and accounting standards generally accepted in the Republic of Korea may not conform with accounting principles and banking accounting practices generally accepted in other countries. Accordingly, the accompanying financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying financial statements have been condensed, restructured and translated into English (with certain expanded descriptions) from the Korean language financial statements. Certain information included in the Korean language financial statements, but not required for a fair presentation of the Bank and its subsidiaries' financial position, results of operations or cash flows, is not presented in the accompanying financial statements.

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

Basis of Consolidated Financial Statement Preparation**(1) Inter-company Transactions and Balances**

All inter-company transactions are eliminated in the consolidated financial statements.

(2) Equity Method

For investments in affiliates accounted for using the equity method, the difference between acquisition cost and net assets acquired at the acquisition date is added to or deducted from the carrying amount of investments and is being amortized in equal annual amounts for five years from the year incurred. Changes in the Bank's portion of net assets of affiliates accounted for using the equity method are added to or deducted from the carrying amount of investments.

(3) Special Reserve in Trust Accounts

A special reserve of more than 25 percent of trust management fee is provided for possible future losses on certain trust accounts under the arrangement of guaranteed fixed rate of return and/or repayment of the principal each year, until the total special reserve provided

is equal to 5 percent of trust amounts. The special reserve for possible future losses is included in retained earnings in the consolidated financial statements.

Significant accounting policies followed in preparing the accompanying consolidated financial statements are summarized below.

Interest Income Recognition

The Bank applies the accrual basis in recognizing interest income related to deposits, loans and securities, except for non-secured uncollectible receivables. Interest on loans, whose principal or interest is past due at the balance sheet date, is generally not accrued, with the exception of interest on certain loans secured by guarantee of governments or government agencies, or collateralized by bank deposits. Previously accrued interest is generally reversed to income when a loan is placed on non-accrual status and deducted from current interest income and future interest income is recognized on cash basis in accordance with the accounting standards of the banking industries.

The unrecorded accrued interest income on such loans based on the above criteria amounted to ₩23,762 million (US\$19,795 thousand) and ₩53,119 million (US\$44,251 thousand) as of December 31, 2002 and 2001, respectively.

Valuation of Trading Securities

Trading equity and debt securities are stated at acquisition cost plus incidental expenses. If the fair value of trading securities differs from the book value as determined by the individual moving average method (the specific identification method for debt securities), the trading securities are stated at fair value with the valuation gain or loss reflected in current operations.

Valuation of Investment Securities**(1) Equity Securities**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2002 AND 2001

Equity securities held for investment in companies in which the Bank is able to exercise significant influence over the investees (if the Bank held 15 percent or more, the Bank is considered being able to exercise significant influence in accordance with the Bank Law) are accounted for using the equity method. The Bank's share in net income or net loss of investees is reflected in current operations. Changes in the retained earnings, capital surplus or other capital accounts of investees are accounted for as an adjustment to retained earnings, capital surplus or capital adjustment.

The investment in the Stock Market Stabilization Fund (SMSF) is stated at fair value with the valuation gain or loss credited or charged to current operations. The stocks distributed by SMSF are recorded as trading securities or equity securities held for investment at fair value and treated as a return of investment. Cash distributed by SMSF as dividends or as a return of investment equity is also treated as a return of investment.

(2) Debt Securities

Debt securities held for investment are classified as either held-to-maturity investment debt securities or available-for-sale investment debt securities at the time of purchase. Held-to-maturity investments debt securities are reclassified as available-for-sale investment debt securities in case where indicated below.

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

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

(3) Gain or Loss on Valuation of Investment Securities

The net unrealized gain or loss, except for gain or loss on valuation using equity method or valuation of

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

(4) Recovery of Impaired Investment Securities

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

(5) Reclassification of Securities

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

Allowance for Possible Losses on Credits

The Supervisory Regulation of Banking Business (the "Supervisory Regulation") legislated by the Korean Financial Supervisory Commission (FSC) requires the Bank to classify all credits into five categories as normal, precautionary, substandard, doubtful, or estimated loss based on borrowers' repayment capability and historical financial transaction records. The Supervisory Regulation also requires the Bank to provide the minimum rate of loss provision for each category balance using the prescribed minimum percentages of 0.5 percent or more, 2 percent or more, 20 percent or more, 50 percent or more and 100 percent, respectively. The Bank complies with the minimum

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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regulatory guidelines and the Bank's policy on the calculation of allowance for possible losses on credits are as follows.

As required by the Supervisory Regulation, the Bank classifies corporate credits (loans, confirmed acceptances and guarantees) based on borrowers' capability to repay in consideration of borrowers' business operation, financial position and future cash flows (Forward Looking Criteria) as well as past due period and status of any bankruptcy proceedings (Historical Repayment Criteria). Credits to small companies and to households, however, are classified not by evaluating the debt repayment capability of a borrower or customer but by past due period and status of bankruptcy proceedings. The Bank generally classifies all credits to a single borrower in the same category of classification but credits guaranteed or credits collateralized by bank deposits, real estate and other assets may be classified differently based on his or her guarantor's capability to service such guarantee or based on the value of collateral securing such credits.

Based on the Bank's corporate credit evaluation model, credits to a borrower are classified into eleven grades from one to ten (1,2,3,4,5,6,6w,7,8,9,10). Credits of grades of 1 to 6W are classified as normal, credits of grade 7 - precautionary, credits of grade 8 - substandard, credits of grade 9 - doubtful, and credits of grade 10 - estimated loss. Credits are finally classified reflecting past due period and bankruptcy considerations.

The Historical Repayment Criteria are set forth as follows:

- Normal Loans in arrears for less than one month
- Precautionary Loans in arrears for one month or more but less than three months
- Substandard Collectible portion of loans in arrears for three months or more and/or loans extended to customers who are judged to have serious risks in collectibility due to the final default by non-payment of their promissory notes, liquidation or bankruptcy proceedings or closing of their businesses
- Doubtful Amount in excess of collectible portion of loans in arrears for three months or more but less than twelve months and/or loans extended to customers who are determined by the court to begin final restructuring plan prepared through court receivership or court mediation
- Estimated loss Amount in excess of collectible portion of loans in arrears for twelve months or more and/or loans extended to customers who are judged to have

serious risks in collectibility due to final default by non-payment of their promissory notes, liquidation or bankruptcy proceedings or closing of their businesses

The Forward Looking Criteria based on ability to repay are set forth as follows:

- Grade 1(Normal) Credits extended to the customers, which do not raise concerns regarding their capability to repay the credits notwithstanding extreme stagnancy of business activities considering their business and operations, financial conditions and future cash flows.
- Grade 2 (Normal) Credits extended to the customers, which do not raise concerns regarding their capability to repay the credits notwithstanding major business fluctuations considering their business and operations, financial conditions and future cash flows.
- Grade 3(Normal) Credits extended to the customers, which do not raise concerns regarding their capability to repay the credits notwithstanding short-term business fluctuations considering their business and operations, financial conditions and future cash flows.
- Grade 4 (Normal) Credits extended to the customers, which do not raise concerns regarding their capability to repay, although they can be influenced by stagnancy of business activities considering their business and operations, financial conditions and future cash flows.
- Grade 5 (Normal) Credits extended to the customers, which do not raise concerns regarding their capability to repay except in stagnancy of business activities considering of their business and operations, financial conditions and future cash flows.
- Grade 6 (Normal) Credits extended to the customers without collateral, which raise concerns regarding their capability to repay considering their business and operations, financial conditions and future cash flows.
- Grade 6W (Normal) Credits extended to the customers, which can be classified as under grade 7 without overcoming their weakness or cannot be classified as grade 6 due to insufficient information, in spite of similarity to grade 6.
- Grade 7 (Precautionary) Credits extended to the customers, which are judged to have potential risks with respect to their capability to repay the credits in the future without eliminating their potential weakness, although there have not occurred any immediate risks for default in repayment considering their business and operations, financial position and future cash flows.
- Grade 8 (Substandard) Collectible portion of credits extended to the customers, which are judged to have

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incurred considerable risks for default in repayment as the customers' capability to repay has deteriorated considering their business and operations, financial position and future cash flows.

- Grade 9 (Doubtful) Amount in excess of collectible portion of credits extended to customers, which are judged to have incurred serious risks for default in repayment due to noticeable deterioration in their capability to repay considering their business and operations, financial conditions and future cash flows.

- Grade 10 (Estimated loss) Amount in excess of collectible portion of credits extended to customers, which are judged to have to be accounted for as loss as the inability to repay became certain due to serious deterioration in their capability to repay considering their business and operations, financial position and future cash flows.

An allowance is then calculated on the category balances using the prescribed percentages of 0.5 - 1.9 percent for normal, 2 - 19.9 percent for precautionary, 20 - 49.9 percent for substandard, 50 - 99.9 percent for doubtful and 100 percent for estimated loss. However, the Bank does not provide allowances for loans to the Korean government and local government entities, bonds bought under resale agreements and inter-bank loans that are classified as normal, as it is not required by the Accounting Standards for the Banking Industry.

In addition, as required by the Supervisory Regulation, based on the classification of household loans and credit card receivables by past due period and status of bankruptcy proceedings, allowance for household loans and credit card receivables are then calculated on the category balances using the prescribed minimum percentages of 0.75 percent and 1 percent for normal, 8 percent and 12 percent for precautionary, 20 percent for substandard, 55 percent and 60 percent for doubtful and 100 percent for estimated loss. In addition, as required by the Financial Supervisory Service, for the secured household loans newly placed after September 9, 2002, if the ratio of loans to collateral value (loan to value; LTV) exceeds 60 percent, the Bank provides the allowance for possible loan losses of 1 percent or more for normal and 10 percent or more for precautionary instead of providing 0.75 percent or more for normal and 8 percent or more for precautionary.

As required by the Supervisory Regulation, the Bank also provides an allowance for possible losses on confirmed acceptances and guarantees. Confirmed acceptances and guarantees are classified as of the balance sheet dates using the same loan classification criteria. An allowance is

then calculated, using from 20 to 49 percent for substandard, from 50 to 99 percent for doubtful and 100 percent for estimated loss. No allowance is provided for those confirmed acceptances and guarantees classified as normal and precautionary. However, an allowance for confirmed acceptances and guarantees classified as precautionary to companies under workout is provided from 2 to 19 percent. The allowance for possible losses on confirmed acceptances and guarantees is presented in other liabilities.

In addition, as required by the Financial Supervisory Service, from the third quarter of 2002, the Bank provides an additional other allowance of 1 percent for certain portions of the unused cash advance facility (75 percent of the facility less used balance) of active credit card accounts having transaction records during the recent one year.

Restructuring of Loans

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

Valuation of Receivables and Payables at Present Value

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

Tangible Assets and Depreciation

Tangible assets included in fixed assets are recorded at cost, except for assets revalued upward in accordance with the Asset Revaluation Law of Korea. Routine maintenance and repairs are expensed as incurred. Expenditures that

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result in the enhancement of the value or the extension of the useful lives of the facilities involved are capitalized as additions to tangible assets.

Depreciation is computed using the straight-line method based on the estimated useful lives of the assets as follows:

	Years
Buildings	50
Equipment	5
Leasehold improvements	5

Intangible Assets

Intangible assets included in fixed assets are recorded at the production cost or purchase cost, plus incidental expenses. Intangible assets are amortized using the straight-line method over the estimated useful life of 5 years.

Recognition of Assets Impairment

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

Amortization of Discount (Premium) on Debentures

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

Bonds under Resale or Repurchase Agreements

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

Accrued Severance Benefits

Employees and directors with more than one year of service are entitled to receive a lump-sum payment upon termination of their service with the Bank, based on their length of service and rate of pay at the time of

termination. The accrued severance benefits that would be payable assuming all eligible employees and directors were to resign amount to ₩64,046 million (US\$53,354 thousand) and ₩48,371 million (US\$40,296 thousand) as of December 31, 2002 and 2001, respectively. The accrued severance benefits are included in other liabilities.

The funding of the severance liability is not required. However, the Bank has insured a portion of its obligations for severance benefits in order to obtain the related tax benefits, by making deposits with life insurance companies. The Bank has purchased severance insurance, which meets the funding requirement for tax purposes, and made deposits with Samsung Life Insurance and others. The individual severance insurance deposits, amounting to ₩52,682 million (US\$43,887 thousand) and ₩45,670 million (US\$38,046 thousand) as of December 31, 2002 and 2001, respectively, are presented as a deduction from accrued severance benefits because the severance insurance's beneficiaries are the Bank's employees.

Before April 1999, the Bank and its employees paid 3 percent and 6 percent, respectively, of monthly pay (as defined) to the National Pension Fund in accordance with the National Pension Law of Korea. The Bank paid half of the employees' 6 percent portion, which was paid as an advance for the future severance payment and deducted from the total severance indemnity payable at the termination. Such advance payment, totaling ₩2,571 million (US\$2,142 thousand) and ₩2,701 million (US\$2,250 thousand) as of December 31, 2002 and 2001, respectively, are presented as a deduction from accrued severance benefits. Since April 1999, according to a revision in the National Pension Law, the Bank and its employees each pay 4.5 percent of monthly pay to the Fund.

Actual payment of severance indemnities amounted to ₩4,571 million (US\$3,808 thousand) and ₩5,409 million (US\$4,506 thousand) in 2002 and 2001, respectively.

Accounting for Derivative Instruments

The Bank accounts for derivative instruments pursuant to the Interpretations on Financial Accounting Standards 53-70 on accounting for derivative instruments. Derivative instruments are classified as used for trading activities or for hedging activities according to their transaction purpose. All derivative instruments are accounted for at fair value with the valuation gain or loss recorded as an asset or liability. If the derivative instrument is not part of a transaction qualifying as a hedge, the adjustment to fair value is reflected in current operations.

The accounting for derivative transactions that are part of a qualified hedge based both on the purpose of the

transaction and on meeting the specified criteria for hedge accounting differs depending on whether the transaction is a fair value hedge or a cash flow hedge. Fair value hedge accounting is applied to a derivative instrument designated as hedging the exposure to changes in the fair value of an asset or a liability or a firm commitment (hedged item) that is attributable to a particular risk. The gain or loss both on the hedging derivative instruments and on the hedged item attributable to the hedged risk is reflected in current operations. Cash flow hedge accounting is applied to a derivative instrument designated as hedging the exposure to variability in expected future cash flows of an asset or a liability or a forecasted transaction that is attributable to a particular risk. The effective portion of gain or loss on a derivative instrument designated as a cash flow hedge is recorded as a capital adjustment and the ineffective portion is recorded in current operations. The effective portion of gain or loss recorded as a capital adjustment is reclassified to current earnings in the same period during which the hedged forecasted transaction affects earnings. If the hedged transaction results in the acquisition of an asset or the incurrence of a liability, the gain or loss in capital adjustment is added to or deducted from the asset or the liability.

Accounting for Stock Options

Stock options are valued at fair value pursuant to the Interpretations on Financial Accounting Standards 39-35 on accounting for stock options. The fair value of stock options is charged to operating expense in the statement of operations and credited to capital adjustments as stock option cost over the contract term of the services provided.

Income Tax Expense

Income tax expense is the amount currently payable for the period added to or deducted from the change in deferred income tax. However, deferred income tax assets are recognized only if the future tax benefits from accumulated temporary differences and any tax loss carryforwards are realizable. The difference between the amount currently payable for the period and income tax expense is accounted for as deferred income tax assets or liabilities and offset against income tax assets and liabilities in future periods.

Accounting for Foreign Currency Transactions and Translation

The Bank maintains its accounts in Korean Won. Transactions in foreign currencies are recorded in Korean Won based on the prevailing rate of exchange on the transaction date. The Korean Won equivalent of assets and liabilities denominated in foreign currencies are translated

in these consolidated financial statements based on BOK Basic Rate (₩1,200.40 and ₩1,326.10 to US\$1.00 at December 31, 2002 and 2001, respectively) or cross rates for other currencies as of the balance sheet dates. Translation gains and losses on foreign currencies denominated assets and liabilities are credited or charged to operations. Financial statements of overseas branches are translated based on BOK Basic Rate as of the balance sheet date.

Accounting for Guaranteed Trust Accounts

Certain trust accounts, which the Bank guarantees a fixed rate of return and/or repayment of the principal, are summarized below.

(1) Valuation of Securities

The fair values of debt securities as of December 31, 2002 were assessed by applying the average of base prices of the latest trading day from the balance sheet date, provided by Korea Bond Pricing & KMCC Co. and KIS Pricing Inc. while debt securities were valued using the closing yields of bonds announced by the Korea Securities Dealers Association as of December 31, 2001. However, debt securities managed in unspecified trust accounts established prior to November 15, 1998 are recorded as acquisition cost plus accrued interest income.

Stocks are stated at acquisition cost determined by the individual moving average method plus incidental expenses. Stocks, which are traded on the Korea Stock Exchange or Korea Securities Dealers Automated Quotation, are stated at market value and unlisted stocks are stated at acquisition cost.

(2) Allowance for Possible Credit Losses

An allowance for possible losses on assets, which are managed in unspecified trust accounts but not recorded at market value, is provided based on asset quality classification criteria of the bank accounts reflecting the asset quality classification criteria regulated by the Korea Financial Supervisory Services. The assets are classified as of the balance sheet dates as normal, precautionary, substandard, doubtful, or loss. An allowance is then calculated on the category balances using the prescribed percentages of more than zero percent (more than 0.5 percent for trust accounts which the Bank guarantees a fixed rate of return), more than 2 percent, more than 20 percent, more than 50 percent, and 100 percent, respectively.

Changes in Accounting Estimate

Depreciation calculation method for newly acquired tangible assets was changed to monthly basis from half-year basis in order to properly match expenses with

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revenues and reflect the economic substance of the transactions. The corresponding change in accounting estimate did not have significant effects on the non-consolidated financial statements.

Before April 2002, the minimum loan loss reserve ratio for household loans and credit card receivable had been 0.5 percent for normal, 2 percent for precautionary and 50 percent for doubtful. By adopting the new policy, the minimum loan loss reserve ratio for household loans and credit card receivables were changed to 0.75 percent and 1 percent for normal, 8 percent and 12 percent for precautionary and 55 percent and 60 percent for doubtful. In addition, for the secured household loans newly placed after September 9, 2002, if its collateral is real estate and located in the highly-speculative residential areas designated by the Korean Government and the ratio of loans to collateral value (loan to value; LTV) exceeds 60 percent, the Bank provides the allowance for possible loan losses of 1 percent or more for normal and 10 percent or more for precautionary. In addition, from the third quarter of 2002, the Bank provides other allowance of 1 percent for certain portions of the unused cash advance facility (75 percent of the facility less used balance) of active credit card accounts having transaction records during the recent one year. The aforementioned changes in allowance ratio for loans to households and credit card receivables and the additional provision for unused credit line for cash advances resulted from the recent significant increase of loans to households and credit card receivables as well as request by the Financial Supervisory Service, and were also based on historical migration analysis on default and collection of such loans. As a result of these changes in accounting estimates, an additional allowance for loans to households and credit card receivables amounting to ₩50,035 million (US\$41,682 thousand) and additional other allowance for unused credit line for cash advances amounting to ₩7,533 million (US\$6,275 thousand) were recognized in the current period.

Change in Accounting Principle

In accordance with the change in the Implementation Guideline of Supervisory Regulation of Banking Business issued by the Financial Supervisory Service in December 2002, the accounting treatment applied to Banker's Usance transactions was changed by the Bank. All banker's usance, regardless of whether the Bank provides funded credit directly or not, are now accounted for as "loans" and "borrowings in foreign currencies" on the balance sheet rather than accounted for as "acceptances" using contra accounts as an off-balance item. In addition, the Bank was required to provide allowances for credit losses based on its loan classification for the amount reclassified as loans.

Due to the accounting change, total assets and total liabilities have increased by ₩ 472,028 million (US\$393,226 thousand) and ₩ 285,180 million (US\$237,571 thousand) as of December 31, 2002 and 2001, respectively, and the allowances for credit losses have increased by ₩2,360 million (US\$1,966 thousand) as of December 31, 2002 compared to the previous accounting treatment. For comparative purposes, the financial statements of 2001 were restated based on the change in the Supervisory Regulation of Banking Business issued by the Financial Supervisory Service.

Reclassification

Certain accounts of the prior period were reclassified to conform to the current period's presentation for comparative purposes. However, those reclassifications had no effect on the previously reported prior period net income or shareholders' equity of the Bank.

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3. CASH AND DUE FROM BANKS:**(1) Cash and due from banks in local currency and foreign currencies as of December 31, 2002 and 2001 consisted of the following:**

Korean won / Translation into U. S. dollars (Note2)	(In millions)		(In thousands)	
	2002	2001	2002	2001
Cash and checks	₩ 707,022	₩ 459,675	\$ 588,989	\$ 382,935
Foreign currencies	30,617	27,547	25,506	22,948
Due from banks in local currency	740,956	217,506	617,257	181,195
Due from banks in foreign currencies	86,966	59,328	72,447	49,423
	₩ 1,565,561	₩ 764,056	\$ 1,304,199	\$ 636,501

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

Korean won / Translation into U. S. dollars (Note2)	Provided to	Financial institution	(In millions)		(In thousands)		Provided for
			2002	2001	2002	2001	
Reserve deposits	BOK		₩ 655,970	₩ 178,025	\$ 546,459	\$ 148,305	BOK Act
Other deposits	Samsung Life Insurance Co.	Woori Bank	22,000	22,000	18,327	18,327	Subordinated borrowings Escrow account for Daewoo Telecom
			3,998	3,998	3,331	3,331	
		Korea Stock Exchange	360	356	300	296	Deposits for securities transaction
		Kookmin Bank	4,533	326	3,776	272	Bond Market Stabilization Fund
		Samsung Life Insurance Co. and others	-	1,099	-	915	Severance indemnities
Due from banks in foreign currencies	BOK		33,349	34,551	27,782	28,783	BOK Act
			₩720,210	₩ 240,355	\$ 599,975	\$ 200,229	

4. TRADING SECURITIES:**Trading securities as of December 31, 2002 and 2001 consisted of the following:**

Korean won / Translation into U. S. dollars (Note2)	(In millions)		(In thousands)	
	2002	2001	2002	2001
Equity securities	₩ 14,889	₩ 27,164	\$ 12,403	\$ 22,629
Government and public bonds	144,390	370,010	120,285	308,239
Finance debentures	299,490	161,251	249,492	134,331
Corporate bonds	204,373	177,521	170,254	147,885
Others	30,344	20,643	25,278	17,197
	₩ 693,486	₩ 756,589	\$ 577,712	\$ 630,281

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5. INVESTMENT SECURITIES:

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

Korean won / Translation into U. S. dollars (Note2)	(In millions)		(In thousands)	
	2002	2001	2002	2001
Equity securities	₩ 177,249	₩ 188,692	\$ 147,658	\$ 157,191
Equity investments	5,237	7,953	4,363	6,625
Government and public bonds	1,999,399	1,772,009	1,665,611	1,476,182
Finance debentures	3,481,652	2,536,186	2,900,410	2,112,784
Corporate bonds	1,909,580	2,523,330	1,590,786	2,102,074
Investment securities in foreign currencies	407,192	469,028	339,214	390,726
Others	26	509,292	22	424,269
	₩ 7,980,335	₩ 8,006,490	\$ 6,648,064	\$ 6,669,851

(2) Investment equity securities accounted for using the equity method as of December 31, 2002 were as follows

(Unit: Won in millions):

	Book value before valuation	Book value after valuation	Gain (Loss) on valuation using equity method	Presented in retained earnings	Presented in capital adjustments
Hanmi Capital Co., Ltd.	₩ 8,419	₩ 15,026	₩ 6,393	₩ -	₩ 214
Hanmi Technology Investment Co., Ltd.	9,666	8,289	1,025	-	(2,173)
SK Investment Trust Management Co., Ltd.	7,314	6,756	(268)	-	(110)
	₩ 25,399	₩ 30,071	₩ 7,150	₩ -	₩ (2,069)

Dividends of ₩229 million (US\$191 thousand) and ₩180 million (US\$150 thousand) received from Hanmi Technology Investment Co., Ltd. and SK Investment Trust Management Co., Ltd. in 2002, respectively, were deducted from the book value. Goodwill and negative goodwill resulting from the equity method of accounting are amortized over five years using the straight-line method. Such amortized amounts of negative goodwill in 2002 were ₩3,849 million (US\$3,206 thousand).

(3) The Bank had investment securities issued by Daewoo Group companies of ₩20,214 million (US\$16,839 thousand), which was the net amount after deducting investment securities impairment loss of ₩17,495 million (US\$14,574 thousand) and adding recovery of impairment loss of ₩421 million (US\$351 thousand) in 2002. In addition, the Bank had investment securities of workout companies (including private workout and leasing companies) other than Daewoo Group companies amounting to ₩20,417 million (US\$17,008 thousand), which was the net amount after deducting investment

securities impairment loss of ₩6,692 million (US\$5,575 thousand) and adding recovery of impairment loss of ₩2,212 million (US\$1,843 thousand) in 2002.

(4) The Bank had investment securities issued by Hyundai Engineering and Construction of ₩10,120 million (US\$8,431 thousand), which was the net amount after deducting investment securities impairment loss of ₩12,743 million (US\$10,616 thousand) in 2002.

(5) The Bank acquired 78,278 thousand shares of Hynix Semiconductor Inc. through a debt-equity swap on May 31, 2002. The acquisition cost of the securities was recorded at book value of the loan amounting to ₩45,253 million (US\$37,698 thousand) pursuant to the case of the Interpretations on Financial Accounting Standards 2001-15. During the current year, the Bank sold all the shares and recorded loss on disposal of investment securities of ₩14,841 million (US\$12,363 thousand).

In addition, the Bank had investment securities issued by Hynix Semiconductor Inc. of ₩295 million (US\$246

thousand) other than investment securities described above, which was the net amount after deducting

investment securities impairment loss of ₩31 million (US\$26 thousand) in 2002.

6. LOANS:

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

Korean won / Translation into U. S. dollars (Note2)	(In millions)		(In thousands)	
	2002	2001	2002	2001
Loans in local currency	₩ 16,923,003	₩ 12,593,655	\$ 14,097,803	\$ 10,491,215
Loans in foreign currencies	1,098,931	669,013	915,471	557,325
Bills bought in local currency	788,269	395,886	656,672	329,795
Bills bought in foreign currencies	1,259,804	1,167,882	1,049,487	972,911
Advances for customers	2,784	42,516	2,319	35,418
Credit card accounts	2,506,454	1,936,849	2,088,016	1,613,503
Call loans	795,867	408,656	663,001	340,433
Privately placed bonds	760,306	634,464	633,377	528,544
Loans to be converted to equity securities	22,626	121,481	18,849	101,200
Domestic import usance	653,673	523,475	544,546	436,084
Factoring receivables	246,451	-	205,307	-
	25,058,168	18,493,877	20,874,848	15,406,428
Allowance for possible loan losses	(348,329)	(495,983)	(290,177)	(413,181)
Present value discounts	(4,591)	(17,015)	(3,825)	(14,174)
	₩24,705,248	₩17,980,879	\$ 20,580,846	\$ 14,979,073

(2) Daewoo Group companies, which were placed under a workout in August 1999 due to their liquidity problems, are undergoing a workout or court receivership as of December 31, 2002. As of December 31, 2002, the Bank had loans outstanding (including confirmed acceptances and guarantees) to Daewoo Group companies of ₩83,623 million (US\$69,663 thousand). For these credits, the Bank provided an allowance for possible loan losses (including allowance for possible losses on confirmed acceptances and guarantees) of ₩16,598 million (US\$13,827 thousand) based on its loan classification. The recovery of loans outstanding to Daewoo Group companies is highly dependent on the results of the business restructuring; accordingly, the potential impact on the Bank's operations of the workout program and of the difficulties Daewoo Group companies are facing cannot presently be determined.

(3) As of December 31, 2002, amounts owed by companies under workout program excluding Daewoo Group companies amounted to ₩29,654 million (US\$24,703 thousand). After deducting present value discounts of ₩4,540 million (US\$3,782 thousand), the Bank provided an allowance for possible loan losses (including allowance for possible losses on confirmed

acceptances and guarantees) of ₩9,188 million (US\$7,654 thousand). The collectibility of these loans may be affected by the outcome of the restructuring of these companies under workout program.

(4) As of December 31, 2002, amounts owed by Hyundai Group companies, which include Hyundai Petrochemical and Hyundai Merchant Marine amounted to ₩76,875 million (US\$64,041 thousand) including confirmed acceptances and guarantees. The Bank has provided an allowance for possible loan losses (including allowance for possible losses on confirmed acceptances and guarantees) of ₩20,611 million (US\$17,170 thousand) based on its loan classification. Hyundai Group companies are presently undergoing a liquidity problem and the potential impact on the Bank's operations of the difficulties these companies are facing cannot presently be determined.

(5) The Banks sold its non-performing loans of ₩306,062 million (US\$254,967 thousand) in 3 different batches to Korea Asset Management Corporation since December 1997. As of December 31, 2002, the unsettled amount was ₩79,350 million (US\$66,103 thousand). The Bank has provided an allowance for possible loan losses totaling ₩44,541 million (US\$37,105 thousand).

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7. FIXED ASSETS:

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

	Korean won / Translation into U. S. dollars (Note2)		(In thousands)	
	(In millions)		2002	2001
	2002	2001	2002	2001
Tangible assets				
Land	₩ 119,045	₩ 124,966	\$ 99,171	\$ 104,103
Buildings	149,003	149,626	124,128	124,647
Equipment and furniture	224,141	182,300	186,722	151,866
Leasehold improvements	40,712	32,293	33,915	26,902
Construction in process	654	654	545	545
	533,555	489,839	444,481	408,063
Less: Accumulated depreciation	(159,220)	(130,463)	(132,639)	(108,683)
Intangible assets				
	15,493	224	12,907	187
	₩ 389,828	₩ 359,600	\$ 324,749	\$ 299,567

As of December 31, 2002 and 2001, the published value of land was ₩71,524 million (US\$59,583 thousand) and ₩74,829 million (US\$62,337 thousand), respectively, using the disclosed public land price announced annually by the Government pursuant to the Laws on Disclosure of Land Price and Valuation of Land.

8. OTHER ASSETS:

Other assets as of December 31, 2002 and 2001 consisted of the following:

	Korean won / Translation into U. S. dollars (Note2)		(In thousands)	
	(In millions)		2002	2001
	2002	2001	2002	2001
Guarantee deposits	₩ 264,488	₩ 234,500	\$ 220,333	\$ 195,352
Accounts receivable (Note 22)	1,099,020	564,772	915,545	470,487
Accrued income (Notes 2 and 23)	273,516	278,320	227,854	231,856
Prepaid expenses	138,936	136,321	115,742	113,563
Deferred income tax assets (Note 19)	48,175	134,452	40,132	112,006
Derivatives assets (Note 22)	271,341	69,777	226,042	58,128
Domestic exchange settlements debits	181,679	175,272	151,349	146,011
Sundry assets	9,895	9,972	8,243	8,307
	₩ 2,287,050	₩ 1,603,386	\$ 1,905,240	\$ 1,335,710

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9. COLLATERALIZED ASSETS:

As of December 31, 2002 and 2001, collateralized assets, all of which were investment securities, consisted of the following:

	Korean won / Translation into U. S. dollars (Note2)		(In thousands)		Provided for
	(In millions)		2002	2001	
Provided to	2002	2001	2002	2001	
Korea Securities Depository	₩ 1,326,254	₩ 1,300,320	\$ 1,104,843	\$ 1,083,239	Customer RP
Bank of Korea	1,445,161	1,398,579	1,203,900	1,165,094	RP of Bank of Korea
Bank of Korea	203,369	138,458	169,418	115,343	Inter-bank settlement
Bank of Korea	522,057	730,852	434,903	608,840	Loans with credit limit from Bank of Korea
Bank of Korea	106,482	104,909	88,705	87,395	Borrowings from Bank of Korea
Korea Asset Management Corporation	14,079	13,735	11,729	11,442	Settlement of non-performing loans
Seoul Guarantee Insurance Company	35,921	88,957	29,924	74,106	Guarantee for construction execution
Korea Construction Financial Cooperative	26,309	-	21,917	-	Guarantee for construction execution
UBS Warburg	75,091	-	62,555	-	Repo transaction
LG Investment & Securities Co., Ltd. and other	41,742	16,116	34,773	13,426	Futures
	₩ 3,796,465	₩ 3,791,926	\$ 3,162,667	\$ 3,158,885	

10. DEPOSITS:

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

	Korean won / Translation into U. S. dollars (Note2)		(In thousands)	
	(In millions)		2002	2001
	2002	2001	2002	2001
Deposits in local currency	₩ 19,516,636	₩ 16,703,696	\$ 16,258,444	\$ 13,915,108
Deposits in foreign currencies	583,706	576,354	486,260	480,135
Certificates of deposits	1,254,497	1,299,636	1,045,065	1,082,669
	₩ 21,354,839	₩ 18,579,686	\$ 17,789,769	\$ 15,477,912

11. BORROWINGS:

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

	Korean won / Translation into U. S. dollars (Note2)		(In thousands)	
	(In millions)		2002	2001
	2002	2001	2002	2001
Borrowings in local currency	₩ 1,507,186	₩ 1,830,724	\$ 1,255,570	\$ 1,525,095
Borrowings in foreign currencies	2,468,345	1,690,764	2,056,269	1,408,500
Bonds sold under repurchase agreements	1,298,781	883,184	1,081,957	735,741
Bills sold	26,376	244,839	21,972	203,965
Due to BOK in foreign currencies	15,334	32,425	12,774	27,012
Call money	1,385,012	1,413,868	1,153,792	1,177,831
	₩ 6,701,034	₩ 6,095,804	\$ 5,582,334	\$ 5,078,144

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12. DEBENTURES:

Debentures as of December 31, 2002 and 2001 consisted of the following:

Korean won / Translation into U. S. dollars (Note2)	(In millions)		(In thousands)	
	2002	2001	2002	2001
Debentures in local currency	₩ 4,619,392	₩ 1,134,390	\$ 3,848,211	\$ 945,010
Less: Discounts	(94,900)	(16,100)	(79,057)	(13,412)
Debentures in foreign currencies	451,600	360,460	376,208	300,283
Less: Discounts	(5,079)	(5,038)	(4,231)	(4,197)
Less: Adjustment for conversion rights	-	(3,610)	-	(3,007)
	₩ 4,971,013	₩ 1,470,102	\$ 4,141,131	\$ 1,224,677

13. CONFIRMED ACCEPTANCES AND GUARANTEES AND ALLOWANCE FOR POSSIBLE LOSSES:

(1) Confirmed acceptances and guarantees and allowance for possible losses as of December 31, 2002 and 2001 consisted of the following:

Korean won / Translation into U. S. dollars (Note2)	(In millions)		(In thousands)	
	2002	2001	2002	2001
Confirmed acceptances and guarantees in local currency				
Payment guarantee for issuance of debenture	₩ 658	₩ 17,507	\$ 548	\$ 14,584
Payment guarantee for loan	19,867	23,187	16,551	19,316
Others	192,973	187,407	160,757	156,121
	213,498	228,101	177,856	190,021
Confirmed acceptances and guarantees in foreign currencies				
Acceptances for letter of credit	120,645	67,778	100,504	56,463
Letters of guarantees for importers	41,048	28,706	34,195	23,914
Guarantees on credit derivatives	84,028	39,783	70,000	33,141
Others	150,789	188,655	125,616	157,160
	396,510	324,922	330,315	270,678
Total confirmed acceptances and guarantees	₩ 610,008	₩ 553,023	\$ 508,171	\$ 460,699
Allowance for possible losses	₩ 100	₩ 20,923	\$ 83	\$ 17,430
Ratio (%)	0.02	3.78	0.02	3.78

As explained in Note 2, the banker's usance as of December 31, 2001, amounting to ₩285,180 million (US\$237,571 thousand) has been reclassified into loans (domestic import usance) on the balance sheet from the confirmed acceptances and guarantees in foreign currencies of off-balance items in accordance with the change in the Supervisory Regulation of Banking Business issued by the Financial Supervisory Service, and excluded in the total acceptances and guarantees above.

(2) As of December 31, 2002, confirmed acceptances and guarantees to Daewoo Group companies and Hyundai Group companies amounted to ₩106 million (US\$88 thousand) and ₩24,620 million (US\$20,510 thousand), respectively, for which an allowance for possible losses of ₩19 million (US\$16 thousand) had been provided based on the Bank's loan classification.

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14. OTHER LIABILITIES:

Other liabilities as of December 31, 2002 and 2001 consisted of the following:

Korean won / Translation into U. S. dollars (Note2)	(In millions)		(In thousands)	
	2002	2001	2002	2001
Accrued severance benefits (Note 2)	₩ 64,046	₩ 48,371	\$ 53,354	\$ 40,296
Less: Transfer to National Pension	(2,571)	(2,701)	(2,142)	(2,250)
Less: Individual severance insurance deposits	(52,682)	(45,670)	(43,887)	(38,046)
Allowance for possible losses on confirmed acceptances and guarantees (Notes 6 and 13)	100	20,923	83	17,430
Borrowings from trust accounts (Note 23)	219,719	398,236	183,038	331,753
Foreign exchange remittance pending	75,748	21,284	63,102	17,731
Accounts payable (Note 22)	1,176,532	592,085	980,117	493,240
Accrued expenses	444,171	389,785	370,019	324,713
Unearned revenues	51,507	47,106	42,908	39,242
Deposits for letter of guarantees and other	27,116	25,247	22,590	21,032
Derivative liabilities (Note 22)	289,335	88,464	241,032	73,695
Local exchange settlement credits	329,073	268,310	274,136	223,517
Sundry liabilities	350,681	227,025	292,137	189,124
	₩ 2,972,775	₩ 2,078,465	\$ 2,476,487	\$ 1,731,477

15. SHAREHOLDERS' EQUITY:

(1) Common stock and preferred stock

As of December 31, 2002 and 2001, the Bank has 600 million authorized shares (₩5,000 par value), of which 183,066,765 shares (₩915,334 million) and 163,066,765 shares (₩815,334 million), respectively, had been issued as common stock, and 35,600,000 shares (₩178,000 million) and 51,200,000 shares (₩256,000 million), respectively, had been issued as preferred stock. The Bank's major shareholders of common stock were J.P. Morgan & Carlyle Consortium (35.72 percent) and Samsung Group (13.89 percent) as of December 31, 2002.

With approval at the general shareholders' meeting, on March 22, 2002, the Bank paid ₩78,000 million (US\$ 64,978 thousand) to reduce 15,600,000 shares of preferred stock, which were issued to the Korea Deposit Insurance Corporation, in accordance with the P&A agreement for Kyunggi Bank.

The Bank entered into an agreement to issue 20,000,000 global depositary shares (GDSs) on April 25, 2002 and brought in US\$198,730 thousand from the issuance of GDSs on April 30, 2002. The GDSs represent 20 million shares of common stock (issuance price: ₩13,000) and, accordingly, ₩100,000 million (US\$83,305 thousand) was recorded as capital stock and ₩152,405 million (US\$126,962 thousand), net of issuance cost, was recorded as paid-in capital in excess of par value in capital surplus.

(2) Capital surplus

Capital surplus, other than described above, amounting to ₩67 million (US\$56 thousand) resulted from the disposition of treasury stock fund.

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(3) Retained earnings**Retained earnings as of December 31, 2002 and 2001 are summarized as follows:**

Korean won / Translation into U. S. dollars (Note2)	(In millions)		(In thousands)	
	2002	2001	2002	2001
Legal reserve	₩ 45,700	₩ 19,600	\$ 38,071	\$ 16,328
Voluntary reserve	248,900	91,400	207,347	76,141
Special reserve in trust accounts	6,628	4,668	5,522	3,889
Unappropriated accumulated retained earnings	100	70	83	58
	₩ 301,328	₩ 115,738	\$ 251,023	\$ 96,416

1) Legal reserve

The Korean Banking Law requires a bank to appropriate at least 10 percent of net income after income tax to legal reserve, until such reserve equals 100 percent of its paid-in capital. This reserve is not available for payment of cash dividends; however, it can be used to reduce deficit or to transfer to capital.

2) Reserves for overseas investment loss and technological development

The Bank had recorded reserves for overseas investment loss and technological development based on the Regulation of Tax Reduction and Exemption Act, and had followed the related tax regulations in providing for and disposal of such reserves.

3) Reserve for financial structure improvement (voluntary reserve)

In 2002, the Finance Supervisory Service recommended banks to appropriate at least 10 percent of net income after accumulated deficit to reserve for financial structure improvement, until simple capital ratio equals 5.5 percent. This reserve is not available for payment of cash dividends; however, it can be used to reduce deficit or transfer to capital.

4) Retained earnings appropriated for accumulated deficit conservation

The Bank appropriated capital surplus, legal reserve and other reserve amounting to ₩ 348,363 million (US\$290,206 thousand) for accumulated deficit conservation, pursuant to the approval at the shareholders' meeting on March 9, 2001.

5) Changes in unappropriated retained earnings carried over from prior years**Changes in 2002 and 2001 in the unappropriated retained earnings carried over from prior years consisted of the following:**

Korean won / Translation into U. S. dollars (Note2)	(In millions)		(In thousands)	
	2002	2001	2002	2001
Loss on valuation using the equity method, net	₩ -	₩ (30)	\$ -	\$ (25)

(4) Capital adjustments**Capital adjustments as of December 31, 2002 and 2001 were as follows:**

Korean won / Translation into U. S. dollars (Note2)	(In millions)		(In thousands)	
	2002	2001	2002	2001
Treasury stock	₩ (5,655)	₩ (2,138)	\$ (4,711)	\$ (1,781)
Gain on valuation of investment securities-net	73,847	33,360	61,519	27,791
Stock option cost	8,433	3,853	7,025	3,210
Other	(1,912)	24,272	(1,593)	20,219
	₩ 74,713	₩ 59,347	\$ 62,240	\$ 49,439

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1) Treasury stock

The Bank deposited ₩10,000 million (US\$8,331 thousand) on the Treasury Stock Fund of Daehan Investment Trust Securities in 1998. With the disposition of Treasury Stock Fund in 2002, the Bank recorded gain on disposal of treasury stock in capital surplus amounting to ₩67 million (US\$56 thousand) as of December 31, 2002. As of December 31, 2001, the Bank recorded the fair value of the treasury stock included in Treasury Stock Fund as the balance of treasury stock. The difference between the fair value and the book value was recognized as gain or loss on disposal of treasury stock in capital surplus or capital adjustment. The remainder of the Treasury Stock Fund was recorded as investment securities.

The Bank acquired 650,000 common shares in 2002 in preparation for the exercise of the stock option and stated the treasury stock at acquisition cost of ₩5,655 million (US\$4,711 thousand).

2) Stock option cost

On March 20, 2000, the Bank granted stock options to purchase 1,620,500 shares to 460 employees and directors (first-awarded stock options) at the exercise price of ₩7,190 per share (one third of the granted shares were accounted for at ₩9,740 per share as of December 31, 2002, by reflecting the increase in the average stock price index of banking industry on the minimum exercise price stipulated in the relevant regulation). The Bank has the option to choose one of settlement methods either through issuance of new shares or payment of the difference between the market price and the exercise price in cash or treasury stock, if the stock options are exercised. The stock options are exercisable during a three-year period beginning after three years from the grant date. The Bank cancelled 118,500 shares of first-awarded stock options based on the resolution of board of directors on June 29, 2002 and acquired 650,000 common shares and 237,680 common shares in December 2002 and January 2003, respectively, in preparation for exercise of the stock options.

In addition, on May 17, 2001, the Bank granted stock options to purchase 3,560,500 shares to 480 employees and directors including the president(second-awarded stock options) at the exercise price of ₩7,310 per share. The stock options with a graded vesting schedule are exercisable during an eight-year period, after minimum two years from the grant date, beginning at an irrevocable date set by the board of directors. The Bank has the option to choose one of settlement methods either through issuance of new shares or payment of the difference between the market price and the exercise price in cash or treasury stock, if the stock options are exercised. The Bank cancelled 514,800 shares of second-awarded stock option based on the resolution of board of directors on June 29, 2002.

In addition, on March 22, 2002, the Bank granted stock options to purchase 1,366,000 shares to 51 employees and directors including the president(third-awarded stock option) at the exercise price of ₩12,580 per share. The stock options with a graded vesting schedule are exercisable during an eight-year period, after minimum two years from the grant date, beginning at an irrevocable date set by the board of directors. The Bank has the option to choose one of settlement methods either through issuance of new shares or payment of the difference between the market price and the exercise price in cash or treasury stock, if the stock options are exercised.

The Bank valued the stock options at fair value and charged to expense ₩4,580 million (US\$3,815 thousand) in 2002 and ₩3,853 million (US\$3,210 thousand) in prior years, and credited ₩8,433 million (US\$7,025 thousand) to capital adjustment as of December 31, 2002. The amount of ₩6,020 million (US\$5,015 thousand) will be expensed in the future.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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16. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES:

Assets and liabilities denominated in foreign currencies as of December 31, 2002 and 2001 consisted of the following:

Korean won / Translation into U. S. dollars (Note2)	(In thousands)		(In millions)	
	2002	2001	2002	2001
Assets				
Foreign currencies	\$ 25,506	₩ 30,617	\$ 20,772	₩ 27,547
Due from banks-foreign currencies	72,447	86,966	44,739	59,328
Investment securities-foreign currencies	339,214	407,192	353,691	469,028
Loans in foreign currencies	915,471	1,098,931	504,497	669,013
Bills bought in foreign currencies	1,049,487	1,259,804	880,689	1,167,882
Domestic import usance	544,546	653,673	394,266	522,835
Call loans	163,168	195,867	81,936	108,656
Privately placed bonds	1,846	2,216	7,742	10,267
Other assets	426,773	512,298	228,487	302,997
	\$ 3,538,458	₩ 4,247,564	\$ 2,516,819	₩ 3,337,553
Liabilities				
Deposits-foreign currencies	\$ 486,260	₩ 583,706	\$ 434,623	₩ 576,354
Borrowings-foreign currencies	2,056,269	2,468,345	1,274,990	1,690,764
Due to BOK	12,774	15,334	24,451	32,425
Call money	5,287	6,347	299	396
Debentures-foreign currencies	374,934	450,071	271,755	360,374
Foreign exchange remittance pending	63,102	75,748	16,051	21,284
Other liabilities	682,904	819,758	177,161	234,933
	\$ 3,681,530	₩ 4,419,309	\$ 2,199,330	₩ 2,916,530

(*) Foreign currencies other than US dollars were translated into US dollars at the appropriate exchange rates at balance sheet dates.

17. GENERAL AND ADMINISTRATIVE EXPENSES:

General and administrative expenses for the years ended December 31, 2002 and 2001 consisted of the following:

Korean won / Translation into U. S. dollars (Note2)	(In millions)		(In thousands)	
	2002	2001	2002	2001
Salaries	₩ 169,163	₩ 151,186	\$ 140,922	\$ 125,946
Provision for severance benefits	20,246	19,475	16,866	16,224
Other employee benefits	29,626	26,420	24,680	22,009
Rent	7,857	7,416	6,545	6,178
Entertainment	4,558	3,909	3,797	3,256
Depreciation	42,862	37,976	35,706	31,636
Amortization of intangible assets	1,159	60	966	50
Taxes and dues	48,686	30,790	40,558	25,650
Advertising	19,930	18,296	16,603	15,242
Others	66,539	63,212	55,431	52,659
	₩ 410,626	₩ 358,740	\$ 342,074	\$ 298,850

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18. NON-OPERATING INCOME AND EXPENSES:

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

Korean won / Translation into U. S. dollars (Note2)	(In millions)		(In thousands)	
	2002	2001	2002	2001
Non-operating income:				
Gain on disposal of tangible assets	₩ 5,672	₩ 47	\$ 4,725	\$ 39
Rent income	1,851	2,524	1,542	2,103
Gain on valuation using the equity method (Note 5)	7,150	8,731	5,956	7,273
Gain on disposal of investment securities	75,608	112,684	62,986	93,872
Recovery of investment securities impairment loss	22,352	-	18,620	-
Gain on valuation of investment equity in fund	765	22,528	637	18,767
Gain on sales of loans	31,438	14,280	26,190	11,896
Other	36,798	15,887	30,655	13,235
	₩ 181,634	₩ 176,681	\$ 151,311	\$ 147,185
Non-operating expenses:				
Loss on disposal of tangible assets	₩ 2,115	₩ 728	\$ 1,762	\$ 606
Loss on disposal of investment securities	24,430	13,180	20,352	10,980
Investment securities impairment loss	38,450	32,524	32,031	27,094
Loss on sales of loans	621	28,290	517	23,567
Other	3,803	18,231	3,168	15,188
	₩ 69,419	₩ 92,953	\$ 57,830	\$ 77,435

19. INCOME TAX EXPENSE:

(1) The differences between pretax accounting income and taxable income pursuant to Korean Corporate Income Tax Law for the years ended December 31, 2002 and 2001 are summarized as follows:

Korean won / Translation into U. S. dollars (Note2)	(In millions)		(In thousands)	
	2002	2001	2002	2001
Income before income tax	₩ 371,364	₩ 293,010	\$ 309,367	\$ 244,094
Taxable and non-deductible items				
Temporary difference	335,718	423,376	279,672	352,696
Permanent difference	29,422	12,333	24,510	10,274
	365,140	435,709	304,182	362,970
Deductible and non-taxable items				
Temporary difference	(488,822)	(785,396)	(407,216)	(654,279)
Permanent difference	(19,122)	(3,402)	(15,930)	(2,834)
	(507,944)	(788,798)	(423,146)	(657,113)
Tax loss carryforwards	(136,711)	(63,391)	(113,888)	(52,808)
Tax income (loss)	₩ 91,849	₩ (123,470)	\$ 76,515	\$ (102,857)

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(2) The tax effects on temporary differences and tax loss carryforwards that gave rise to significant portions of the deferred income tax assets as of December 31, 2002 were as follows:

Korean won / Translation into U. S. dollars (Note2)	(In millions)				(In thousands)
	Beginning of year(*)	Deduction	Addition	End of year	End of year
Allowance for possible loan losses	₩ 140,948	₩ 140,948	₩ -	₩ -	\$ -
Allowance for possible losses of confirmed acceptances and guarantees	20,923	20,923	100	100	83
Accrued income	(144,465)	(23,980)	(28,287)	(148,772)	(123,935)
Restructuring of loans	9,936	9,936	4,104	4,104	3,419
Valuation of securities	102,968	148,585	201,467	155,850	129,832
Valuation loss on derivatives financial instruments	19,061	19,061	9,271	9,271	7,723
Valuation loss from debt-for-equity swap	79,609	39,007	44,590	85,192	70,970
Others	86,330	82,075	52,206	56,461	47,035
	315,310	436,555	283,451	162,206	135,127
Tax loss carryforwards	136,711	136,711	-	-	-
	452,021	573,266	283,451	162,206	135,127
Statutory tax rate	29.7%	29.7%	29.7%	29.7%	29.7%
Deferred income tax assets	₩ 134,250	₩ 170,260	₩ 84,185	₩ 48,175	\$ 40,132

(*) Adjusted based on the final tax return.

The tax effects on temporary differences and tax loss carryforwards that gave rise to significant portions of the deferred income tax assets as of December 31, 2001 were as follows:

Korean won / Translation into U. S. dollars (Note2)	(In millions)				(In thousands)
	Beginning of year(*)	Deduction	Addition	End of year	End of year
Allowance for possible loan losses	₩ 415,786	₩ 415,786	₩ 140,948	₩ 140,948	\$ 117,418
Allowance for possible losses of confirmed acceptances and guarantees	84,628	84,628	20,923	20,923	17,430
Accrued income	(147,702)	(41,743)	(38,877)	(144,836)	(120,656)
Restructuring of loans	96,009	96,009	9,882	9,882	8,232
Valuation of securities	102,703	102,703	126,810	126,810	105,640
Valuation loss on derivatives financial instruments	28,638	28,638	18,688	18,688	15,568
Valuation loss from debt-for-equity swap	60,135	7,713	28,443	80,865	67,365
Others	25,958	11,042	61,036	75,952	63,272
	666,155	704,776	367,853	329,232	274,269
Tax loss carryforwards	63,391	-	60,079	123,470	102,857
	729,546	704,776	427,932	452,702	377,126
Statutory tax rate	30.8%	29.7%	29.7%	29.7%	29.7%
Deferred income tax assets	₩ 224,700	₩ 209,318	₩ 127,096	₩ 134,452	\$ 112,006

(*) Adjusted based on the final tax return.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(3) Income tax expense for the years ended December 31, 2002 and 2001 is summarized as follows:

Korean won / Translation into U. S. dollars (Note2)	(In millions)		(In thousands)	
	2002	2001	2002	2001
Income tax currently payable	₩ 24,733	₩ -	\$ 20,604	\$ -
Additional income tax payable for prior years (*)	-	7,742	-	6,450
Changes in deferred tax assets				
Tax effect on cumulative temporary differences	45,674	107,394	38,049	89,465
Tax effect on tax loss carryforwards	40,603	(17,146)	33,825	(14,284)
Income tax expense	₩ 111,010	₩ 97,990	\$ 92,478	\$ 81,631

(4) The Bank is subject to corporate income tax at 15 percent (16 percent in 2001) of the first ₩100 million of taxable income and 27 percent (28 percent in 2001) of the excess. Added to this is a resident surtax of 10 percent of the corporate income tax due. Due to the differences between pretax accounting income and taxable income pursuant to Korean Corporate Income Tax Law, the effective income tax rate is approximately 29.89 percent and 33.4 percent in 2002 and 2001, respectively.

(5) As of December 31, 2002, changes in tax loss carryforwards were as follows (Unit: Won in millions):

Year	Incurred	Deduction	Remaining	Expiration
2000	₩ 63,391	₩ 63,391	₩ -	2005
2001	73,320	73,320	-	2006
	₩ 136,711	₩ 136,711		

20. EARNINGS PER SHARE:

(1) **Ordinary income per share and net income per share** weighted average number of outstanding common stock of 176,522,872 shares and 163,066,765 shares, respectively, and outstanding participating preferred stock of 20,000,000 shares, respectively.

Earnings per share in 2002 and 2001 were calculated for common stock and for participating preferred stock by dividing net income available to common shareholders and participating preferred shareholders, respectively, by the

Earnings per share for common stock and for preferred stock in 2002 were computed as follows (Korean Won in millions except per share amounts):

	Common stock	Participating preferred stock	Ordinary preferred stock	Total
Dividends	₩ 68,444	₩ 7,500	₩ 780	₩ 76,724
Income available for additional dividends (*)	165,544	18,086	-	183,630
Net income	233,988	25,586	₩ 780	₩ 260,354
Number of shares outstanding	176,522,872	20,000,000		
Earnings per share (in currency unit)	₩ 1,326	₩ 1,279		

(*) Income available for additional dividends = Net income - Dividends

Income available for additional dividends attributable to common stock
= ₩183,630 million × 915,334 million ÷ (915,334 million + 100,000 million)
= ₩165,544 million

Income available for additional dividends attributable to participating preferred stock
= ₩183,630 million × 100,000 million ÷ (915,334 million + 100,000 million)
= ₩18,086 million

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Earnings per share for common stock and for preferred stock in 2001 were computed as follows (Korean Won in millions except per share amounts):

	Common stock	Participating preferred stock	Ordinary preferred stock	Total
Dividends	₩ -	₩ 7,500	₩ 1,560	₩ 9,060
Income available for additional dividends (*)	165,644	20,316	-	185,960
Net income	165,644	27,816	₩ 1,560	₩ 195,020
Number of shares outstanding	163,066,765	20,000,000		
Earnings per share (in currency unit)	₩ 1,016	₩ 1,391		

(*) Income available for additional dividends = Net income - Dividends
Income available for additional dividends attributable to common stock
= ₩185,960 million × 815,334 million ÷ (815,334 million + 100,000 million)
= ₩165,644 million
Income available for additional dividends attributable to participating preferred stock
= ₩185,960 million × 100,000 million ÷ (815,334 million + 100,000 million)
= ₩20,316 million

Participating preferred stock consisted of cumulative, participating preferred stock, which was issued in the form of public placement on June 30, 2000 (issue amount per share: ₩5,000, total issue amount: ₩100,000 million). This preferred stock can be converted to common stock after stipulated dividends (7.5% per annum) paid for three years (i.e. 7.5% × 3 years = 22.5%) with the conversion ratio of one for one, resulting in 20,000,000 common shares to be issued.

Since there is no extraordinary gain or loss in 2002 and 2001, ordinary income available to common stock and preferred stock are same with the net income available to common stock and preferred stock.

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

1) Number of diluted securities:

	Common stocks to be issued	Fraction of period	Weighted average shares
Convertible bonds	68,434	365/365	68,434
Convertible preferred stock	20,000,000	365/365	20,000,000
			20,068,434

2) Diluted net income (ordinary income) (Unit: Won in millions):

	Amount
Income available to common stock	₩ 233,988
Income impact of assumed conversions	
Income available to preferred stock	₩ 25,586
Interest on convertible bonds, net of tax	2 25,588
Diluted net income	₩ 259,576

3) Diluted net income (ordinary income) per share
= ₩259,576 million ÷ (176,522,872 shares
+ 20,068,434 shares) = ₩1,320

Diluted net income (ordinary income) per share in 2002 represents diluted net income (ordinary income) divided by the number of common shares and diluted securities. Diluted net income (ordinary income) was computed by adding net income to convertible preferred stock (dividends and income available for additional dividends attributable to participating preferred stock) and the interest expense, net of tax, of the convertible bonds to net income (ordinary income) to common stock. Convertible preferred stock and convertible bonds were assumed to be converted to common stock at the beginning of the year.

Diluted net income (ordinary income) per share for the year ended December 31, 2002 was computed as follows:

Diluted ordinary income per common share and diluted net income per common share in 2001 were not computed since there are no dilutive effects for all dilutive potential common shares.

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

	Face value	Exercise period	Common stocks to be issued	Remark
Convertible preferred stock	₩ 100,000	After payment of stipulated dividends	20,000,000	Conversion rate is 1 : 1
Convertible bonds	1,212	1997. 9. 25 - 2007. 7. 26	68,434	
Stock option	-	2003. 3. 21 - 2006. 3. 20	1,502,000	See Note 15
Stock option	-	2003. 5. 18 - 2009. 5. 17	3,045,700	See Note 15
Stock option	-	2004. 3. 23 - 2010. 3. 22	1,366,000	See Note 15

21. DIVIDENDS:**(1) Dividends per share in 2002 were ₩375 for common stock and participating preferred stock and ₩50 for ordinary preferred stock. Details of dividends were as follows:**

Shares	No. of shares receive subject to dividend	Dividends Par value	rate(%)	Korean won / Translation into U. S. dollars (Note2)	
				(In millions) Dividends	(In thousands) Dividends
Common stock:	182,516,765	₩ 5,000	7.5	₩ 68,444	\$ 57,017
Preferred stock:					
Participating	20,000,000	₩ 5,000	7.5	7,500	6,248
Ordinary	15,600,000	5,000	1.0	780	650
	218,116,765			₩ 76,724	\$ 63,915

Dividends per share in 2001 were ₩750 for participating preferred stock, ₩50 for ordinary preferred stock and no dividends for common stock. Details of dividends were as follows:

Shares	No. of shares receive subject to dividend	Dividends Par value	rate(%)	Korean won / Translation into U. S. dollars (Note2)	
				(In millions) Dividends	(In thousands) Dividends
Preferred stock:					
Participating	20,000,000	₩ 5,000	15.0	15,000	12,495
Ordinary	31,200,000	5,000	1.0	1,560	1,300
	51,200,000			₩ 16,560	\$ 13,795

(2) Propensity to dividend and dividend yield ratio in 2002 and 2001 were as follows:

Classification	Computation	2002	2001	Remarks
Propensity to dividend	Dividend amount / Net income	29.47%	8.49%	
Dividend yield ratio (*)	Dividend per share / Stock price (Closing price at balance sheet date)	5.07%	-	Common stock
		5.21%	7.77%	Participating preferred stock

(*) Yield of ordinary preferred stock that has no closing price available is not calculated

22. CONTINGENCIES AND COMMITMENTS:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2002 AND 2001

(1) Unconfirmed acceptances and guarantees as of December 31, 2002 and 2001 consisted of:

Korean won / Translation into U. S. dollars (Note2)

	(In millions)		(In thousands)	
	2002	2001	2002	2001
Customer's liability on letters of credit	₩ 515,605	₩ 544,039	\$ 429,528	\$ 453,215
Other	-	35,100	-	29,240
	₩ 515,605	₩ 579,139	\$ 429,528	\$ 482,455

(2) As of December 31, 2002, the Bank has ₩1,989 million (US\$1,657 thousand) of endorsed notes for sales, which had been purchased on discount.

(3) The Bank manages written-off loans whose time period for legal claim has not elapsed amounting to ₩1,319,741 million (US\$1,099,418 thousand) as of December 31, 2002.

(4) The Bank sold its non-performing loans of ₩306,062 million (US\$254,967 thousand) in 3 different batches to Korea Asset Management Corporation since December 1997. As of December 31, 2002, the amount of these unsettled non-performing loans was ₩79,350 million (US\$66,103 thousand).

(5) As of December 31, 2002, the Bank had receivables of unsettled spot foreign currency transactions of ₩1,088,332 million (US\$906,641 thousand) and payables of ₩1,090,706 million (US\$908,619 thousand).

(6) As of December 31, 2002, the Bank has been engaged to provide credit line commitment with the limit of ₩2,032,160 million (US\$1,692,902 thousand), for the

support of payments for bonds issued by New Millennium Special Purpose Company and others. As of December 31, 2002, ₩3,487 million (US\$2,905 thousand) had been used.

(7) The Export-Import Bank of Korea (EIBK) filed a lawsuit against the Bank, demanding the issuance of the certification of payment guarantee amounting to US\$60 million in connection with the loans previously provided by EIBK to Daewoo Corporation, and demanding the confirmation of existence of guarantee liabilities. On a similar case, which EIBK claimed against Korea First Bank, the local court ruled in the first trial on May 30, 2002 that Korea First Bank would issue the guarantee letter, but rejected the demand of the confirmation of existence of guarantee liabilities. The lawsuit against the Bank is on going and the outcome of the lawsuit against the Bank cannot presently be determined.

In addition, there are pending legal actions instituted by the Bank such as claims for auction concerning compensation of loans. The outcome of these lawsuits cannot presently be determined.

(8) Derivative instruments as of December 31, 2002 were as follows (Unit: Won in millions):

Type	Outstanding contract amount		
	Trading	Hedging	Total
Currency:			
Currency forwards (*)	₩ 6,584,886	₩ -	₩ 6,584,886
Currency futures (*)	420	-	420
Currency swaps (*)	1,551,068	16,715	1,567,789
Currency options purchased	1,115,792	-	1,115,772
Currency options sold	1,406,071	-	1,406,925
	10,659,071	16,715	10,675,786
Interest rate:			
Interest rate swaps (*)	5,564,636	482,237	6,046,873
Interest rate futures	224,985	19,601	244,586
Interest rate options	10,000	-	10,000
	5,799,621	501,838	6,301,459
Stock:			
Stock index futures	9,302	-	9,302
Stock index options	94,782	-	94,782
	104,084	-	104,084
	₩ 16,562,776	₩ 518,553	₩ 17,081,329

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2002 AND 2001

Type	Gain (loss) on valuation (P/L)			Gain (loss) on valuation (B/S)
	Trading	Hedging	Total	
Currency:				
Currency forwards (*)	₩ 69,191	₩ -	₩ 69,191	₩ 67,940
	(92,811)	-	(92,811)	(85,223)
Currency swaps (*)	66,446	4,667	71,113	62,119
	(78,442)	-	(78,442)	(69,912)
Currency options purchased	30,190	-	30,190	40,969
	-	-	-	-
Currency options sold	-	-	-	-
	(20,937)	-	(20,937)	(36,112)
	165,827	4,667	170,494	171,028
	(192,190)	-	(192,190)	(191,247)
Interest rate:				
Interest rate swaps (*)	88,096	12,558	100,654	99,408
	(86,145)	(7,846)	(93,991)	(95,577)
Interest rate options	-	-	-	-
	(90)	-	(90)	(157)
	88,096	12,558	100,654	99,408
	(86,235)	(7,846)	(94,081)	(95,734)
Stock:				
Stock index options	2,273	-	2,273	905
	(2,197)	-	(2,197)	(2,354)
	₩ 256,196	₩ 17,225	₩ 273,421	₩ 271,341
	(280,622)	(7,846)	(288,468)	(289,335)

Derivative instruments as of December 31, 2001 were as follows (Unit: Won in millions):

Type	Outstanding contract amount		
	Trading	Hedging	Total
Currency:			
Currency forwards (*)	₩ 3,918,736	₩ -	₩ 3,918,736
Currency futures (*)	3,424	-	3,424
Currency swaps (*)	594,945	15,588	610,533
Currency options purchased	315,612	-	315,612
Currency options sold	294,394	-	294,394
	5,127,111	15,588	5,142,699
Interest rate:			
Interest rate swaps (*)	633,261	72,161	705,422
Interest rate futures	35,283	36,215	71,49
	668,544	108,376	776,920
	₩ 5,795,655	₩ 123,964	₩ 5,919,619

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2002 AND 2001

Type	Gain (loss) on valuation (P/L)			Gain (loss) on valuation(B/S)
	Trading	Hedging	Total	
Currency:				
Currency forwards (*)	₩ 45,481	₩ -	₩ 45,481	₩ 46,252
	(57,291)	-	(57,291)	(58,212)
Currency swaps (*)	12,206	-	12,206	15,551
	(7,901)	(1,571)	(9,472)	(16,076)
Currency options purchased	1,446	-	1,446	4,627
	-	-	-	-
Currency options sold	-	-	-	-
	(2,420)	-	(2,420)	(5,185)
	59,133	-	59,133	66,430
	(67,612)	(1,571)	(69,183)	(79,473)
Interest rate:				
Interest rate swaps (*)	2,886	430	3,316	3,347
	(2,434)	(5,201)	(7,635)	(8,991)
	₩ 62,019	₩ 430	₩ 62,449	₩ 69,777
	(70,046)	(6,772)	(76,818)	(88,464)

(*) For transaction between Korean Won to foreign currencies, unsettled amount of transaction is presented using transaction basic foreign exchange rate based on the contract amount in foreign currencies. For transaction between foreign currencies to foreign currencies, unsettled amount is presented using transaction basic foreign exchange rate based on foreign currencies purchased

Outstanding contract amount and gain or loss on valuation for hedging purpose in the table included or resulted from both derivative instruments accounted for as hedge accounting pursuant to the Interpretations on Financial Accounting Standards 53-70. Hedged items, to which fair value hedge accounting was applied, consisted of investment securities in foreign currencies, debentures in local currency and debentures in foreign currencies and hedging derivative instruments such as currency swaps and interest rate swaps, which were used to cover exposures to changes in fair value of hedged items resulting from

interest rate changes. As a result of the valuation of hedged items accounted for as fair value hedges, gain on valuation of ₩7,856 million (US\$6,544 thousand) on investment securities, and loss on valuation of ₩1,781 million (US\$1,484 thousand) on investment securities and loss on valuation of ₩12,135 million (US\$10,109 thousand) on debenture were reflected in current operations, and opposite corresponding amount of gain or loss from valuation of derivative instruments accounted for as fair value hedge accounting were reflected in assets or liabilities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2002 AND 2001

23. TRANSACTIONS WITH AFFILIATED COMPANIES:

(1) Significant transactions with the trust accounts of the Bank in 2002 and 2001, which were eliminated in the consolidation, were as follows:

Korean won / Translation into U. S. dollars (Note2)	(In millions)		(In thousands)	
	2002	2001	2002	2001
Operating revenue of trust operation:				
Trust fees and commissions from trust accounts	₩ 20,600	₩ 51,629	\$ 17,161	\$ 43,010
Interest income on loans to trust accounts	-	2,932	-	2,442
	₩ 20,600	₩ 54,561	\$ 17,161	\$ 45,452
Operating expenses of trust operation:				
Interest expense on borrowings from trust accounts	₩ 1,557	₩ 2,185	\$ 1,297	\$ 1,820

(2) Significant balances of the Bank with the trust accounts as of December 31, 2002 and 2001, which were eliminated in the consolidation, were as follows:

Korean won / Translation into U. S. dollars (Note2)	(In millions)		(In thousands)	
	2002	2001	2002	2001
Assets:				
Accrued income(trust fees and commissions from trust accounts)	₩ -	₩ 25,758	\$ -	\$ 21,458
Liabilities:				
Borrowings from trust accounts	₩ 54,055	₩ 67,495	\$ 45,031	\$ 56,227

(3) Significant transactions with related parties accounted for using the equity method as of December 31, 2002 and 2001 were as follows:

Korean won / Translation into U. S. dollars (Note2)	(In millions)		(In thousands)	
	2002	2001	2002	2001
Revenues:				
Hanmi Technology Investment	₩ 6	₩ 4	\$ 5	\$ 3
Hanmi Capital	15	-	12	-
	₩ 21	₩ 4	\$ 17	\$ 3
Expenses:				
Hanmi Technology Investment	181	197	151	164
Hanmi Capital	612	654	510	545
SK Investment Trust Management	-	424	-	353
	₩ 793	₩ 1,275	\$ 661	\$ 1,062

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2002 AND 2001

(4) Significant balances with related parties accounted for the using equity method as of December 31, 2002 and 2001 were as follows:

	(In millions)		(In thousands)	
	2002	2001	2002	2001
Assets:				
Hanmi Technology Investment	₩ -	₩ 500	\$ -	\$ 417
Hanmi Capital	₩ 9,090	₩ 9,060	\$ 7,572	\$ 7,547
	₩ 9,090	₩ 9,560	\$ 7,572	\$ 7,964
Liabilities:				
Hanmi Technology Investment	₩ 4,329	₩ 3,405	\$ 3,606	\$ 2,837
Hanmi Capital	₩ 7,156	₩ 29,764	\$ 5,961	\$ 24,795
SK Investment Trust Management	₩ 43	₩ 1,084	\$ 36	\$ 903
	₩ 11,528	₩ 34,253	\$ 9,603	\$ 28,535

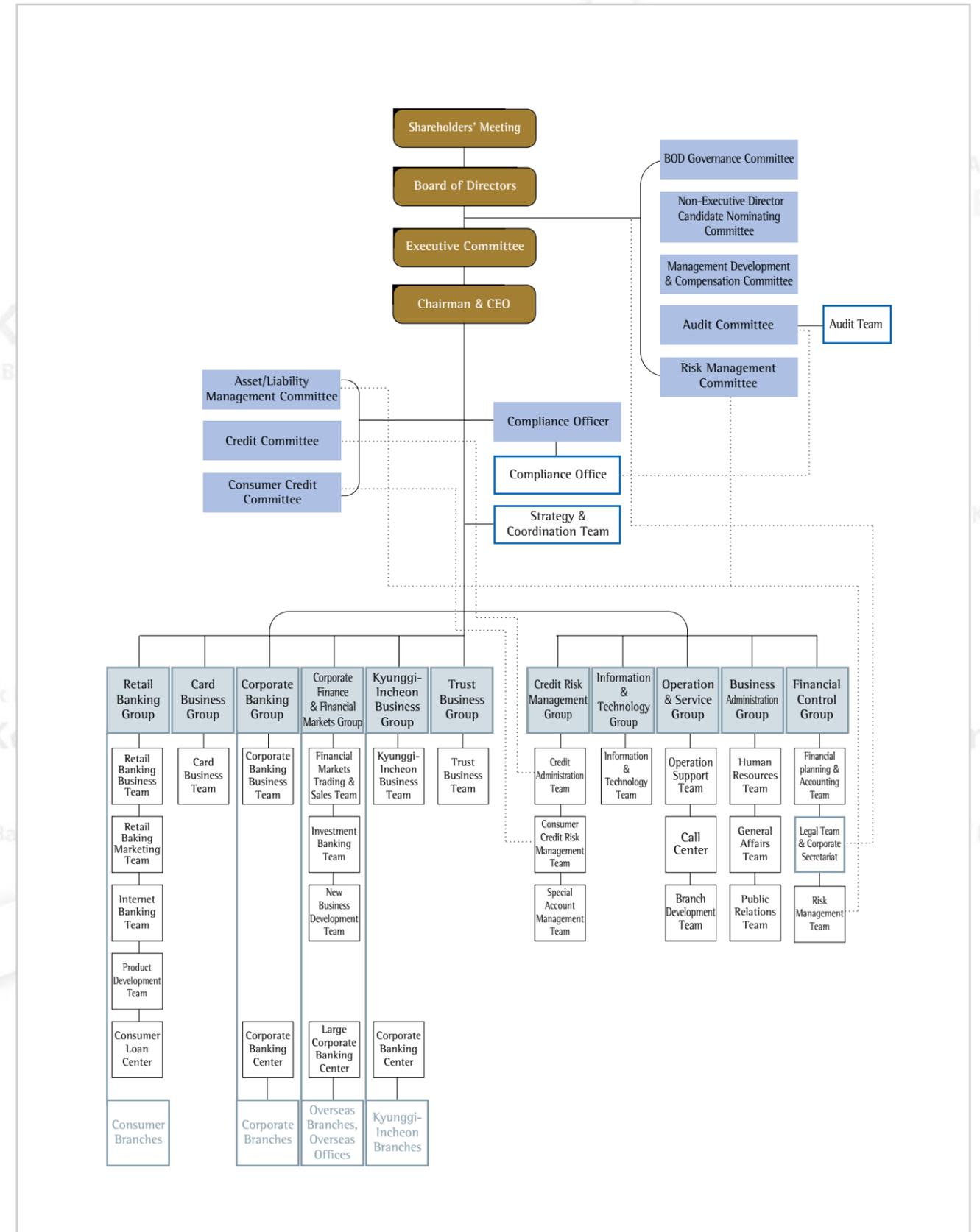
24. STATEMENTS OF CASH FLOWS:

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

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

	(In millions)		(In thousands)	
	2002	2001	2002	2001
Write-offs of loans	₩ 345,601	₩ 1,128,800	\$ 287,905	\$ 940,353
Debt to equity swap	₩ 127,258	₩ 97,532	\$ 106,013	\$ 81,250
Write-off of loan loss reserve resulting from the debt to equity swap	₩ 49,048	₩ 37,960	\$ 40,860	\$ 31,623
Increase in borrowings from trust accounts due to debt to equity swap in trust accounts	₩ 20,533	-	\$ 17,105	-
Increase in capital adjustments due to valuation of investment securities	₩ 40,487	₩ 5,132	\$ 33,728	\$ 4,275
Decrease in retained earnings due to valuation of equity securities using the equity method	₩ -	₩ 30	\$ -	\$ 25
Increase of dividends payable	₩ 76,724	₩ 16,560	\$ 63,915	\$ 13,795
Decrease in capital adjustments due to valuation of derivatives instruments	₩ 1,912	-	\$ 1,593	-

ORGANIZATION CHART



EXECUTIVE COMMITTEE MEMBERS & STANDING AUDITOR



Yung-Ku Ha
Chairman & CEO



Myung-Sup Lee
Director & Executive Vice President
Credit Risk Management Group
Human Resources Team



Sung-Hee Lee
Director & Standing Audit Committee Member
Audit Team



Jin-Hei Park
Director & Executive Vice President
Corporate Finance & Financial Market Group



In-Ho Rhi
Executive Vice President
Business Administration Group
Operation & Service Group



Kyung-Pyo Suh
Executive Vice President & CFO
Financial Control Group



Yong-Soo Ahn
Executive Vice President
Corporate Banking Group



Soo-Hwa Lee
Executive Vice President
Kyunggi-Incheon Business Group



Shin-Won Kang
Executive Vice President
Retail Banking Group



Hyo-Sung Won
Executive Vice President
Card Business Group
Product Development Team
Internet Banking Team



Hark Bae
Executive Vice President
Trust Business Group
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CORPORATE DATA (As of December 31, 2002)

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SWIFT: KOAMKRSE
Reuter Dealing Code: KRBH
Homepage: www.goodbank.com

Date of Establishment

March 16, 1983

Network

Domestic: 225 Branches
Overseas: 2 Branches, 2 Representative Offices

Number of Employees

2,987

Paid-in Capital

₩1,093.0 billion

**Number of Shares Outstanding
(Including preferred stock)**

218,666,765 shares

Major Shareholders

Carlyle & J.P. Morgan Consortium 35.725%
(Common shares) Samsung Group 13.888%

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SK Investment Trust Management Co., Ltd.
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‘HEIGHTENING THE ULTIMATE’