Prospectus

H&CB

Offer to Exchange American Depositary Shares, Each Representing One-Half of One Share of Common Stock, for Any and All of the Global Depositary Shares, Each Representing One Share of Common Stock

The exchange offer will expire at 12:00 midnight, New York City time, on October 31, 2000 unless extended.

This is an offer to exchange the outstanding, unregistered Global Depositary Shares representing interests in our shares of common stock and evidenced by Global Depositary Receipts you now hold for American Depositary Shares. As of the date of this prospectus, there were 12,407,730 Global Depositary Shares outstanding, and if all of the Global Depositary Shares are tendered in connection with the exchange offer, 24,815,460 American Depositary Shares will be issued upon the expiration of the exchange offer. The American Depositary Shares will be similar to the Global Depositary Shares except that (1) each American Depositary Share represents one-half of one share of our common stock while each Global Depositary Share represents one share of our common stock; (2) the American Depositary Shares have been approved for listing on the New York Stock Exchange, Inc. under the symbol ''HCB''; (3) the American Depositary Shares will be free of the transfer restrictions that apply to the unregistered Global Depositary Shares; and (4) holders of American Depositary Shares will have rights to give instructions to the depositary with respect to voting. This offer will expire at 12:00 midnight, New York City time, on October 31, 2000, unless we extend it. You must tender your unregistered Global Depositary Shares by the deadline to obtain new, registered American Depositary Shares and the liquidity benefits they offer. We will not receive any proceeds from the exchange offer.

To the extent that the Global Depositary Shares are tendered and accepted in the exchange offer, the trading market for untendered Global Depositary Shares will be adversely affected. Promptly following the completion of the exchange offer we intend to terminate the deposit agreement relating to the Global Depositary Shares in accordance with its terms which will eliminate the trading market for the untendered Global Depositary Shares.

The common stock in which the American Depositary Shares represent interests is listed for trading on the Korea Stock Exchange.

Please see ''Risk Factors'' beginning on page 6 of Appendix A—Registration Statement on Form 20-F hereto for a discussion of the risks that you should consider when you evaluate this exchange offer.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this Prospectus is October 2, 2000.

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Appendix A—Form 20-F to this prospectus contains our registration statement on Form 20-F relating to the registration of our shares of common stock pursuant to Section 12(b) of the Securities Exchange Act of 1934, as amended, which is incorporated, and constitutes a part of this prospectus. Important information relating to the shares and the American Depositary Shares, among other things, is included in Appendix A—Form 20-F.

We are not making an offer hereby to persons in the United Kingdom other than (1) to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses or (2) to persons who are otherwise of a type such that the making of the exchange offer to them (when considered in conjunction with all other persons in the United Kingdom to whom the exchange offer is being made) will not constitute the making of an offer of securities to the public in the United Kingdom for the purposes of Part IV of, and Schedule 11A to, the Financial Services Act 1986 or of the Public Offers of Securities Regulations 1995.

Pursuant to Korean law, we have filed a report with the Ministry of Finance and Economy in Korea in connection with the exchange offer.

PROSPECTUS SUMMARY

The following is a summary of the material terms of the exchange offer and certain of the other information contained in this prospectus. It may not contain all of the information that is important to you and is qualified in its entirety by the more detailed information contained elsewhere in this prospectus. We encourage you to read this prospectus in its entirety.

H&CB

We are a Korean commercial bank engaged principally in mortgage lending and retail banking. As of December 31, 1999, we were the third largest bank in Korea in terms of total assets calculated pursuant to Korean GAAP. We were the largest private sector mortgage lender in Korea for the year ended December 31, 1999, with our mortgage lending accounting for 74.1% of the total private sector mortgage lending in Korea in 1999. As of December 31, 1999, we had one of the largest deposit bases of any bank in Korea. We currently provide a broad range of financial services, including retail banking services, such as mortgage lending, deposit taking and credit card services, corporate and international banking services, focusing on providing services to small and medium sized enterprises, and capital markets activities.

Principal Executive Offices

Our headquarters are located at: H&CB, 36-3, Yoido-dong, Youngdeungpo-gu Seoul, Korea 150-758. Our telephone number is 822-769-7256.

Exchange Offer Summary

Purpose of the Exchange Offer

The exchange offer provides holders of Global Depositary Shares, also called GDSs, with the opportunity to exchange those GDSs for American Depositary Shares, also called ADSs, which have been approved for listing on the New York Stock Exchange, Inc. under the symbol ''HCB'' and which will be generally freely transferable by their holders without registration or any prospectus delivery requirement under the U.S. Securities Act of 1933, as amended (Securities Act). Our purpose in engaging in the exchange offer is to provide holders of GDSs with freely transferable securities. In addition, the ADSs will entitle their holders to certain rights to give instructions to the depositary with respect to voting the underlying shares.

The Exchange Offer

Only holders of GDSs can participate in the exchange offer.

The ADSs which can be exchanged for interests in the shares of our common stock that we are registering will be similar to the GDSs except (1) each ADS represents one-half of one share of our common stock while each GDS represents one share of our common stock; (2) the ADSs have been approved for listing on the New York Stock Exchange, Inc. under the symbol ''HCB''; (3) the ADSs will be free of the transfer restrictions that apply to the unregistered GDSs; and (4) holders of ADSs will have rights to give instructions to the depositary with respect to voting.

Exchange Ratio	Two ADSs for each GDS.
Expiration Date	This exchange offer expires at 12:00 midnight, New York City time, on October 31, 2000, unless we extend it.

Number of GDSs Tendered	Subject to the terms and conditions of the exchange offer, we will accept any and all GDSs if they are duly tendered and not withdrawn prior to acceptance thereof. The exchange offer is not subject to any minimum number of GDSs being tendered.
GDSs	As of the date of this prospectus, there were 12,407,730 GDSs outstanding, each of which represents one share of our common stock.
Trading and Market Price of GDSs	The GDSs are currently listed on the Official List of the UK Listing Authority for trading on the London Stock Exchange. See ''Item 5. Nature of the Trading Market—Market Price Information'' of Appendix A—Form 20-F.
New York Stock Exchange, Inc. Listing for ADSs	The ADSs have been approved for listing on the New York Stock Exchange, Inc. under the symbol ''HCB''.
Conditions to the Exchange Offer	The exchange offer is subject to satisfaction at or before the expiration date of the following conditions, which we may waive. We will not be required to accept for exchange, or exchange ADSs for, any GDSs and may terminate the exchange offer as provided in this prospectus before the acceptance of the GDSs, if, at or before the expiration date: • any action or proceeding is instituted or threatened in any court or by or before any governmental agency relating to the exchange offer which, in our reasonable judgment, may materially impair our ability to proceed with the exchange offer or materially impair the contemplated benefits of the exchange offer to us; • any law, statute, rule or regulation is proposed, adopted or enacted, or any interpretation is adopted by the staff of the Commission, which in our reasonable judgment, might materially impair our ability to proceed with the exchange offer or materially impair the contemplated benefits of the exchange offer to us; • any change, or any development involving a prospective change, in our business or financial affairs or any of our subsidiaries has occurred which, in our reasonable judgment, might materially impair our ability to proceed with the exchange offer or materially impair the contemplated benefits of the exchange offer to us; • any governmental approval has not been obtained, which approval we, in our reasonable discretion, consider necessary for the completion of the exchange offer as contemplated by this prospectus; See ''The Exchange Offer—Conditions to the Exchange Offer''.
Withdrawal Rights	If you decide to exchange your GDSs, you may change your mind and choose not to take part in this exchange offer at any time prior to October 31, 2000.

Procedures for Tendering GDSs	After you decide to exchange your GDSs for ADSs, you must: • complete and sign a letter of transmittal, have your signature guaranteed if required and forward the letter of transmittal to The Bank of New York, the exchange agent, or send an agent's message to the exchange agent through the system of The Depository Trust Company, and tender such GDSs pursuant to the procedures for book-entry transfer or • request a broker, dealer, bank, trust company or other nominee to effect the transaction for you. You should direct questions regarding how to tender and requests for information to The Bank of New York, the exchange agent. See ''The Exchange Offer—Procedures for Tendering GDSs'' and ''—Guaranteed Delivery Procedures''.
Resales	We believe that ADSs issued pursuant to the exchange offer in exchange for GDSs may be offered for resale, resold and otherwise transferred by you without compliance with the registration and prospectus delivery provisions of the Securities Act, provided that: • you are acquiring the ADSs in the ordinary course of your business; • you have not engaged in, do not intend to engage in, and have no arrangement or understanding with any person to participate in the distribution of the ADSs; and • you are not our affiliate as defined under Rule 405 of the Securities Act. Each participating broker-dealer that receives ADSs for its own account pursuant to the exchange offer in exchange for GDSs that were acquired as a result of market-making or other trading activity must promise to deliver a prospectus in connection with any resale of the ADSs. See ''Plan of Distribution''. Any holder of GDSs who: • is our affiliate, • does not acquire ADSs in the ordinary course of its business, • tenders in the exchange offer with the intention to participate, or for the purpose of participating, in a distribution of ADSs or • is a broker-dealer that acquired the GDSs directly from us, must comply with the registration and prospectus delivery requirements of the Securities Act to resell the ADSs, and will not be permitted to tender GDSs for ADSs in the exchange offer. We will require holders that desire to tender in the exchange offer to represent that they qualify to tender their GDSs.
Waiver of Fees	The GDS depositary has agreed, solely in connection with the tenders of GDSs pursuant to the exchange offer, to waive the up to $0.05 per GDS surrender fee otherwise payable by holders of

	GDSs under the GDS deposit agreement. The ADS depositary has agreed, solely in connection with the issuance and delivery of American Depositary Shares pursuant to the exchange offer, to waive the up to $0.05 per ADS issuance and delivery fee otherwise payable by holders of the ADSs under the ADS deposit agreement.
Acceptance of Tenders	Upon satisfaction or waiver of all of the conditions to the exchange offer, we will promptly accept after the expiration date, all GDSs properly tendered and will promptly request issuance of the ADSs.
U.S. Federal Tax Considerations	The exchange of your GDSs for ADSs will not result in any income gain or loss to you for U.S. federal income tax purposes. See ''U.S. Federal Income Tax Consideration''.
Exchange Agent	The Bank of New York is the exchange agent for this exchange offer. You can find its address and telephone number under the heading ''The Exchange Offer—Exchange Agent'' later in this prospectus.

Consequences of Not Exchanging GDSs

If you do not exchange your GDSs in the exchange offer, your GDSs will still be subject to the same transfer restrictions that currently apply. In general, you may offer or sell your GDSs only if they are registered under, or offered or sold pursuant to, an exemption from or transaction not subject to the Securities Act and state securities laws. We do not currently intend to register the GDSs under the Securities Act. Under the deposit agreement with The Bank of New York, as depositary for the GDSs, dated as of July 22, 1997, whenever so directed by us, the GDS depositary will terminate the GDS deposit agreement by giving notice of such termination to holders of the GDSs within 30 days after we give notice to the GDS depositary of termination.

In order to avoid having duplicative depositary facilities, we intend to terminate the GDS deposit agreement in accordance with its terms promptly after we accept for exchange the GDSs tendered in connection with the exchange offer. Following completion of the exchange offer, the GDS depositary will no longer accept shares of our common stock for deposit under the GDS deposit agreement. The termination of the GDS deposit agreement will eliminate any trading market that may exist for the GDSs. In addition, we intend to request de-listing of the GDSs from the Official List of the UK Listing Authority and cancellation of our admission to trading on the London Stock Exchange at least twenty days prior to the intended cancellation and de-listing, and we expect that the cancellation and de-listing will occur promptly after the end of the exchange offer.

If any GDSs remain outstanding after the date of termination of the GDS deposit agreement, the GDS depositary thereafter will discontinue the registration of transfers of the GDSs, will suspend the distribution of dividends to the holders of the GDSs and will not give any further notices or perform any further acts under the GDS deposit agreement, except the collection of dividends and other distributions pertaining to the deposited shares of our common stock, the sale of rights as provided in the GDS deposit agreement and the delivery of the net proceeds of the sale of any rights or other property, in exchange for any GDSs surrendered to the GDS depositary, upon payment of the fees and expenses of the GDS depositary. Pursuant to the GDS deposit agreement, holders of GDSs remaining outstanding after the date of termination will be subject to (i) a fee of $0.02 or less per GDS for receiving and paying any cash dividend or other cash distribution on or in respect of the deposited securities and (ii) a fee of $0.05 or less per outstanding GDS for any issue of rights or distribution of underlying shares (whether or not corresponding to GDSs) or other securities or other property (other than cash) upon the exercise of any rights, any fee distribution, stock dividend or other distribution. The GDS depositary has agreed to waive the up to $0.05 GDS surrender fee payable in connection with the surrender of GDSs and delivery of deposited shares of common stock underlying GDSs in connection with the tender of GDSs in the exchange offer. The ADS depositary has agreed to waive the up to $0.05 per ADS issuance and delivery fee payable in connection with the issuance and delivery of ADSs in the exchange offer. After the date of termination, the GDS depositary will as soon as reasonably practicable sell the deposited shares of common stock and hold the net proceeds of any such sale, together with any cash then held by it under the GDS deposit agreement for the *pro rata* benefit of the holders of GDSs who have not yet surrendered them until the holders surrender them. Once the GDS depositary has sold the shares of common stock, the GDS holders will no longer have an interest in our shares of common stock.

Summary Description of the ADSs

Issuer	H&CB
The ADSs	Each ADS will represent one-half of one share of our common stock. ADRs evidencing ADSs will be executed and delivered pursuant to the ADS deposit agreement. You may surrender an even number of ADSs to the depositary and receive shares of our common stock. See ''Item 14. Description of Securities to be Registered—Description of American Depositary Receipts'' of Appendix A—Form 20-F.
Capital Stock Outstanding	As of March 31, 2000, 109,062,554 shares of our common stock were issued and outstanding. See ''Item 14. Description of Securities to be Registered—Description of Capital Stock'' of Appendix A—Form 20-F.
Transfer Restrictions	The ADSs will not be subject to transfer restrictions.
Proceeds	We will receive no proceeds in connection with the exchange offer.
Market for ADSs	The ADSs have been approved for listing on the New York Stock Exchange, Inc.
Voting Rights	You may instruct the depositary to vote the shares underlying an even number of your ADSs. If you do not provide the depositary with your voting instructions, the depositary will vote your shares in the same manner and in the same proportion as all other shares which are voted on the matter in question are voted. You will not be entitled to instruct the depositary as to the exercise of voting rights with respect to any shares of common stock or other deposited securities represented by your ADSs which, when taken together with all other shares with voting rights beneficially owned by you and certain of your affiliates, exceed 4% of the total number of shares with voting rights at the time issued and outstanding, or any other limit under our articles of incorporation or applicable law of which we may from time to time notify the depositary.
Dividends	The depositary has agreed to pay to you the cash dividends or other distributions it or the custodian receives on shares or other deposited securities, after deducting its fees and expenses. You will receive these distributions in proportion to the number of shares your ADSs represent.
Risk Factors	You should consult the ''Risk Factors'' section beginning on page 6 of Appendix—Form 20-F for a discussion of certain considerations relevant to an investment in the ADSs.

THE EXCHANGE OFFER

Purpose of the Exchange Offer

Our purpose in making the exchange offer is to provide holders of GDSs with an opportunity to receive securities that will be listed on the New York Stock Exchange, Inc. and which are generally freely transferable. The exchange offer will provide holders of GDSs with the ability to effect, for U.S. federal income tax purposes a tax-free exchange of such GDSs, which are subject to trading limitations, for ADSs which we expect will be more widely held and actively traded. In addition, the ADSs will entitle their holders to rights to give instructions to the depositary with respect to voting the underlying shares.

Terms of the Exchange Offer

Subject to the terms and conditions of the exchange offer, we hereby offer to exchange two ADSs for each outstanding GDS. As of the date of this prospectus, 12,407,730 GDSs are outstanding. This prospectus and the letter of transmittal are first being sent on or about October 3, 2000, to all holders of GDSs known to us. Our obligation to accept GDSs for exchange pursuant to the exchange offer is subject to conditions as set forth below under ''—Conditions to the Exchange Offer''. The exchange offer is not subject to any minimum number of GDSs being tendered.

The exchange offer will expire at 12:00 midnight, New York City time on October 31, 2000. The term ''expiration date'' as we use it in this prospectus means 12:00 midnight., New York City time, on October 31, 2000; *provided*, *however*, that if we, in our sole discretion, extend the period of time during which the exchange offer is open, the term ''expiration date'' means the latest time and date to which we extend the exchange offer.

If you wish to exchange GDSs for ADSs and validly tender your GDSs by complying with the book-entry procedures described below and furnish the letter of transmittal or agent's message and any other required documents to The Bank of New York, as exchange agent, The Bank of New York, as depositary, will have your beneficial interests in such ADSs recorded in records maintained by The Depository Trust Company or its nominee or institutions that have accounts with DTC or, at your request contained in the letter of transmittal, the depositary will mail you ADRs evidencing the ADSs promptly after we accept such tender. Subject to the terms and conditions of the exchange offer, we will accept validly tendered GDSs promptly after the expiration date.

We expressly reserve the right, at any time or from time to time, to extend the period of time during which the exchange offer is open, and thereby delay acceptance for exchange of any GDSs, by giving oral or written notice of such extension to the holders as described below. During any such extension, all GDSs previously tendered will remain subject to the exchange offer and may be accepted for exchange by us subject to the satisfaction of the same conditions applicable to the final exchange period. We will return any GDRs not accepted for exchange as promptly as practicable after the expiration or termination of the exchange offer.

In addition, we reserve the right, in our sole discretion, to waive any condition or otherwise amend the exchange offer in any respect. If any amendment by us or waiver constitutes a material change in the information previously disclosed to you, we will, in accordance with the applicable rules of the U.S. Securities and Exchange Commission (Commission), promptly disseminate disclosure of such change in a manner reasonably calculated to inform you of such change. If it is necessary to permit an adequate dissemination of information regarding such material change, we will extend the exchange offer to permit an adequate time for you to consider the additional information.

We are not making any recommendation to you as to whether to tender or refrain from tendering all or any portion of your GDSs pursuant to the exchange offer. In addition, no one has been authorized to make any such recommendation. You must make your own decision whether to tender pursuant to the exchange offer and, if so, the number of GDSs to tender after you read this prospectus and consult with your advisers, if any, based on your own financial position and requirements.

Effects of the Exchange Offer

Because the exchange offer is for any and all GDSs, the number of GDSs acquired in the exchange offer will reduce the number of outstanding GDSs. As a result, the liquidity of any remaining GDSs may be substantially reduced. Moreover, the intended termination of the GDS deposit agreement and the intended de-listing of the GDSs from the Official List of the UK Listing Authority and cancellation of our admission to trading on the London Stock Exchange described under the caption ''Summary of Exchange Offer—Consequences of Not Exchanging GDSs'', will eliminate the trading market for such remaining GDSs. The holder of any GDS that remains outstanding after the expiration of the exchange offer will have the option, prior to the termination of the GDS deposit agreement and subject to certain provisions of that agreement, (1) to sell its GDSs in an offshore transaction in accordance with Regulation S or to a person it reasonably believes is a qualified institutional buyer in a transaction meeting the requirements of Rule 144A, or (2) to withdraw the shares of common stock underlying its GDSs, in each case subject to transaction and other costs as set forth in the GDS deposit agreement. After the date of termination of the GDS deposit agreement, which we expect will be promptly after the end of the exchange offer, the GDS depositary will as soon as reasonably practicable sell the deposited shares of common stock and hold the net proceeds of any such sale, together with any cash then held by it under the GDS deposit agreement for the *pro rata* benefit of the holders of GDSs that have not yet surrendered them. Under current Korean laws and regulations, such shares of common stock may not be deposited into the deposit facility for the ADSs without the prior consent from us. No assurance can be given that such consent will be granted.

Expiration and Extension

The exchange offer will expire at 12:00 midnight, New York City time, on October 31, 2000, unless we extend the period of time during which the exchange offer is open. During any extension of the exchange offer, all GDSs previously tendered pursuant to the exchange offer will remain subject to the exchange offer (and to the withdrawal rights specified below). We may extend the exchange offer by oral or written notice to the exchange agent at any time or from time to time, on or prior to the date then fixed for the expiration of the exchange offer. We will timely make a public announcement of any extension of the exchange offer, but unless otherwise required by law or regulation, we will not have any obligation to communicate such public announcement other than by making a release to the Dow Jones News Service.

Conditions to the Exchange Offer

We will not be required to accept for exchange, or exchange ADSs for, any GDSs and may terminate the exchange offer as provided in this prospectus before the acceptance of the GDSs, if, at or before the expiration date:

- any action or proceeding is instituted or threatened in any court or by or before any governmental agency relating to the exchange offer which, in our reasonable judgment, might materially impair our ability to proceed with the exchange offer or materially impair the contemplated benefits of the exchange offer to us;
- any law, statute, rule or regulation is proposed, adopted or enacted, or any interpretation is adopted by the staff of the Commission, which in our reasonable judgment, might materially impair our ability to proceed with the exchange offer or materially impair the contemplated benefits of the exchange offer to us;
- any change, or any development involving a prospective change, in our business or financial affairs or any of our subsidiaries has occurred which, in our reasonable judgment, might materially impair our ability to proceed with the exchange offer or materially impair the contemplated benefits of the exchange offer to us;
- any governmental approval has not been obtained, which approval we, in our reasonable discretion, consider necessary for the completion of the exchange offer as contemplated by this prospectus;

The conditions listed above are for our sole benefit and may be asserted by us regardless of the circumstances giving rise to any of these conditions. We may waive these conditions in our sole discretion in whole or in part at any time and from time to time. Our failure to exercise any of the above rights will not be considered a waiver of the right, which we may assert at any time and from time to time.

If we determine in our reasonable discretion that any of the conditions are not satisfied at or before the expiration date, we may:

- refuse to accept any GDSs and return all tendered GDSs to the tendering holders,
- extend the exchange offer and retain all GDSs tendered before the expiration of the exchange offer, subject, however, to the rights of holders to withdraw these GDSs (see ‘‘—Withdrawal Rights’’ below), or
- waive unsatisfied conditions relating to the exchange offer and accept properly tendered GDSs which have not been withdrawn.

The exchange offer is not being made to, nor will we accept tenders for exchange from, holders of GDSs in any jurisdiction in which the exchange offer or the acceptance of it would not be in compliance with the securities or blue sky laws of such jurisdiction.

Procedures for Tendering GDSs

When you tender, and we accept, the GDSs, a binding agreement will exist between you and us and you will be subject to the terms and conditions set forth in this prospectus and letter of transmittal. Except as set forth below, to tender in the exchange offer, you as holder of GDSs must transmit either:

- a properly completed and duly executed letter of transmittal, and all other documents required by such letter of transmittal, to The Bank of New York, the exchange agent, at the address set forth under ‘‘—Exchange Agent’’ on or prior to the expiration date; or
- the tendering GDS holder may transmit an agent’s message to the exchange agent instead of the letter of transmittal on or prior to the expiration date.

In addition, either

- the exchange agent must receive, prior to October 31, 2000, a timely confirmation of a book-entry transfer of such GDSs into the exchange agent’s account at The Depository Trust Company according to the procedure for book-entry transfers; or
- the holder must comply with the guaranteed delivery procedures described below.

The term ‘‘agent’s message’’ means a message, transmitted to The Depository Trust Company and received by the exchange agent and forming a part of the book-entry confirmation. It would state that The Depository Trust Company has received an express acknowledgment that the tendering participant has received and agrees to be bound by the letter of transmittal. The method of delivery of letters of transmittal and all other required documents is at the election and risk of the holders. If such delivery is by mail, we recommend registered mail, properly insured, with return receipt requested. In all cases, you should allow sufficient time to assure timely delivery. Do not send letters of transmittal to us. You must send these documents to the exchange agent.

Signatures on a letter of transmittal or a notice of withdrawal, as the case may be, must be guaranteed only if the GDSs surrendered for exchange are tendered by a holder who has completed the box entitled ‘‘Special Delivery Instructions’’ on the letter of transmittal and are not surrendered for the account of an eligible institution. An ‘‘eligible institution’’ is a firm which is a member of a registered national securities exchange or a member of the National Association of Securities Dealers, Inc. or a commercial bank or trust company having an office or correspondent in the United States. If signatures on a letter of transmittal or a notice of withdrawal are required to be guaranteed, the guarantor must be an eligible institution.

All questions as to the validity, form, eligibility and acceptance of GDSs tendered for exchange will be determined by us in our sole discretion. Our determination will be final and binding. We reserve the absolute right to reject any and all tenders of GDSs improperly tendered or to waive any defects or irregularities or conditions of the exchange offer as to any GDSs either before or after the expiration date (including the right to waive the ineligibility of any holder who seeks to tender GDSs in the exchange offer). Our interpretation of the terms and conditions of the exchange offer as to any particular GDSs either before or after the expiration date (including the letter of transmittal and the instructions thereto) will be final and binding on all parties. Unless waived, any defects or irregularities in connection with tenders of GDSs for exchange must be cured within such reasonable period of time as we shall determine. Neither we, the exchange agent nor any other person shall be under any duty to give notification of any defect or irregularity with respect to any tender of GDSs for exchange or incur any liability for failure to give such notifications.

We will be under no obligation to accept a tender of GDSs from a holder of GDSs in the United Kingdom who is not a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its businesses or a person who otherwise possesses characteristics such that the making of the exchange offer to it (when considered in conjunction with all other persons in the United Kingdom to whom the exchange offer is being made) will not constitute the making of any offer of securities to the public in the United Kingdom for the purposes of Part IV of, and Schedule 11A to, the Financial Services Act 1986 or of the Public Offers of Securities Regulations 1995.

If trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations or others acting in a fiduciary or representative capacity sign the letter of transmittal or any GDRs or powers of attorney, such persons should so indicate when signing, and you as the holder must submit prior evidence satisfactory to us of such persons' authority to take such action, unless we waive this requirement.

Resales

We are making the exchange offer in reliance on the position of the Commission as set forth in certain no-action letters. However, we have not sought our own no-action letter. Based upon these interpretations by the Commission, we believe that a holder of ADSs, but not a holder who is our ''affiliate'' within the meaning of Rule 405 of the Securities Act, who exchanges the GDSs for ADSs in the exchange offer, generally may offer the ADSs for resale, sell the ADSs and otherwise transfer the ADSs without further registration under the Securities Act, and without delivery of a prospectus that satisfies the requirements of Section 10 of the Securities Act. This does not apply, however, to a holder who is our ''affiliate'' within the meaning of Rule 405 of the Securities Act. We also believe that a holder may offer, sell or transfer the ADSs only if the holder acquires the ADSs in the ordinary course of its business and is not participating, does not intend to participate and has no arrangement or understanding with any person to participate in a distribution of the ADSs.

By tendering GDSs in exchange for ADSs and executing the letter of transmittal which must accompany a tender of the GDSs, each holder will represent to us that:

- it is not our affiliate;
- any ADSs to be received by it will be acquired in the ordinary course of business, and
- it is not engaged in, and does not intend to engage in, and has no arrangement or understanding with any person to participate in, a distribution of the ADSs.

Any holder of the GDSs using the exchange offer to participate in a distribution of ADSs cannot rely on the no-action letters referred to above. This includes a broker-dealer that acquired GDSs directly from us, but not as a result of market-making activities or other trading activities. Consequently, the holder must comply with the registration and prospectus delivery requirements of the Securities Act in the absence of an exemption from such requirements.

Each broker-dealer that receives ADSs for its own account in exchange for GDSs, as a result of market-making activities or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of such ADSs. This prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of ADSs received in exchange for GDSs where such GDSs were acquired by such broker-dealer as a result of market-making activities or other trading activities. The letter of transmittal states that by acknowledging and delivering a prospectus, a broker-dealer will not be considered to admit that it is an ‘‘underwriter’’ within the meaning of the Securities Act. Except as described above, this prospectus may not be used for an offer to resell, resale or other retransfer of ADSs.

We are not under any obligation to provide this prospectus or maintain the effectiveness of the related exchange offer registration statement for use by such broker-dealers; however, we may maintain the effectiveness of this registration statement for an indefinite period after it is effective. Any broker-dealer that received ADSs for its own account in exchange for GDSs acquired as a result of market-making activities or other trading activities, will still be required to deliver a prospectus in connection with any resale of the ADSs.

Acceptance of GDSs for Exchange; Delivery of ADSs

Upon satisfaction or waiver of all the conditions to the exchange offer, we will promptly accept after the expiration date, all GDSs properly tendered and will promptly request issuance of the ADSs. For purposes of the exchange offer, we shall be deemed to have accepted properly tendered GDSs for exchange when, as and if we have given oral or written notice to the exchange agent, with written confirmation of any oral notice to be given promptly thereafter.

For each GDS accepted for exchange from a holder, the GDS holder will receive two ADSs.

In all cases, issuance of ADSs will be made only after the exchange agent timely receives confirmation of book-entry delivery of such GDSs into the exchange agent’s account at The Depository Trust Company and a properly completed and duly executed letter of transmittal and all other required documents or an agent’s message in lieu thereof. If for any reason set forth in the terms and conditions of the exchange offer we do not accept any tendered GDSs, we will return such unaccepted GDSs by credit to an appropriate account of The Depository Trust Company as promptly as practicable after the end of the exchange offer.

Book-entry Transfer

Any financial institution that is a participant in The Depository Trust Company’s systems may make book-entry delivery of GDSs by causing The Depository Trust Company to transfer such GDSs into the exchange agent’s account at The Depository Trust Company. However, even after delivery by means of book-entry transfer at The Depository Trust Company, the letter of transmittal or facsimile thereof, with any required signature guarantees, or an agent’s message in lieu of a letter of transmittal, and any other required documents, must, in any case, be transferred to and received by the exchange agent at one of the addresses set forth below under ‘‘—Exchange Agent’’ on or prior to the expiration date or the guaranteed delivery procedures described below must be complied with.

Guaranteed Delivery Procedures

If a registered holder desires to tender GDSs and the GDSs are not immediately available, or time will not permit such holder’s GDSs or other required documents to reach the exchange agent before the expiration date, or the procedure for book-entry transfer cannot be completed on a timely basis, a tender may be properly effected if:

- the tender is made through an eligible institution;
- prior to the expiration date, the exchange agent receives from the eligible institution a properly completed and duly executed letter of transmittal (or facsimile thereof) and notice of guaranteed delivery, substantially in the form provided by us (by telegram, telex, facsimile transmission, mail or hand delivery), setting forth the name and address of the holder of GDSs and the number of GDSs

tendered, stating that the tender is being made thereby and guaranteeing that within three New York Stock Exchange, Inc. trading days after the date of execution of the notice of guaranteed delivery, the certificates for all physically tendered GDSs, in proper form for transfer, or a book-entry confirmation, as the case may be, and any other documents required by the letter of transmittal will be deposited by the eligible institution with the exchange agent; and

- the exchange agent receives the certificates for all physically tendered GDSs, in proper form for transfer, or a book-entry confirmation, as the case may be, and all other documents required by the letter of transmittal, within three New York Stock Exchange, Inc. trading days after the date of execution of the notice of guaranteed delivery.

Withdrawal Rights

You may withdraw tenders of GDSs at any time prior to the expiration date.

For a withdrawal to be effective, you must send a written notice of withdrawal to the exchange agent at one of the addresses set forth below under ''—Exchange Agent''. The notice of withdrawal must specify the name of the person having tendered the GDSs to be withdrawn and identify the GDSs to be withdrawn. Any notice of withdrawal must specify the name and number of the account at The Depository Trust Company to be credited with the withdrawn GDSs and otherwise comply with the procedures of such facility. All questions as to the validity, form and eligibility (including time of receipt) of such notices will be determined by us. Our determination will be final and binding on all parties. Any GDSs so withdrawn will be deemed not to have been validly tendered for exchange for purposes of the exchange offer. Any GDSs which have been tendered for exchange but which are not exchanged for any reason will be returned to the holder thereof (by credit to an account maintained with The Depository Trust Company for the GDSs) as soon as practicable after withdrawal, rejection of tender or termination of the exchange offer. Properly withdrawn GDSs may be retendered by following one of the procedures described under ''—Procedures for Tendering GDSs'' above at any time on or prior to the expiration date.

Exchange Agent

The Bank of New York has been appointed as the exchange agent for the exchange offer. All executed letters of transmittal should be directed to the exchange agent at one of the addresses set forth below. Questions and requests for assistance, requests for additional copies of this prospectus or of the letter of transmittal and requests for notices of guaranteed delivery should be directed to the exchange agent addressed as follows:

The Exchange Agent

The Bank of New York

Facsimile Transmission Telephone Number (for Eligible Institutions (only):	*Address for hand Deliveries or Overnight Courier*	*Address for Mailing (Allow 5 days)*
Fax: (212) 815-6213 *For Confirmation Telephone:* **(800) 507-9357**	**The Bank of New York** **101 Barclay Street** **New York, New York 10286** **Attn: Receive and Deliver Window**	**The Bank of New York** **PO Box 11248** **Church Street Station** **New York, New York 10286-1248** **Attn: Tender and Exchange Dept.**

Delivery to any address other than as set forth above will not constitute valid delivery.

Solicitation of Tenders; Expenses

We will not make any payments to brokers, dealers, or others soliciting acceptances of the exchange offer.

We will pay our expenses to be incurred in connection with the exchange offer, including our legal fees. We will also pay the reasonable out-of-pocket expenses incurred by the exchange agent in connection with the exchange offer, and The Bank of New York will not charge an exchange agent fee. The Bank of New York, as depositary, will pay its expenses incurred in connection with the exchange offer, including its legal fees.

PLAN OF DISTRIBUTION

Each holder desiring to participate in the exchange offer will represent to us that:

- it is not our affiliate;
- any ADSs to be received by it will be acquired in the ordinary course of business, and
- it is not engaged in, and does not intend to engage in, and has no arrangement or understanding with any person to participate in, a distribution of the ADSs.

Each broker-dealer tendering GDSs is required to acknowledge in the letter of transmittal that it acquired the GDSs as a result of market-making or other trading activities. Each broker-dealer that receives ADSs for its own account pursuant to the exchange offer must promise to deliver a prospectus in connection with any resale of such ADSs. This prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of ADSs received in exchange for GDSs where such GDSs were acquired as a result of market-making activities or other trading activities. Until October 27, 2000, 25 days following the date of this prospectus, all dealers effecting transactions in the ADSs may be required to deliver a prospectus.

We will not receive any proceeds from any sale of ADSs by broker-dealers. ADSs received by broker-dealers for their own account pursuant to the exchange offer may be sold from time to time in one or more transactions in the over-the-counter market, in negotiated transactions, through the writing of options on the ADSs or a combination of such methods of resale, at market prices prevailing at the time of resale, at prices related to such prevailing market prices or negotiated prices, any such resale may be made directly to purchasers or to or through brokers or dealers who may receive compensation in the form of commissions or concessions from any such broker-dealer and/or the purchasers of any such ADSs. Any broker-dealer that resells ADSs that were received by it for its own account pursuant to the exchange offer and any broker or dealer that participates in a distribution of such ADSs may be deemed to be an ‘‘underwriter’’ within the meaning of the Securities Act and any profit on any such resale of ADSs and any commissions or concessions received by any such persons may be deemed to be underwriting compensation under the Securities Act. The letter of transmittal states that by promising to deliver and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an ‘‘underwriter’’ within the meaning of the Securities Act.

A secondary resale transaction in the United States by a holder that is using the exchange offer to participate in a distribution of the ADSs must be covered by an effective registration statement that contains the selling securityholder information required by the Commission in Item 507 of Regulation S-K. Additionally, the securityholder must comply with the prospectus delivery requirements of the Securities Act in the secondary resale transaction.

U.S. FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Cleary, Gottlieb, Steen & Hamilton, a holder of GDSs will not recognize gain or loss for U.S. federal income tax purposes upon an exchange of GDSs for ADSs pursuant to the exchange offer. Accordingly, a holder’s tax basis in ADSs received pursuant to the exchange offer will be the same as the holder’s basis in the GDSs exchanged therefor and a holder’s holding period for ADSs received pursuant to the exchange offer will include the holder’s holding period for the GDSs.

Holders should consult their own advisers regarding the state, local and non-U.S. tax consequences of the exchange offer in light of the holder’s particular circumstances.

ENFORCEMENT OF CIVIL LIABILITIES

H&CB is a corporation with limited liability organized under the laws of Korea. Substantially all of the directors and officers of H&CB and certain other persons named in this prospectus reside in Korea, and all or a significant portion of the assets of the directors and officers and certain other persons named in this prospectus and substantially all of the assets of H&CB are located in Korea. As a result, it may not be possible for investors to effect service of process within the United States upon such persons or to enforce against them or against H&CB in United States courts judgments predicated upon the civil liability provisions of the federal securities laws of the United States. There is doubt as to the enforceability in Korea, either in original actions or in actions for enforcement of judgments of United States courts, of civil liabilities predicated on the United States federal securities laws.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the Commission a registration statement on Form F-4 under the Securities Act covering the shares and on Form F-6 under the Securities Act with respect to the ADSs. We have also filed a Schedule TO Tender Offer Statement with the Commission with respect to the exchange offer. The information contained in this prospectus does not contain all of the information set forth in the registration statements and Schedule TO, certain items of which we have omitted from this prospectus in accordance with the rules and regulations of the SEC to which we refer. Statements that this prospectus contains regarding the contents of any documents filed as exhibits to the registration statements or Schedule TO summarize the material terms of those documents. With respect to each of those documents, we refer you to the copy of the document filed as an exhibit to the registration statements or Schedule TO.

You may read and copy the registration statements and Schedule TO, including the attached exhibits, and any reports, statements or other information that we file with the SEC at the SEC's public reference room in Washington, D.C. You can request copies of these documents, upon payment of a duplicating fee, by writing to the SEC. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference rooms. We file annual and special reports and other information with the Commission. You may read and copy any reports or other information on file at the SEC's public reference rooms at the following locations:

Public Reference Room	New York Regional Office	Chicago Regional Office
450 Fifth Street, N.W.	7 World Trade Center	Citicorp Center
Room 1024	Suite 1300	500 West Madison Street
Washington, D.C. 20549	New York, NY 10048	Suite 1400
		Chicago, IL 60661-2511

As a foreign private issuer, we will be exempt from certain periodic reporting requirements under the Securities Exchange Act of 1934, as amended (Exchange Act) and certain rules under the Exchange Act relating to short swing profits reporting and liability and prescribing the furnishing and content of proxy statements.

You should rely only on the information provided in this prospectus. No person has been authorized to provide you with different information.

The information in this prospectus is accurate as of the date on the front cover. You should not assume that the information contained in this prospectus is accurate as of any date other than that date.

LEGAL MATTERS

The validity of our shares will be passed upon by Kim & Chang, our Korean counsel. Certain legal matters relating to the exchange offer will be passed upon by Cleary, Gottlieb, Steen & Hamilton, our special U.S. counsel.

Appendix A

As filed with the Securities and Exchange Commission on September 29, 2000

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 20-F
REGISTRATION STATEMENT
PURSUANT TO SECTION 12(b) OR (g) OF THE
SECURITIES EXCHANGE ACT OF 1934

Commission File Number: _______

H&CB

(Exact name of registrant as specified in its charter)

N/A	**The Republic of Korea**
(Translation of registrant's name into English)	*(Jurisdiction of incorporation or organization)*

36-3, Yoido-dong, Youngdeungpo-gu
Seoul, Korea 150-758
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class:	Name of each exchange on which registered:
Common stock, par value Won 5,000 per share*	New York Stock Exchange

* Not for trading, but only in connection with the listing of American Depositary Shares on the New York Stock Exchange, pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the last full fiscal year covered by this Annual Report:

At December 31, 1999, there were outstanding:

99,147,777 shares of common stock, par value of Won 5,000 per share

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days:

Yes ___ No _X_

Indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 ___ Item 18 _X_

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* Not Applicable.

** The Registrant has responded to Item 18 in lieu of responding to this Item.

CERTAIN DEFINED TERMS

All references to ‘‘Korea’’ or the ‘‘Republic’’ contained in this document mean The Republic of Korea. All references to the ‘‘government’’ mean the government of The Republic of Korea. All references to ‘‘H&CB’’ mean H&CB on a non-consolidated basis, and all references to ‘‘we’’ or ‘‘us’’ mean H&CB and, as the context may require, its subsidiaries.

All references to ‘‘Won’’ or ‘‘₩’’ in this document are to the currency of the Republic, and all references to ‘‘Dollars’’, ‘‘US Dollars’’, ‘‘$’’ or ‘‘US$’’ are to the currency of the United States of America.

Our fiscal year ends on December 31 of each year. All references to a particular year are to the year ended December 31 of that year.

Unless otherwise indicated, translations of Won amounts into Dollars in this document were made at the noon buying rate in The City of New York for cable transfers in Won per US$1.00 as certified for customs purposes by the Federal Reserve Bank of New York. Unless otherwise stated, the translations of Won into Dollars were made at the noon buying rate in effect on December 31, 1999, which was Won 1,136.00 to US$1.00. On September 28, 2000, the noon buying rate was Won 1,115.90 to US$1.00.

Unless otherwise indicated, the financial information presented in this document has been prepared in accordance with generally accepted accounting principles in the United States (US GAAP).

Any discrepancies in any table between totals and the sums of the amounts listed are due to rounding.

FORWARD-LOOKING STATEMENTS

We have included statements in this document which contain words or phrases such as ‘‘will’’, ‘‘aim’’, ‘‘will likely result’’, ‘‘believe’’, ‘‘expect’’, ‘‘will continue’’, ‘‘anticipate’’, ‘‘estimate’’, ‘‘intend’’, ‘‘plan’’, ‘‘contemplate’’, ‘‘seek to’’, ‘‘future’’, ‘‘objective’’, ‘‘goal’’, ‘‘project’’, ‘‘should’’, ‘‘will pursue’’, and similar expressions or variations of such expressions that are ‘‘forward-looking statements’’. Actual results may differ materially from those suggested by the forward-looking statements due to certain risks or uncertainties associated with our expectations with respect to, but not limited to, our ability to successfully implement our strategy, future levels of non-performing loans, our growth and expansion, the adequacy or allowance for credit and investment losses, technological changes, investment income, cash flow projections and our exposure to market risks. By their nature, certain of the market risk disclosures are only estimates and could be materially different from what actually occurs in the future. As a result, actual future gains, losses or impact on net interest income could materially differ from those that have been estimated.

In addition, other factors that could cause actual results to differ materially from those estimated by the forward-looking statements contained in this document could include, but are not limited to: general economic and political conditions in Korea, Southeast Asia, and the other countries which have an impact on our business activities or investments, the monetary and interest rate policies of Korea, inflation, deflation, unanticipated turbulence in interest rates, foreign exchange rates, equity prices or other rates or prices, the performance of the financial markets in Korea and globally, changes in domestic and foreign laws, regulations and taxes, changes in competition and the pricing environments in Korea, and regional or general changes in asset valuations. For further discussion of the factors that could cause actual results to differ, see the discussion under ‘‘Risk Factors’’ contained in this document.

Readers are cautioned not to place undue reliance on the forward-looking statements contained in this document, which speak only as of the date hereof.

RISK FACTORS

You should carefully consider the following risk factors as well as the other information contained in this document in evaluating us and our business before purchasing American depositary shares.

Risks relating to our banking business

We are examining internally on a preliminary basis the possibility of mergers with other sound financial institutions, and if we are involved in such a merger, it may have a substantial impact on our business

The Korean commercial banking sector is undergoing significant consolidation. A number of significant mergers and acquisitions in the industry have taken place in Korea during the last two years which have reduced the number of nationwide commercial banks in Korea from 16 as of December 31, 1997, to 11 as of December 31, 1999. In addition, the government has indicated that it may advocate further mergers in the commercial banking sector and there has been speculation in the press regarding possible mergers involving our bank. We expect that the merger and acquisition activity in the Korean commercial banking sector will continue and we intend to review potential acquisition opportunities as they arise. While we are examining internally on a preliminary basis the possibility of potential mergers with other sound financial institutions, including Shinhan Bank, Koram Bank, Hana Bank and Kookmin Bank, we have not had any contact with any of the four referenced banks, or any other bank for that matter, relating to any possible merger or acquisition transaction to date.

The basic principles that we will take into consideration if we examine the desirability of any particular merger include that the merger not erode shareholder value and that the merger be in line with our business strategy. More specifically, the material parameters that our management would consider in examining the desirability of any merger include the merger's impact on our earnings per share and book value, and whether the merger would:

- increase market shares in different business areas with minimal overlap in customer base, product range and distribution channel;
- not entail an inordinately high merger premium;
- maximize cross-selling opportunities and other synergies; and
- help reduce cost and redundancies.

Mergers and acquisitions involve risks, including:

- unforeseen contingent risks or latent liabilities relating to the merged or acquired bank that may only become apparent after the merger or acquisition is finalized;
- integration and management of the new operations;
- retention of select personnel;
- integration of operations and information systems;
- coordination of marketing efforts;
- management of a larger business; and
- diversion of management's attention from other ongoing business concerns.

If we pursue any future mergers, which are consummated, and if we are unable to successfully integrate and manage the business acquired, our growth plans may not be met and our profitability may decline.

Recently, we have frequently been subject to inaccurate or false press coverage regarding us, which could overly influence the price of our shares

Recently, a number of news services carried reports regarding possible mergers involving us. We believe that they were based on, among other things, speculation, the desire of the government to promote public sentiment toward bank mergers, personal beliefs, misquotes or mistranslations. As we have stated above, we have not had any contact with any bank relating to any possible merger or acquisition transaction. Our practice with respect to such reports has been to deny them or issue announcements regarding our position, where we believed necessary or desirable to do so. Such incorrect or false press reports could overly influence the price of our shares.

Projections and targets—A number of news services carried reports regarding our bank, including projections and targets regarding our results of operations attributable to our senior officers, which if not met, may lead to a decrease in the price of our shares, and a statement by our president regarding our price-earnings ratio which if not met, may lead to a decrease in the price of our shares

In July 2000, a number of news services carried reports regarding our bank which included statements made by our senior officers that, on a Korean GAAP basis, they expected our profits for the year ending December 31, 2000 to exceed ₩600 billion and estimated earnings per share to be ₩5,504 per share (which would result in a return on equity greater than 20% and a return on assets greater than 1%) and that they expected loan growth of 40% for the year 2000. These projections are based on a number of assumptions and are inherently subject to significant uncertainties and contingencies. The material assumptions for the second half of 2000 on which these projections are based are as follows:

- Korean economic indicators as follows:

  -gross domestic product growth of 6.7%;

  -private consumer expenditure increase of 5.9%;

  -consumer price index rise of 2.8%;

  -M2, which is the money supply measure that includes cash and demand deposits plus time deposits in commercial banks, excluding large certificates of deposit, growth of 25.0%; and

  -corporate bond yield of 9.2%;

- Net interest spread in Won currency of 3.41%;
- Cost-to-average asset ratio of 1.73%;
- Net increase in our deposits of ₩6.3 trillion;
- Net increase in our mortgage loans of ₩1.4 trillion;
- Net increase in our commercial and industrial loans of ₩1.3 trillion;
- Net increase in our consumer loans of ₩2.7 trillion;
- the current guidelines for providing for bad loans will not change; and
- the credit quality of the entities to which we have exposure will not deteriorate.

In August 2000, another news service carried a report regarding our bank, which quoted a statement made by our president that, on a Korean GAAP basis, he expected our net earnings to amount to ₩1 trillion in 2001 and that we would attempt to boost our share of the Korean credit card market to 15% by 2003 from 5% in 1999 and we had set the net earnings target from our credit card business at ₩450 billion by 2003 (up from ₩30 billion in 1999). The news service had been told by our president that the ₩1 trillion figure was our net earnings target based on an extrapolation of our recent earnings trends but the news service did not note that in its report. The net earnings targets and the market share target are goals we will endeavor to achieve but we cannot provide any assurance that we will in fact be able to achieve these targets.

We do not intend to make public financial projections in the future or, except as required by applicable law, to update the projections or earnings targets publicly disclosed in July and August 2000. If we do not meet these projected earnings targets, the price of our shares may decline.

The same report quoted statements made by our president that our share prices have been undervalued and that our president saw an appropriate price-earnings ratio for our shares at 15 to 20 compared with 7.4 at the end of June 2000. According to the news service, the banking sector's price-earnings ratio at the end of June 2000 was 11.51. We cannot provide any assurance that such a price-earnings ratio is appropriate or that we will be able to achieve it.

We now face full competition in our core mortgage business, which may result in a further decrease of our market share and adversely affect our margins

Until 1997, by law, we were the only financial institution in Korea that could offer a full range of mortgage products. Among other things we had the exclusive ability to:

- offer mortgages with terms longer than ten years;
- provide housing related deposit accounts; and
- offer preferential rights to subscribe for newly-built apartments.

Beginning in 1997, the laws giving us the exclusive rights to offer these mortgage-related products began to be repealed. As a result, all banks in Korea can offer a full range of mortgage products.

The increase in competition has led to loan price competition among mortgage lenders in Korea which has adversely affected our margins. We cannot guarantee that we will be able to maintain our market share or our margins at their current levels in the face of increased competition. Any decrease in our market share or in our margins may adversely affect our financial condition and results of operations.

Unfavorable financial and economic conditions in Korea have had and may in the future have an adverse impact on the asset quality of our loan portfolio

Korea has experienced unfavorable financial and economic conditions since the middle of 1997. As a result, a large number of Korean companies and individuals have experienced financial difficulties. This has resulted in a general increase in the level of our non-performing loans. The ratio of our non-performing loans to our total loans was 7.5% as of December 31, 1997, 10.0% as of December 31, 1998, and 7.6% as of December 31, 1999. The level of our non-performing loans would have been higher as of December 31, 1997, December 31, 1998, and December 31, 1999 except that we sold substandard or below loans to the Korea Asset Management Corporation (KAMCO) in connection with a government program to assist the Korean banking industry. In 1997, we sold an aggregate of ₩34 billion of substandard or below loans to KAMCO, in 1998, we sold an aggregate of ₩299 billion of substandard or below loans to KAMCO and in 1999, we sold an aggregate of ₩8 billion of substandard or below loans to KAMCO.

Any worsening of the Korean economy could lead to an increase in our non-performing loans. A significant increase in our non-performing loans may have a material adverse effect on our financial condition, results of operations and capital adequacy and could have an adverse effect on the price of the American depositary shares.

Developments that could hurt Korea's economy include the following:

- social and labor unrest resulting from higher unemployment and lower levels of income;

- a decrease in tax revenues and a substantial increase in government expenditure for unemployment compensation and other social programs which together, are expected to result in an increased government budget deficit;
- volatility in foreign currency reserve levels, exchange rates, interest rates and the stock market;
- increased reliance on exports to service foreign currency debts, which could cause friction with Korea's trading partners;
- the current financial problems at companies in the Daewoo Group or similar difficulties at other chaebols or their suppliers, and their potential impact on Korea's financial sector; and
- adverse developments in the economies of countries to which Korea exports.

Our business is vulnerable to volatility in interest rates

Over the last few years, the financial sector in Korea has been deregulated, which has increased competition. Prior to that time, our operations and profitability substantially reflected our lending at interest rates set by the Korean government. Since 1997, we have had the flexibility to set interest rates on virtually all of the loans we extend. These developments have resulted in greater volatility in interest rates and margins for substantially all financial institutions in Korea including ourselves. Based on our lending book's asset-liability position as of December 31, 1999, our net interest income would decrease with a decline in interest rates. The volatility in interest rates could adversely affect our business and future financial performance.

Our largest exposure is to the Korea Housing Guarantee Co., Ltd. (KHGC), and the KHGC is currently experiencing substantial financial difficulties

The KHGC takes responsibility for completing construction projects if construction companies become insolvent while their projects are in progress. In addition, the KHGC has assumed the obligations of a predecessor entity to guarantee a number of loans to construction companies. As of December 31, 1999, 50.2% of the outstanding share capital of the KHGC was owned by construction companies, 41.0% of the outstanding share capital of the KHGC was owned by the government and 8.3% of the outstanding share capital of the KHGC was owned by financial institutions, including us.

As a result of the large number of insolvencies in the construction industry, the KHGC is currently experiencing substantial liquidity problems. Representatives of the KHGC, the Ministry of Construction and Transportation and creditor banks of the KHGC, including us, held a series of meetings in March and April 2000 and agreed on a basic framework for restructuring part of the KHGC's debts.

As of December 31, 1999, our total direct exposure, which includes exposure from both on balance sheet and off balance sheet financial instruments, to the KHGC was ₩365 billion and we had total loan loss allowances relating to the KHGC of ₩126 billion. In addition, as of December 31, 1999, we had loans to construction companies guaranteed by the KHGC of ₩147 billion. Of this amount, ₩97 billion were to companies that were in composition or corporate reorganization proceedings. If the agreement on restructuring program for the KHGC fails to resolve the KHGC's current financial problems, our financial condition and results of operations would be adversely affected.

We have exposure to the largest Korean commercial conglomerates known as "chaebols," which have recently experienced significant financial difficulties

As a result of the unfavorable financial and economic conditions in Korea, a number of chaebols have experienced financial difficulties. Of our ten largest corporate exposures as of December 31, 1999, six are companies that are members of the 30 largest chaebols in Korea. As of that date, the total amount of our exposures to those chaebols was ₩1,620 billion or 3.4% of our total exposures of which ₩474 billion or 29.2% were classified as substandard or below and ₩136 billion or 8.4% were classified as precautionary. If the quality of the exposures extended to these or other chaebols declines, substantial additional allowances would be required, which would adversely affect our results of operations.

Due to their size and penetration of the Korean economy, continued difficulties experienced by the chaebols may have adverse effects on the Korean economy as a whole. Many small and medium sized enterprises in Korea, which are the focus of our corporate banking activities, have close business relationships with chaebols, primarily as suppliers. Any difficulties encountered by chaebols would be likely to adversely impact the financial conditions of small and medium sized enterprises, including those with which we do business, which in turn could have an adverse effect on our business and the price of the American depositary shares.

We have significant exposure to the Daewoo Group whose principal creditors have commenced formal workout proceedings

As of December 31, 1999, our outstanding exposure to member companies of the Daewoo Group, one of the largest chaebols in Korea, totaled approximately ₩348 billion, which represented approximately 0.7% of our total exposure. Approximately 84.5% of our exposures to member companies of the Daewoo Group are currently classified as substandard or below. The financial condition of the Daewoo Group has deteriorated over the past several years. In August 1999, the principal creditor banks of the Daewoo Group commenced formal workout procedures with respect to 12 of the member companies of the Daewoo Group, including Daewoo Corporation, Daewoo Motors, Daewoo Electronics, Daewoo Heavy Industries, Daewoo Telecom and Ssangyong Motors. As of December 31, 1999, we had made provisions for 72.7% against our loans and guarantees with the Daewoo Group. The allowance for loans and guarantees amounted to ₩218 billion. In addition, we hold securities issued by the Daewoo Group at their fair value. There is no guarantee that the procedures will result in the successful implementation of workout plans for the member companies of the Daewoo Group to which we have exposure or that we will be able to make any recoveries in respect of our total exposures to those companies.

If any of the loans to which we have the highest exposure were to become substandard or below, our results of operations could be adversely affected

As of December 31, 1999, our 20 largest loans, based on outstanding balances, totaled approximately ₩1,119 billion, which represented approximately 3.5% of total loans. As of that date, our largest single outstanding loan balance was to the Korea Deposit Insurance Corporation (KDIC) in the amount of ₩190 billion, representing 0.6% of our total loans. As of December 31, 1999, ten of our 20 largest loans aggregating ₩520 billion (1.6% of our total loans), were classified as precautionary. Also as of that date, one loan in the amount of ₩40 billion (0.1% of our total loans) was classified as doubtful. If any of the remaining loans were to become substandard or below, additional allowances would be required, which would adversely affect our results of operations.

Our current allowances for losses relating to our loans to leasing companies and companies under restructuring programs may not be sufficient to cover all future losses relating to them

As of December 31, 1999, we had loans outstanding to leasing companies in the amount of ₩194 billion. Of this amount, ₩146 billion was classified as precautionary or lower. Leasing companies in Korea are undergoing restructuring, thus the quality of these loans may deteriorate further in the future. As of December 31, 1999, our loan loss allowance for loans to leasing companies was ₩57 billion. However, we cannot assure you that this amount will be sufficient to cover all future losses arising from our exposure to leasing companies.

As of December 31, 1999, ₩286 billion, or 0.9%, of our total loans were in the process of being restructured. As of December 31, 1999, our loan loss allowance for our total loans to companies under restructuring programs amounted to ₩22 billion, or 7.7% of our total loans to these companies. We cannot assure you that they will be sufficient to cover all future losses relating to our exposure to companies under restructuring programs.

A decline in the value of the collateral securing our loans and our inability to realize full collateral value may adversely affect our credit portfolio

A substantial portion of our loans are secured by real estate. The values of real estate in Korea declined significantly in 1997 and 1998 due to adverse economic conditions. The loan to value ratio of our loans secured by real estate, which is a measure of the amount of a loan to the assessed value of the security collateralizing the loan, has been approximately 28.0% for housing loans, and 80.0% to 90.0% for general loans to corporations and individual entrepreneurs, over the last five years. As a result, the downturn in the real estate market since the end of 1997 did not result in the principal amount of our loans exceeding the value of the underlying collateral. Any further downturn in the Korean economy, however, could result in shortfalls in collateral values. Any decline in the value of the collateral securing our loans may require us to increase our loan loss provisions and allowance.

In Korea, foreclosure on collateral generally requires a written petition to a court. An application, when made, may be subject to delays and administrative requirements that may decrease the value of such collateral. We cannot guarantee that we will be able to realize the full value on our collateral as a result of, among other factors, delays in foreclosure proceedings and defects in the perfection of collateral. A failure to recover the expected value of a collateral security could expose us to a potential loss. Any unexpected losses could reduce our stockholders' equity and adversely affect our business.

If we are required to repurchase the substandard or below loans that we sold to KAMCO, we may need to recognize losses

In December 1997, September 1998 and December 1999, we sold an aggregate of ₩341 billion of loans before allowances for loan losses (₩236 billion, net of loan loss allowances) classified as substandard or below, to KAMCO for proceeds of ₩138 billion pursuant to a government program to support financial institutions in Korea. Pursuant to the terms of these sales, KAMCO has the right, in certain circumstances, to require us to repurchase the loans at their purchase price. In addition, the purchase price paid by KAMCO can be adjusted in certain circumstances. See ''Item 9. Management's Discussion and Analysis of Financial Condition and Results of Operations—Overview—Sales of Substandard or Below Loans to KAMCO''. As of December 31, 1999, KAMCO had required us to repurchase an aggregate of ₩52 billion of substandard loans (₩38 billion net of loan loss allowances). After subsequent adjustments, these sales resulted in a loss to us of ₩71 billion.

As of December 31, 1999 we had guaranteed W82 billion of loans against which we had recorded a recourse liability of ₩4 billion. Currently, the value of loans under guarantee has risen to ₩87 billion. We are unable to predict when, if at all, we will be required to repurchase assets from KAMCO. If we are required to repurchase loans from KAMCO and we are unable to recover an amount sufficient to cover the repurchase price, we will incur a loss. Any such loss could have a material adverse effect on our results of operations and financial condition.

Risks relating to our acquisition of DongNam Bank

We may not be able to repurchase our preferred stock from KDIC which could result in their conversion to common stock and a significant dilution

In December 1998, the government, through KDIC, purchased (1) 59,300,000 shares of our convertible non-voting preferred stock for an aggregate purchase price of ₩297 billion and (2) ₩148 billion of our subordinated notes to make up for the decrease in our capital ratio resulting from our acquisition of DongNam Bank. Under the terms of the purchase agreement with KDIC, we have the right to repurchase the preferred stock at the original purchase price prior to January 31, 2004. We have repurchased 41,510,000 shares of preferred stock and currently the KDIC owns 17,790,000 shares of our preferred stock. We pay dividends on this preferred stock at a rate of 1.0% of the par value per year.

If we do not repurchase 8,895,000 of the outstanding 17,790,000 shares of preferred stock owned by KDIC by January 31, 2003, the dividend rate for those preferred shares will increase from 1.0% to a rate based on the average yield of bonds issued by KDIC. In addition, if we do not repurchase all the outstanding shares of preferred stock by January 31, 2004, they will convert into shares of common stock on a one-to-one basis on March 28, 2004. The common stock issued upon conversion of the preferred stock currently owned by the KDIC would represent 14.0% of our common stock on a fully diluted basis.

Our ability to repurchase the preferred shares is subject to our obtaining prior approval from the Korean Financial Supervisory Commission (FSC). The aggregate amount of repurchases in any year may not exceed the total amount available for the distribution of dividends at the end of the preceding fiscal year less the amount of dividends paid and reserves for such fiscal year.

We cannot guarantee that we will be able to repurchase our preferred stock from KDIC, and if we cannot repurchase the preferred stock currently owned by KDIC by January 31, 2004 for any reason, and the shares of preferred stock convert into common stock, holders of American depositary shares would suffer a significant dilution of their interests.

KDIC has agreed to waive its pre-emptive rights in respect of its preferred stock until after the applicable repurchase deadlines. KDIC has also agreed that if its stock is converted into common stock, it will refrain from exercising its voting rights. However, such waivers may not be legally enforceable under Korean law. In addition, there are no legal restrictions on the ability of KDIC to transfer the shares of preferred stock or the common stock into which they may convert. In the event that KDIC transfers any such shares to third parties, such transferees would not be bound by KDIC’s waiver of pre-emptive rights or voting rights.

There have been, and may be in the future, legal challenges to our acquisition of DongNam Bank

Following our acquisition of DongNam Bank, 1,104 former employees of DongNam brought a lawsuit against us seeking to require us to employ them and seeking monetary damages. The claim is based on the argument that the acquisition of DongNam Bank was a business transfer in nature, triggering the requirement that all employees of DongNam be given the option to work with us after the acquisition. On May 25, 2000, the Seoul District Court Southern Branch decided the case in our favor. However, the former employees of DongNam Bank appealed to the appellate court on June 12, 2000. If the case is ultimately decided against us, we could be forced to employ these former employees of DongNam and pay monetary damages. The amount of monetary damages we could be required to pay is unclear at this point but it could be as much as ₩73 billion.

In September 1998, members of DongNam Bank’s labor union brought an administrative action against the FSC demanding the unwinding of our acquisition of DongNam on the grounds that the law upon which the FSC based its order for the acquisition was unconstitutional. The case is still proceeding. In addition, a bankruptcy judge in Korea has publicly expressed the view that the method in which assets were transferred in our acquisition of DongNam Bank may violate Korean bankruptcy laws which provide that assets of an insolvent entity must be distributed equally among creditors with the same priority. To date there has been no legal challenge to our acquisition of DongNam Bank on this basis. The statute of limitation for avoidance under Korean bankruptcy law is the earlier of (1) two years from the declaration of bankruptcy and (2) ten years from the transfer. On October 29, 1998, DongNam Bank was declared bankrupt. A similar action alleging fraudulent conveyance under the Korean Civil Code may be brought against us. The statute of limitation for such actions is the earlier of (1) one year from the date on which the relevant creditor became aware of the fraudulent transfer and (2) five years from the transfer. We cannot assure you that these legal actions seeking to unwind our acquisition of DongNam Bank or other remedies based on this or any other grounds will not be commenced, or that, if commenced, would not be successful.

Under Korean law, a transfer of a business to a company requires the approval of the acquiring company's shareholders, as well as an opportunity for dissenting shareholders to exercise appraisal rights which means we are required to purchase shares from these shareholders at a predetermined price. It is unclear whether our acquisition of DongNam constituted a transfer of a business for purposes of Korean law. The Ministry of Justice of Korea has issued an interpretation to the effect that transactions such as our acquisition of DongNam do not constitute a business transfer requiring shareholder approval and appraisal rights. This interpretation, however, does not have any legally binding effect. We did not obtain shareholder approval for the acquisitions or provide appraisal rights to dissenting shareholders. We cannot assure you that our acquisition of DongNam will not be challenged in the future because we did not get shareholder approval or provide appraisal rights or that any challenge on these grounds will not be successful.

An unwinding of our acquisition of DongNam or other remedies resulting from successful legal challenges or otherwise may have an adverse effect on us.

The government may decide not to continue designating us as the sole manager of the National Housing Fund (NHF), in which case our fee income from managing the NHF may be eliminated

The NHF is a government fund that provides mortgage lending to low income households and construction loans to fund projects to build small- and medium-sized housing. Since 1981, we have been managing the operations of the NHF and receiving a monthly management fee. In 1999, we received total fees of ₩152 billion for managing the NHF.

In January 2000, the relevant law that had specified us as the institution that manages the NHF was amended to provide that the Minister of Construction and Transportation is to designate the institution that will perform this function. After the amendment of the law, the Minister of Construction and Transportation designated us to manage the NHF. If the Minister designates another institution instead of us or in addition to us to manage the NHF, our fee income from managing the NHF will be eliminated or reduced compared to current levels, which in turn would have an adverse effect on our results of operations.

Risks relating to government regulation and policy

We are subject to government review of any decision to change the minimum amount of our lending which is required to be devoted to mortgage lending

Currently our articles of incorporation require us to devote at least 50.0% of our Won currency lending, other than any lending done pursuant to government policies as described below, to mortgage lending. Any change in this minimum amount is subject to prior review by the FSC. Although the FSC does not have the explicit power to prevent us from changing the minimum percentage of our mortgage lending, the FSC is our principal government regulator and as a result, we may not wish to reduce our mandated minimum percentage of mortgage lending if the FSC is opposed to the change.

The government promotes lending to certain types of borrowers as a matter of policy, which we may feel compelled to follow

Under Korean law, we are currently required to ensure that 35.0% of the amount of any new lending we do each month consists of loans to small and medium sized enterprises. See ''Item 1. Description of Business—Supervision and Regulation—Principal Regulations Applicable to Banks in Korea—Lending to Small and Medium Sized Enterprises''. In addition, the government has, and will continue to, as a matter of policy, attempt to promote lending to certain types of borrowers. It generally has done this by identifying qualifying borrowers and making low interest loans available to banks and financial institutions who lend to those qualifying borrowers. The government has in this manner promoted low income mortgage lending and lending to technology companies. As of December 31, 1999, ₩394 billion, or 1.2% of our outstanding loans had been made pursuant to government policies. All loans we make pursuant to government policies are reviewed in accordance with our credit review policies. However, we cannot assure you that government policy might not influence us to lend to certain sectors or in a manner in which we otherwise would not in the absence of the government policy.

We may be required to raise additional capital to maintain our capital adequacy ratios, which we may not be able to do on acceptable terms, if at all

Pursuant to Korean bank regulations, we are required to maintain a minimum Tier I and Tier II capital adequacy ratio of 8.0%. We are required to calculate our capital adequacy ratios in accordance with the requirements of the Korean Financial Supervisory Service (FSS) using our Korean GAAP financial statements. As of December 31, 1999, our Tier I capital adequacy ratio was 6.93% and our combined Tier I and Tier II capital adequacy ratio was 11.74%. We plan to repurchase all of the remaining 17,790,000 shares of preferred stock for ₩89 billion issued to KDIC in connection with our acquisition of DongNam Bank, prior to the applicable deadlines for such repurchases. If we do so, it will reduce our capital base and our capital adequacy ratios. In addition, our capital base and our capital adequacy ratios may decrease in the event that we are not able to adequately deploy the funds that our customers deposit with us because our deposit base increases rapidly or our results of operations or financial condition deteriorate. Accordingly, we may be required to obtain additional capital in the future in order to maintain our capital adequacy ratios above the minimum required levels. If we require additional capital in the future, we cannot guarantee that we will be able to obtain such capital on acceptable terms, or at all. Depending on the terms and amount of any additional capital obtained, holders of American depositary shares may experience a significant dilution of their interest. In addition, our ability to obtain additional capital may be restricted further to the extent Korean banks or banks from other Asian countries are seeking to raise capital at the same time.

The value of the securities we hold has experienced and may continue to experience volatility

As of December 31, 1999, we held corporate bonds issued by Korean companies with a total book value of ₩896 billion in our trading and investment portfolios.

In addition, as of that date, we held bonds issued by Korean financial institutions (excluding ‘‘monetary stabilization bonds’’ issued by the Bank of Korea (BOK)) with a total book value of ₩692 billion in our trading and investment portfolios.

We cannot assure you that issuers of these and other securities will not, as a result of adverse financial and economic conditions in Korea, default on payments of interest or principal. Such defaults would likely have a material adverse effect on our results of operations and financial condition.

Our dependence on short-term funding deposits may adversely affect our liquidity position

Most of our funding requirements are met through short-term funding sources, which consist primarily of customer deposits. As of December 31, 1999, approximately 74.8% of our deposits had maturities of one year or less or were payable on demand. In the past, a substantial proportion of our customer deposits have been rolled over upon maturity. We cannot guarantee, however, that depositors will continue to roll over their deposits in the future. If a substantial number of depositors were to fail to roll over deposited funds upon maturity or withdraw their funds, our liquidity position could be adversely affected, and we may be required to seek more expensive sources of short-term and long-term funds to finance our operations.

The amount of bank deposits that the KDIC insures for depositors is expected to decrease in January 2001, and our deposit base may decrease as a result

The Depositor Protection Act provides for a deposit insurance system where the KDIC guarantees to depositors the repayment of their bank deposits. Under the current rules, deposits made on or before July 31, 1998 are insured for their entire amount plus the agreed interest rate, and deposits made after July 31, 1998 that are more than ₩20 million are insured for their full amount but not for any interest. Starting January 1, 2001, the KDIC plans to insure only up to a total of ₩20 million for deposits and interest per depositor in each bank, regardless of when the deposits were made or the size of the deposits. As a result of the anticipated decrease in the deposit insurance amount, our depositors may reduce their deposits with us to the maximum insured amount or less. If the deposits decrease, we may be required to seek alternative sources of funding which may entail higher funding costs, and the higher funding costs would have an adverse impact on our interest rate margins and results of operations.

Our business is very competitive and our growth strategy depends on our ability to compete effectively

We compete principally with other financial institutions in Korea, including:

- nationwide commercial banks;
- regional banks;
- development banks;
- specialized banks;
- branches of foreign banks operating in Korea; and
- with respect to the provision of mortgage loan products, installment finance corporations.

General regulatory reforms in the Korean banking industry have increased competition among banks for deposits, generally leading to lower margins from lending activities. We believe that Korea's recent economic difficulties and the Korean government's commitments to the International Monetary Fund have accelerated and will continue to bring about regulatory reforms in and liberalization of the Korean financial industry, leading to increased competition among financial institutions in Korea.

As the reform of the financial sector continues, foreign financial institutions, many with greater resources than us, have entered, and may continue to enter, the Korean market either by themselves or in partnership with existing Korean financial institutions and compete with us in providing financial and related services. In addition, a number of significant mergers and acquisitions in the industry have taken place in Korea over the last two years. We expect that this merger activity will continue. Some of the banks resulting from these mergers are or may be significantly larger and may have more financial resources than us. There can be no guarantee that we will be able to compete successfully with such domestic or foreign financial institutions or that increased competition will not have a material adverse effect on our income, financial condition or operating results.

Internet banking may not continue to grow or may grow slower than expected in Korea, which would inhibit the growth of our Internet banking business

One of our important strategies is to increase our Internet banking services. The demand and market acceptance for Internet banking services are subject to a high level of uncertainty and are substantially dependent upon the adoption of the Internet for general commerce and financial services transactions in Korea.

In order to realize significant revenue from our Internet services, we will have to persuade our customers to conduct banking and financial transactions through the Internet. Although relevant legislation has been proposed by the government, critical issues concerning the commercial use of the Internet, such as security, legal recognition of electronic records, validity of contracts entered into online and authentication of digital signatures, remain unresolved and may inhibit growth. If Internet banking does not continue to grow or grows slower than expected, we will not be able to meet our projected earnings and growth strategy related to our Internet banking business.

Risks relating to the management of our trust accounts

We may be required to make transfers from our general banking operations to cover shortfalls in our guaranteed trust accounts, which could have a material adverse effect on our income

We manage a number of trust accounts. The financial results of the trust accounts are not consolidated with our financial results. Under Korean law, trust account assets are segregated from the assets of our general banking operations and are not available to satisfy the claims of our depositors or other creditors of our general banking operations. For some of these trusts we guarantee the principal amount of the investor's investment and, in certain cases, we also guarantee a fixed rate of interest. Since January 1999, new legislation prevents us from offering new trust accounts for which we guarantee both the principal amount of the investment and a fixed rate of return. However, we plan to continue offering trust accounts which provide only a principal guarantee. If, at any time, the income from our guaranteed trust accounts is not sufficient to pay the guaranteed amount, we will have to satisfy the shortfall either from the reserves maintained in our trust accounts or from funds transferred from our general banking operations. Transfers from our general banking operations to cover deficiencies in our guaranteed trust accounts amounted to ₩206 billion in 1998, and were reflected as payment for guaranteed return on our trust accounts. There were no such transfers in 1999. We may be required to make transfers from our general banking operations to cover shortfalls in our guaranteed trust accounts in the future and the amounts of such transfers may be significant.

New mark-to-market reporting requirements for our trust accounts may result in a write down of assets

Equity securities (other than unlisted securities) held in the trust accounts we manage must be marked-to-market on a daily basis. Since November 1998, we have also been required to mark-to-market all debt securities that are acquired by any newly established trust account. Formerly, the FSC announced its intention to require us to mark-to-market our entire debt securities portfolio of the trust accounts we manage beginning in July 2000. However, in May 2000, the FSC changed its former position so that we will not be required to mark-to-market the debt securities in trust accounts established before November 1998. There is no assurance, however, that the FSC will not change this current position in the future. If we are required to mark-to-market the entire debt securities portfolio of the trust accounts we manage and the aggregate market value of the debt securities in the accounts is significantly lower than the aggregate book value of such debt securities, the application of the new mark-to-market requirements may result in a significant write down of, and a net asset shortfall in, our trust account assets, which in turn may trigger early withdrawals by trust account customers. If the amount of early withdrawals becomes substantial, the liquidity, results of operations and financial condition of our trust accounts will be materially and adversely affected. This may require us to make substantial transfers of funds from our general banking operations to our guaranteed trust accounts to cover deficiencies in the latter.

Risks relating to Korea

The expected structural reforms of the Korean economy and the financial sector may have a substantial impact on our business

We are incorporated in Korea and substantially all of our operations are located in Korea. As a result, we are subject to political, economic, legal and regulatory risks specific to Korea. In 1997 and 1998, Korea experienced a significant financial and economic downturn, from which it has not yet fully recovered. Further deterioration of the Korean economy or economies of other countries could adversely affect our financial condition and results of operations. We expect that the comprehensive policy packages announced by the government of Korea since late 1997 to address structural weaknesses in the Korean economy and the financial sector, which included the mergers of a number of banks, will continue to have a substantial impact on our business. The government has indicated that it may advocate further mergers in the Korean financial sector.

In June 2000, in an effort to enhance the international competitiveness of Korea's banks, the government announced a plan to implement the second-phase restructuring among Korea's banks under the following principles:

- The government will create various systematic frameworks, including financial holding companies;
- Banks which are not recipients of public funds (''sound banks'') may implement their own restructuring; and
- The government will take initiatives in the restructuring of banks which have received public funds or in which the Government has controlling stakes, through mergers or otherwise.

On August 31, 2000, the Financial Supervisory Commission and the Financial Supervisory Service jointly announced further details of the second-phase restructuring plan of Korean banks:

- Six commercial banks, including Chohung Bank, Hanvit Bank, Korea Exchange Bank, Peace Bank, Kwangju Bank and Cheju Bank, to which the government has injected public funds, or which will not satisfy the minimum 8% BIS capital adequacy ratio as of June 30, 2000 (after taking account of all potential losses), are required to submit their respective management improvement plans by the end of September 2000;
- Such management improvement plans to be submitted by the six banks shall be examined by an independent management review committee which will be formed during September 2000;
- If, upon review by the committee, a plan submitted by a bank is deemed sufficient for the normalization of the bank independently, such bank shall be allowed to implement such plan;
- If, however, a plan submitted by a bank is not deemed sufficient by the review committee for the bank to survive independently, additional public funds shall be injected into such bank on the condition that such bank shall faithfully implement a thorough self-rescue plan based upon the principle of shared responsibilities, so that the BIS capital adequacy ratio of such bank shall reach at least 10%; and
- Thereafter, further normalization of such bank will be made possible by having such bank become a subsidiary of the financial holding company which would be formed.

It was announced by the Financial Supervisory Commission and the Financial Supervisory Service on September 25, 2000 that, based upon the review by the independent management review committee of the management improvement plans which will be submitted by the six commercial banks, the government would determine the sufficiency of the management improvement plans by the end of October 2000. The Financial Supervisory Commission and the Financial Supervisory Service also announced on such date that, should sound banks wish to merge or create financial holding companies, the government would consider measures to provide incentives, such as providing capital or purchase of non-performing loans of such banks, or providing priority in granting licenses to enter new business areas.

We cannot guarantee that we will not be involved in such a merger. In addition, some of the banks resulting from these mergers are or may be significantly larger and may have more financial resources than us.

Financial instability in other countries, particularly emerging market countries in Asia, could disrupt our business and cause the price of our shares and American depositary shares to go down

The Korean market and the Korean economy are influenced by economic and market conditions in other countries, particularly emerging market countries in Asia. Financial turmoil in Asia, Russia and elsewhere in the world in recent years has adversely affected the Korean economy. Although economic conditions are different in each country, investors' reactions to developments in one country can have adverse effects on the securities of companies in other countries, including Korea. A loss of investor confidence in the financial systems of emerging and other markets may cause increased volatility in Korean financial markets. We cannot be certain that financial events of the type described will not happen again or will not have an adverse effect on our business or the price of the American depositary shares.

Labor unrest may disrupt our operations

The economic downturn in Korea and the associated increase in the number of corporate restructurings and bankruptcies have caused and may cause further layoffs and increasing unemployment in Korea. These factors could lead to social unrest and increase substantially government expenditure for unemployment compensation and other costs for social programs. During 1998 there were large-scale protests and labor strikes in Korea. There is no guarantee that labor unrest will not continue or escalate further. Increasing unemployment and continuing labor unrest could disrupt our operations and the operations of many of our customers and their ability to repay their loans and could affect the financial conditions of Korean companies in general, depressing the prices of Korean securities on the Korea Stock Exchange (KSE) and the value of the Won relative to other currencies. Such results would likely have an adverse effect on our financial condition, results of operations and capital adequacy.

Tension with North Korea may have an adverse effect on us or the price of the American depositary shares

Relations between Korea and North Korea have been tense over most of Korea's history. The level of tension between the two Koreas has fluctuated and may increase or change abruptly as a result of current events, including renewed contacts at the highest levels of the governments of Korea and North Korea, and future events that cannot be foreseen at this time. Any increase in the tensions, which may occur, for example, if these contacts break down or military hostilities occur, could reduce demand for our products and services in the Korean market and affect our business operations in Korea and the price of the American depositary shares.

Risks relating to the American depositary shares

The government may sell a portion of its shares which could adversely affect the price of the American depositary shares

As of December 31, 1999, the government owns 14.5% of our outstanding shares of common stock. In addition, KDIC owns over 17,790,000 shares of our preferred stock which may, under certain circumstances, convert into an identical number of shares of common stock. Currently, we do not know when, how, and what percentage of, our shares owned by the government including KDIC would be disposed of or to whom such shares will be sold. As a result, it is currently difficult to predict the impact on us of such sale. Sales of substantial numbers of our shares in the public market or otherwise by the government, other shareholders or by us, or the perception that such sales may occur, could adversely affect the prevailing market price of the American depositary shares.

There are restrictions on withdrawal and deposit of common shares under the depositary facility

Under the deposit agreement, holders of shares of our common stock may deposit those shares with the depositary bank's custodian in Korea and obtain American depositary shares, and holders of American depositary shares may surrender an even number of American depositary shares to the depositary bank and receive shares of our common stock. However, under current Korean laws and regulations, the depositary bank may not accept deposits of outstanding shares of our common stock and issue American depositary shares representing those shares without our consent. We have consented to the deposit of outstanding shares of common stock as long as the number of American depositary shares outstanding at any time does not exceed 46.8 million. As a result, if you surrender American depositary shares and withdraw shares of common stock, you may not be able to deposit the shares again to obtain American depositary shares.

Ownership of our shares is restricted under Korean law

Under Korean law, a single shareholder, together with its affiliates, is generally prohibited from owning more than 4.0% of the outstanding shares of voting stock of a nationwide bank such as us. The government and the KDIC are exempt from this limit, and qualifying foreign investors that meet the requirements under the Presidential Decree of the Bank Act may also exceed the 4.0% limit upon approval of the FSC. See ''Item 1. Description of Business—Supervision and Regulation—Principal Regulations Applicable to Banks in Korea—Restrictions on Bank Ownership''. To the extent that the total number of shares of our common stock that you and your affiliates own together exceeds the 4.0% limit, you will not be entitled to exercise the voting rights for the excess shares, and the FSC may order you to dispose of the excess shares within a period of up to six months. Failure to comply with such an order would result in a fine of up to ₩20 million.

Holders of American depositary shares will not have preemptive rights in certain circumstances

The Commercial Code of Korea and our articles of incorporation require us, with some exceptions, to offer shareholders the right to subscribe for new shares in proportion to their existing ownership percentage whenever new shares are issued. If we offer any right to subscribe for additional shares of our common stock or any rights of any other nature, the depositary bank, after consultation with us, may make the rights available to you or use reasonable efforts to dispose of the rights on your behalf and make the net proceeds available to you. The depositary bank, however, is not required to make available to you any rights to purchase any additional shares unless it deems that doing so is lawful and feasible and:

- a registration statement filed by us under the US Securities Act of 1933, as amended, is in effect with respect to those shares; or
- the offering and sale of those shares is exempt from or is not subject to the registration requirements of the US Securities Act.

We are under no obligation to file any registration statement with the US Securities and Exchange Commission. If a registration statement is required for you to exercise preemptive rights but is not filed by us, you will not be able to exercise your preemptive rights for additional shares and you will suffer dilution of your equity interest in us.

Your dividend payments and the amount you may realize upon a sale of your American depositary shares will be affected by fluctuations in the exchange rate between the Dollar and the Won

Investors who purchase the American depositary shares will be required to pay for them in US dollars. Our outstanding shares are listed on the KSE and are quoted and traded in Won. Cash dividends, if any, in respect of the shares represented by the American depositary shares will be paid to the depositary bank in Won and then converted by the depositary bank into Dollars, subject to certain conditions. Accordingly, fluctuations in the exchange rate between the Won and the Dollar will affect, among other things, the amounts a registered holder or beneficial owner of the American depositary shares will receive from the depositary bank in respect of dividends, the Dollar value of the proceeds which a holder or owner would receive upon sale in Korea of the shares obtained upon surrender of American depositary shares and the secondary market price of the American depositary shares.

If the government deems that certain emergency circumstances are likely to occur, it may restrict the depositary bank from converting and remitting dividends in Dollars

If the government deems that certain emergency circumstances are likely to occur, it may impose restrictions such as requiring foreign investors to obtain prior government approval for the acquisition of Korean securities or for the repatriation of interest, dividends or sales proceeds arising from Korean securities or from disposition of such securities. These emergency circumstances include any or all of the following:

- sudden fluctuations in interest rates or exchange rates;

- extreme difficulty in stabilizing the balance of payments; and
- a substantial disturbance in the Korean financial and capital markets.

The depositary bank may not be able to secure such prior approval from the government for the payment of dividends to foreign investors when the government deems that there are emergency circumstances in the Korean financial markets.

You may not be able to enforce a judgment of a foreign court against us

We are a corporation with limited liability organized under the laws of Korea. Substantially all of our directors and officers and certain other persons named in this document reside in Korea, and all or a significant portion of the assets of our directors and officers and certain other persons named in this document and substantially all of our assets are located in Korea. As a result, it may not be possible for investors in the American depositary shares to effect service of process within the United States, or to enforce against them or us in the United States judgments obtained in United States courts based on the civil liability provisions of the federal securities laws of the United States. There is doubt as to the enforceability in Korea, either in original actions or in actions for enforcement of judgments of United States courts, of civil liabilities predicated on the United States federal securities laws.

RECENT DEVELOPMENTS

The unaudited and non-consolidated financial information shown below was prepared pursuant to Korean GAAP and was derived from the financial statements included in Appendix B to this document. Korean GAAP differs in significant respects from US GAAP. See ''Management's Discussion and Analysis of Financial Condition and Results of Operations—Selected Financial Information Under Korean GAAP''. In addition, the financial information below is non-consolidated and therefore does not reflect the results of operations of our subsidiaries other than on the equity method. As a result, this information is not comparable with the other financial information presented in this document. Moreover, results of operations for the first six months of 2000 may not be indicative of results of operations for the full 2000 year.

Non-consolidated semi-annual Korean GAAP income statement data

	Six Months Ended June 30,	
	1999	**2000**
	(in ₩ billion)	
Interest income	2,004	2,299
Interest expense	(1,399)	(1,571)
Net interest income	605	728
Provision for possible loan losses	(126)	(110)
Net interest income after provision for possible loan losses	479	618
Non-interest revenue(1)	357	390
Non-interest expense(1)	(393)	(494)
Operating income	443	514
Non-operating gains, net	11	28
Income before income tax expense	454	542
Income tax expense	(146)	(167)
Net income	308	375

(1) Presented net of gains and losses on foreign currency transactions, derivative transactions, disposal of trading securities and valuation of trading securities. Our non-consolidated financial statements record these items on a gross basis. See note 21 to non-consolidated semi-annual financial statements.

Non-consolidated semi-annual Korean GAAP balance sheet data

	As of June 30,	
	1999	**2000**
	(in ₩ billion)	
Cash and due from banks	2,768	2,808
Loans		
Less : allowance for doubtful accounts	26,398	38,463
Trading securities	1,139	2,315
Investment securities	8,958	8,619
Premises and equipment	815	861
Other assets	3,018	2,333
Total assets	43,096	55,399
Deposits	29,963	42,248
Borrowings	3,154	2,664
Debentures	2,371	2,597
Other liabilities	5,565	5,535
Total liabilities	41,053	53,044
Total shareholders' equity	2,043	2,355
Total liabilities and shareholders' equity	43,096	55,399

Our non-consolidated net interest income increased by 20.3% from ₩605 billion in the first half of 1999 to ₩728 billion in the first half of 2000 as a result of a 14.7% increase in non-consolidated interest income which more than offset a 12.3% increase in non-consolidated interest expense.

The increase in non-consolidated interest income from ₩2,004 billion in the first half of 1999 to ₩2,299 billion in the first half of 2000 was due primarily to a 15.2% increase in interest on loans from ₩1,529 billion in the first half of 1999 to ₩1,762 billion in the first half of 2000 and a 23.1% increase in interest on investment securities from ₩334 billion in the first half of 1999 to ₩411 billion in the first half of 2000. The increase in interest on loans was attributable to a 31.9% increase in average loan volume for the first half of 2000 compared to the first half of 1999, in line with the increase in our deposits described below. Our outstanding loans increased from ₩30,631 billion as of December 31, 1999 to ₩38,463 billion as of June 30, 2000. The gross yield on loans decreased from 11.79% in the first half of 1999 to 10.28% in the first half of 2000 in line with the general decrease in Korean interest rates. The increase in interest on investment securities was attributable to a 9.9% increase in average volume, which more than offset a decrease in gross yield from 9.33% in the first half of 1999 to 9.19% in the first half of 2000.

The increase in non-consolidated interest expense from ₩1,399 billion in the first half of 1999 to ₩1,571 billion in the first half of 2000 was due primarily to an 18.2% increase in interest on deposits from ₩1,120 billion in the first half of 1999 to ₩1,324 billion in the first half of 2000. The increase in interest on deposits was attributable to a 29.7% increase in the average volume of deposits for the first half of 2000 compared to the first half of 1999. Our outstanding deposits increased from ₩32,998 billion as of December 31, 1999 to ₩42,248 billion as of June 30, 2000. The increase in deposits, which more than offset a decrease in average interest rate paid on deposits from 7.74% in the first half of 1999 to 7.04% in the first half of 2000, was attributable primarily to the recent difficulties in the Korean banking sector which has led many people to withdraw their deposits from banks they perceive as weaker and deposit them with banks they perceive as stronger, such as ourselves.

As a result of falling interest rates in Korea and an increase in our time deposits, which are a relatively costly form of funding, our non-consolidated net interest margin decreased from 4.05% in the first half of 1999 to 3.24% in the first half of 2000.

Our non-consolidated provision for loan losses decreased from ₩126 billion in the first half of 1999 to ₩110 billion in the first half of 2000 as a result of generally improved economic conditions in Korea.

Our non-consolidated non-interest revenue increased by 9.2% from ₩357 billion in the first half of 1999 to ₩390 billion in the first half of 2000 primarily as a result of a 35.1% increase in fees and commissions from ₩231 billion in the first half of 1999 to ₩312 billion in the first half of 2000, which was in turn primarily due to increased commissions from our credit card business. The increase in fees and commissions more than offset a 67.8% decrease in net trading revenue from ₩90 billion in the first half of 1999 to ₩29 billion in the first half of 2000. Net trading revenue represents net realized and unrealized gain on foreign currency transactions, derivative transactions and trading securities. The decrease in net trading revenue was due primarily to a downturn in the Korean stock market.

Our non-consolidated non-interest expense increased by 25.7% from ₩393 billion in the first half of 1999 to ₩494 billion in the first half of 2000 primarily as a result of a 14.0% increase in salaries and wages from ₩157 billion in the first half of 1999 to ₩179 billion in the first half of 2000, a 140.0% increase in fees and commission expense from ₩15 billion in the first half of 1999 to ₩36 billion in the first half of 2000 and a 48.3% increase in depreciation from ₩29 billion in the first half of 1999 to ₩43 billion in the first half of 2000. The increase in salaries and wages was due primarily to a 5% increase in wages effective January 1, 2000 and a slight increase in the number of our contractual employees. The increase in fees and commission expense was due primarily to increased accounting and auditing expenses and to increased loan collection expenses. The increase in depreciation was due primarily to increased capital spending on our premises and equipment.

Income tax expense increased from ₩146 billion in the first half of 1999 to ₩167 billion in the first half of 2000 as a result of our increased income. The statutory tax rate was 30.8% in each of the first half of 1999 and the first half of 2000. The effective rate of income tax was relatively stable at 30.8% in the first half of 2000 compared to 32.2% in the first half of 1999.

As a result of the above, our non-consolidated net income was ₩308 billion in the first half of 1999 as compared to ₩375 billion in the first half of 2000.

Asset Quality

There have been a series of recent press accounts of potential deteriorations in the credit quality of the Daewoo Group, including Daewoo Motors, and the Hyundai Group.

Our outstanding loans to the Daewoo Group totaled ₩240 billion as of August 31, 2000 of which 100% was classified as substandard or below. This included loans of ₩18 billion to Daewoo Motors which has recently been subject to unsuccessful sale negotiations.

As a result of these unsuccessful negotiations, the FSC has urged Korean lenders to Daewoo Motors to increase their Korean GAAP loan loss provisions against Daewoo Motors to at least 65%. We had already made a Korean GAAP provision of ₩13 billion, or 71% of our outstanding loans to Daewoo Motors, and consequently do not believe that any additional adjustments to the loan loss reserve is currently necessary.

We also have indirect exposure to Daewoo Motors through our trust accounts (which are separate from our bank accounts), which as of August 31, 2000 totaled ₩96 billion. However, of this amount, ₩72 billion is guaranteed by the Korean government, and therefore does not require provisions to be established. Of the remaining ₩24 billion, our trust accounts reflect a provision of ₩21 billion, or 87.8%.

Our outstanding loans to the Hyundai Group as of August 31, 2000 totaled ₩295 billion of which 100% is currently classified as normal. The loan loss provision as of that date was ₩1.5 billion or 0.5% of the total loan balance in accordance with the FSS reserve percentage guidelines. Although the liquidity of one member of the group, Hyundai Engineering & Construction, has been reported to be a concern, the entire Hyundai Group continues to meet interest and principal repayments on its loans. In addition, Hyundai Engineering & Construction has continued to meet the terms of the workout plan agreed with its creditors. If Hyundai Engineering & Construction's liquidity position worsens, we may need to downgrade that particular loan from normal to either special mention or substandard, and a provision of up to 49% or ₩29 billion may become required under FSS guidelines. The outstanding loans to Hyundai Engineering & Construction were ₩59 billion as of August 31, 2000.

We continue to closely monitor the status of our exposure to all chaebols, including both Daewoo and Hyundai, and will reassess our loan loss provisions in the event of any likely or anticipated deterioration in the current asset quality of the loan portfolios. We do not believe that there are any significant declines in the current credit quality of material exposures to other chaebols.

PART I

Item 1. DESCRIPTION OF BUSINESS

We are a Korean commercial bank engaged principally in mortgage lending and retail banking. As of December 31, 1999, we were the third largest bank in Korea in terms of total assets calculated pursuant to Korean GAAP. We were the largest private sector mortgage lender in Korea for the year ended December 31, 1999, with our mortgage lending accounting for 74.1% of total private sector mortgages in Korea in that year. As of December 31, 1999, we had one of the largest deposit bases of any bank in Korea. For the year ended December 31, 1999, our net income was ₩541 billion. As of December 31, 1999 we had total assets of ₩45,277 billion.

We currently provide a broad range of financial services, including the following:

- retail banking services, including mortgage lending, deposit taking and credit card services;
- corporate and international banking services focused on services to small and medium sized enterprises; and
- capital markets activities.

In addition, we provide trust management services and we manage the National Housing Fund (NHF), a government fund which provides mortgage lending to low income households and loans to construction companies to build small-sized housing for low-income households. For the year ended December 31, 1999, including mortgages provided by the NHF, our mortgage lending activities accounted for over 80.0% of the total outstanding mortgage market in Korea.

We offer our customers a broad choice of delivery channels, including physical branches, automated banking machines, telephone banking, PC-banking, the Internet and a customer call center. As of December 31, 1999, we had 537 branches throughout Korea.

History

We were established by the government in 1967 under the name Korea Housing Finance Corporation. In 1969, we became the Korea Housing Bank pursuant to the Korea Housing Bank Act. We were established to provide low and middle income households with long-term, low-interest mortgages in order to help them purchase their own homes and to promote the increase of the housing supply in Korea by providing low-interest housing loans to construction companies. Under the Housing Bank Act, up to 20.0% of our lending (excluding lending pursuant to government programs) could be non-mortgage lending. Pursuant to the Housing Bank Act we were the only entity in Korea allowed to provide mortgages with a term of longer than ten years. We also had the exclusive ability to offer housing-related deposit accounts offering preferential rights to subscribe for newly-built apartments.

In 1971, we began providing the services that are currently provided by the NHF. We provided these services until 1981 when the NHF was created. We continue to manage the NHF on behalf of the government and receive a management fee for this service. In 1988 we began managing the Housing Finance Credit Guarantee Fund (HFCGF), which provides guarantees on mortgage loans to households and construction companies with insufficient collateral. We continued to manage the HFCGF until the end of 1998.

In 1996, we completed our initial public offering in Korea and listed our shares on the Korea Stock Exchange. Since the initial public offering, the government's shareholding in us has decreased to its current level of 14.5% as a result of subsequent share offerings by us and the sale by the government of part of its shareholding in the form of global depositary shares in 1997. The global depositary shares were listed on the London Stock Exchange.

In 1997, the Housing Bank Act was repealed. This removed the limitation on the amount of non-mortgage lending activities we could engage in and allowed us to expand our commercial banking services beyond mortgage lending. The repeal also allowed other financial institutions to compete with our mortgage lending activities. Since 1997, we have expanded our activities to focus more on retail banking. However, under our articles of incorporation, at least 50.0% of our Won currency lending (excluding lending done pursuant to government programs) must be in the form of mortgages.

In June 1998, we acquired the majority of the then performing assets and most of the liabilities of DongNam Bank pursuant to a directive from the FSC in connection with a government program to support the deteriorating financial sector in Korea. We received compensation from the government to make up for the deficiency of the assets acquired from DongNam Bank and the government purchased preferred shares and subordinated debt from us to compensate for the decrease in our capital adequacy ratio resulting from the acquisition. See ''Item 9. Management's Discussion and Analysis of Financial Condition and Results of Operations—Overview—Acquisition of DongNam Bank''.

We acquired 49 of DongNam Bank's 116 branches and acquired their customer base, which had a greater focus on small and medium sized enterprises than our then-existing customer base. The acquisition of DongNam Bank strengthened our business presence in the Southeastern region of Korea where DongNam Bank was based. In addition, DongNam Bank's electronic banking and credit card businesses were more advanced than our own and provided us with access to improved technology.

In 1998, our current management team joined us and in April 1999, we changed our English name from Housing & Commercial Bank of Korea, which we no longer use, to H&CB. In July 1999, we entered into a strategic alliance with the ING Groep N.V., a leading global financial services group. See ''—Restructuring of our Operations Following our Privatization—Strategic Alliance with ING Groep N.V.''. Through ING Insurance International B.V., ING acquired 9.99% of our outstanding shares of common stock and ING appointed both an executive director and a non-executive director on our board of directors. In connection with the alliance in January 2000, we acquired a 20% stake in ING Life Insurance Company, Korea, Ltd., an ING insurance affiliate in Korea, and have sold a 20% stake in Jooeun Investment Trust Management Co., Ltd., one of our subsidiaries, to ING. Under the joint venture agreement, each of these 20% shareholdings will be increased by 5% each of the next three years beginning in 2000. Thereafter, further increases are possible up to 50%.

Restructuring of our Operations Following our Privatization

Our current management team joined us in 1998 and set a new strategic direction with a focus on maximizing shareholder value and preparing us for the increasingly competitive environment in Korea. We have undertaken a number of initiatives to transform ourselves into one of Korea's leading providers of financial services. Despite the recent economic difficulties in Korea, we believe that we have taken a number of steps toward the goal of accomplishing this transformation. These steps have included:

- implementing new systems and procedures to improve management transparency;
- reengineering our operations to focus on performance; and
- increasing our focus on customer service.

In addition, we have entered into a strategic alliance with ING which will continue to provide us with additional access to advanced management and customer service techniques and new products and services.

Implementing new systems and procedures to improve management transparency

We have introduced a number of initiatives to increase the transparency of our internal decision-making processes and the credibility of our financial and accounting data. These initiatives included:

- *Improving our corporate governance*. We have altered the composition of our board of directors so that now outside directors make up a majority of our board. This change was made to reinforce our board's independent oversight of day-to-day management. In addition, we have added a number of management committees, including an Audit Committee and a Compensation Committee, which we believe will enhance further the independence of our management's decision making.

- *Introducing new accounting standards*. We have introduced new accounting standards in an effort to bring our financial reporting, and particularly our provisioning policies, in line with international standards. In addition, we have begun to report our financial results in accordance with US GAAP as well as Korean GAAP.

- *Reforming our lending practices*. We have reformed our lending practices by removing loan approval authority from our executive directors and giving it to working-level managers to enhance the accountability and efficiency of our loan approval process. In addition, we have strengthened our credit approval process. With the assistance of an external consultant, we have established improved and expanded credit rating systems for both individuals and corporate borrowers and introduced a new system for assessing the value of collateral. We believe these new systems will make our lending process more efficient and help us to improve overall asset quality and reduce the rate of non-performing loans by weighing both quantitative and qualitative factors.

Reengineering our operations to focus on performance

We have also undertaken a number of initiatives to reengineer our operations to introduce a performance-based organizational culture focused on profitability and the maximization of shareholder value. The initiatives to reengineer our operations have included:

- *Restructuring our organization into business units*. We have restructured our operations so that our operations are now organized into seven business units focusing on our core business areas and five divisions responsible for managing operation-wide issues. This has increased the accountability of the management of each of our principal operations for its financial results. For control and accounting purposes we currently operate based on three business segments but have restructured our business units into seven units so that going forward we can better assess the performance of the various units. We are implementing control and accounting procedures for our restructured operations with a view toward making these procedures operational for fiscal year 2003.

Our seven business units are:

- – the Marketing Business Unit, which is responsible for marketing all of our products and services;
- – the Individual Consumer Banking Business Unit, which includes individual consumer product development (all types of deposit-taking and loan products), overdue loan management and credit card operations;
- – the Corporate Banking Business Unit, which includes domestic and international corporate banking;
- – the Banking Trust Business Unit;
- – the Workout Business Unit, which includes workout-related operations;

- the NHF Management Business Unit; and
- the New Economy Business Unit, which includes Internet banking and related initiatives.

Our five divisions are:

- the Financial Planning Division, whose responsibilities include financial planning, accounting, treasury and investor relations;
- the Strategic Planning Division, whose responsibilities include strategic planning and research;
- the Risk Management Division, whose responsibilities include risk management (including market risk), credit risk management and loan management;
- the Information Technology Division; and
- the Shared Services Division, whose responsibilities include administration, human resources, legal, training and security control functions.

• *Introducing performance-based compensation.* We have replaced the system of compensation based primarily on length of tenure, which is the norm in Korea, with a compensation system which includes a broader assessment of merit. We have begun to introduce an organization-wide evaluation process and to link the compensation of our senior management and each business unit to its performance.

• *Improving our managerial accounting and costing systems.* We have adopted a Market Opportunity Rate system to set internal interest rates by reference to market rates for products with similar maturities and an Activity Based Cost system to allocate costs internally based on the activities of each cost center rather than its size. In the past, for example, some costs related to our headquarters were allocated to branches based on such criteria as the amount of deposits held at the branch, and the costs of the branches were calculated largely based on the number of employees working at the branch. Under the Activity Based Cost system, we allocate shared costs based on the number of transactions and other activity taking place in the branches or departments, including the number of deposit transactions, cash withdrawals, accounts opened and loans processed. By adopting the Market Opportunity Rate and Activity Based Cost systems in our management accounting, we have created a more accurate basis for determining funding costs and operating costs, which in turn helps us to evaluate better the performance of each branch and department, set prices for our financial products based on their profitability, develop marketing strategies to target customers which we believe will provide greater profitability and make more informed decisions as to which branches to close or relocate.

Increasing our focus on customer service

We have introduced a number of initiatives to create an internal culture focused on customer service. In particular we have:

• centralized our loan processing and back office functions into 41 processing centers and established a call center so that our branch staff can spend more time focusing on serving customers;

• introduced personal banking services for our most important individual customers and strengthened our corporate relationship banking efforts by increasing the number of relationship managers;

• begun to offer new products and services to meet diverse customer needs, including offering account opening services in our branches for customers seeking to set up investment accounts with brokerage companies and offering subscriptions for newly-built apartments over the telephone and via the Internet; and

- reconfigured and expanded our distribution channels, including expanding our automated channels to reflect our customers' changing needs and take advantage of new technology.

Strategic Alliance with ING Groep N.V.

In July 1999, we entered into a strategic alliance with ING Groep N.V., a leading global financial service provider incorporated in the Netherlands and engaged in the banking, insurance and asset management business in more than 60 countries throughout the world, when ING Insurance International B.V. acquired 9.99% of the outstanding shares of our common stock. The strategic alliance is important to our strategy of transforming ourselves into one of the leading financial services providers and one of the largest retail finance institutions in Korea.

The strategic alliance entails:

- ING's participation on our board through one executive director and one non-executive director;
- ING providing technical and managerial support to our risk management, information technology, sales and marketing and other key departments;
- ING providing assistance with various product groups, especially in the area of mortgage financing, and the performance management evaluation of personnel; and
- ongoing cooperation between us and ING in pursuing opportunities for developing and serving other products in the areas of banking, insurance, securities, investment banking and asset management.

We envision that there will be a number of joint ventures between ourselves and ING to provide an extended range of financial services and products for our customers. Through joint ventures, we intend to provide distribution channels and access to our customer base while ING will provide expertise in management, technology and product knowledge.

Strategy

Our objective is to consolidate our current position as one of Korea's leading providers of financial services and to continue to build ourselves into a world-class provider of financial services.

The key elements of our business strategy are as follows:

- Increase our profitability by further developing our strengths in retail banking and expanding these core businesses. We intend to:
  - focus on our core strengths in mortgage financing and retail banking; and
  - introduce new tailored financial products and services to capitalize on our existing strengths.
- Pursue growth by increasing our personal banking business and strengthening our Internet banking capability. We intend to:
  - expand the type of retail banking services we offer; and
  - establish ourselves as a major player in Internet banking in Korea.
- Enhance the level of our customers' satisfaction by improving our service quality and using targeted marketing based on our customer database.

- Create a competitive internal system through continual management reforms and improve our operational efficiency. We intend to:
  - improve and expand our information technology systems;
  - continue to implement a system of performance-based compensation; and
  - reconfigure and expand our distribution channels (including the Internet) to reflect our customers' changing needs and take advantage of new technology.

Increase our profitability by further developing our strengths in retail banking and expanding these core businesses

Focus on our core strengths in retail banking

We intend to maximize our profitability by expanding our activities in retail banking, including mortgage financing. We will do this by taking advantage of what we believe are our competitive strengths and by cross-selling products and services among our customers so as to offer them integrated financial services ranging from banking to securities and insurance services. We also intend to capitalize on our strengths in banking services aimed at small and medium sized enterprises.

Mortgage financing. Currently, we are the largest mortgage lender in Korea with a 74.1% share of the outstanding private mortgage lending market as of December 31, 1999. We believe that we have a competitive advantage in the Korean mortgage lending market based upon our long-standing reputation as the leading provider of mortgage lending products, our experience and knowledge of the local market, including our ability to offer a broad range of products, develop new products and process loans efficiently. We will continue to capitalize on these advantages to increase our mortgage lending activities.

Other retail banking. Our depositor base is one of the largest in Korea. We have established a wide and loyal customer base by taking advantage of the increasing demand for mortgage loans and of our accumulated experience with housing subscription services. Over the last several years this customer base has increased as people have withdrawn deposits from weaker or failing banks to open accounts with banks which are perceived as stronger such as ourselves. In addition, we believe that our clients usually keep closer and longer relationships with us because we offer longer-term mortgage lending services. We intend to take advantage of this increased depositor base and customer loyalty by cross-selling products such as credit cards and consumer loans.

In addition, we intend to capitalize on our retail banking strengths to increase our presence in the corporate banking market for financial services aimed at small and medium sized enterprises. We believe that the relative importance of small and medium sized enterprises in Korea will continue to increase, as the government continues to encourage capital flows to small and medium sized enterprises as part of its strategy for the revitalization of the Korean economy.

Introduce new tailored financial products to capitalize on our existing strengths

We intend to develop and market new tailored financial products designed to satisfy the increasingly complex needs of our customer base. As a result of the existing strengths of our core businesses, we believe that we are well positioned to cross-sell these new tailored products to our existing customer base. Such tailored products include deposit products for retirees, loans of up to ₩50 million for school teachers and unsecured loans to customers to whom we already provide mortgages secured by real estate. As part of our effort to market new tailored financial products, we are identifying specific target markets, such as customers whose long-term time deposits with us are about to mature, customers belonging to the same household to whom we can offer group benefits, members of professional or regional organizations and customers requiring tailored financial products suited to their age group such as newlyweds, parents of college age children and retirees.

Pursue growth by increasing our personal banking business and strengthening our Internet banking capability

Expand the type of personal banking services we offer

We intend to strengthen our personal banking services by:

- changing the marketing focus of our personal banking services from mass marketing to targeted marketing based on market segmentation; and
- using our personal bankers to market to affluent and high net worth customers.

Establish ourselves as a major player in Internet banking in Korea

We believe that the demand for Internet banking services will continue to increase as customers experience the ease and convenience of Internet banking. We believe that the competitiveness of banks generally will therefore increasingly be measured through their ability to adapt from traditional branch-centered operations to this new business environment. Accordingly, we have identified Internet banking as a core management strategy for us in the year 2000. We have significantly enhanced our Internet banking services which was relaunched in June 2000. We intend to make our Internet banking service a portal site which will provide real estate information and one-stop banking services. We believe that expanding our infrastructure to establish an Internet banking system will clearly set us apart within the Korean banking industry, and we are currently studying how best to implement Internet banking within our overall banking strategy to become a world-class retail bank.

We believe that establishing a competitive edge in Internet business comes from securing a reliable and regular customer base. Accordingly, we intend to further segment our clients according to their familiarity with the Internet to focus on those clients that we believe offer the best potential for Internet banking transactions. Initially we intend to focus on securing as wide a customer base as possible to ensure market leadership and to analyze trends in client transactions, paving the way for the establishment of a customer relationship management system and one-to-one marketing. The customer relationship management system involves gathering information about our customers so that we can offer our customers more customized services and improve our relationships with them. The system enables us to analyze our customers' changing needs and preferences via the Internet. After establishing the customer relationship management system and the one-to-one marketing, we intend to use our Internet brand image to consolidate a loyal client base through our offer of specialized products and services. We intend to develop strategic Internet products to make one-stop service possible for all retail banking products.

For the convenience of our customers, we also intend to diversify access devices and service channels not only through the use of desktop computers but also through mobile telephones, personal digital assistants, smart card technology and Web-TV. We will therefore reorganize the function of existing branches and review strategies for their operation to accommodate and promote the use of these new distribution channels. Furthermore, we intend to reinforce our strengths in the Internet banking area by entering into strategic alliances with large companies, both within and outside the financial sector, in Korea. In April 2000, through one of our subsidiaries, we invested in a company which has established a real estate portal site where registered users can search a database of real estate properties available for sale or register a property that they want to sell. The site also provides information about moving services, real estate-related legal services and housing finance and will include a shopping mall for appliances and furniture.

We intend to continue to develop new products and services to offer through the Internet. Currently, we are developing mortgage products specifically designed for Internet distribution and are also considering developing additional products for on-line distribution. We have recently begun to offer a savings deposit account which requires a depositor to use the Internet for all transactions and ATMs for cash withdrawals under ₩2 million.

Finally, we intend to re-design our traditional business by providing services online which have traditionally been provided through our branch offices to take advantage of the efficiencies of the Internet, such as providing convenient access for our customers to our comprehensive set of online banking services and reducing our transaction costs.

Enhance the level of our customers' satisfaction by improving our service quality and using targeted marketing based on our customer database

We believe that one of the keys to consolidating our position as a leading financial institution in Korea is to continue to focus on providing a high level of customer service. Among the initiatives we are pursuing to improve the quality of our customer service are:

- strengthening our personal banking and relationship banking activities by:
  - segmenting and targeting customers in accordance with differing customer needs;
  - offering advanced training programs to our employees, particularly to those in the areas of personal financial planning, financial products, tax, investing and financial consulting;
  - increasing the number of personal bankers and relationship managers; and
  - introducing additional customer service features such as special lounges for important customers at our branches;
- developing a customer relationship management system to provide information and support for our customer service and marketing activities;
  - the system involves gathering the information we possess throughout our organization about our customers, such as their transaction history, demographic profile, anticipated financial needs and contribution to our profitability, and segmenting our customer base based on such information. We then attempt to develop more effective marketing strategies for each of our customer segments, so that we can offer our customers more customized services and improve our relationships with them. By continually updating our customer information, we are also able to evaluate the effectiveness of our targeted marketing strategies, make adjustments and develop better strategies;
- launching a Value Improvement Program for small and medium sized enterprise customers;
  - Our Value Improvement Program is a marketing program that identifies and prioritizes our target small and medium sized enterprise customers after a thorough review of their operations and financial conditions. We gather information about the financial needs of these potential customers and offer financial products that can address these needs. In this manner, we hope to establish a stable, long-term relationship with these customers; and
- strengthening our Power Loyal Customer Program by offering:
  - additional interest payments for deposits (up to a maximum of 0.5% for our most important customers);
  - additional interest discounts for loans (up to a maximum of 1.0% for our most important customers);
  - loans or credits without collateral or guarantee (up to a maximum of ₩30 million) for our most important customers;
  - differentiated credit card features such as platinum or gold cards; and
  - discounts on, or exemptions from, service fees for cash remittance, PC banking or foreign currency exchange.

Create a competitive internal system based on continual management reforms and improve our operational efficiency by developing our core capabilities

Continue to implement a system of performance-based compensation

We intend to continue to focus on implementing a system of performance-based compensation. Our organizational change into business units has made responsibility for, and assessment of, performance clearer in each of our businesses and, as a result, we will increase the proportion of our compensation that is based on performance. We intend to expand upon the current business unit-wide bonus system, which is based on each business unit's performance, so that the performance based bonus amount received by each business unit is divided among the teams within business units based on the performance of each team. Eventually, we intend to further change this system to evaluate each employee and reward them on an individual basis through monetary awards and/or promotions. We intend to use the Market Opportunity Rate/Activity Based Cost systems to measure the performance of each business unit and, ultimately, and each employee to support performance evaluations. Furthermore, we are developing our Key Performance Indicators system which should enable us to evaluate individual staff's performance on an objective basis.

Improve and expand our information technology infrastructure

In order to become a world class financial institution we believe in having in place an information technology platform capable of effectively servicing our operations, both as they exist now and as they develop in the future. Advanced information technology systems are necessary to support higher quality customer service and reduce unit operating costs, and we are currently working with a third-party contractor to develop a best practices information technology infrastructure system. The goal of this system will be to provide support for our existing management information and control infrastructure. The system will also give us the flexibility to take advantage of both developing technologies and the changing financial services landscape in Korea by including consumer privacy protection capabilities, pay systems capabilities, electronic bill presentation and payment system capabilities, integrated customer relationship management capabilities and an open architecture to allow for new business and technological developments. We anticipate that this system will be available in 2003.

Reconfigure and expand our distribution channels to reflect our customers' changing needs and take advantage of new technology

The main objective of our distribution channel strategy is to establish and develop customized service for individual transactions. Low income customers are expected to use our services principally because of our efficiency and the user-friendly banking environment we offer, whereas high income customers also expect individually tailored and product services.

We are in the process of restructuring our branch network in line with this distribution channel strategy. Through market analysis we are able to identify suitable locations to relocate low revenue generating branches. We also intend to focus most particularly on those locations which we perceive as strategic. At the same time we also aim to reduce the overall size of our new branches.

In those locations where establishing full size branches would not be economically viable because of the limited size of the local market, we intend to establish branches with only two to five employees. This will enable us to offer an individual and customized service based on our Sales Stimulation Program and personal banking to attract high income customers, thereby increasing the efficiency of our operations. Our Sales Stimulation Program is a program designed to enhance our profitability and our customers' loyalty by identifying those customers who currently contribute or have the potential to contribute significantly to our profitability and systematically managing the information we gather about them and the products and customer services we provide to them.

We have also increased our low-cost distribution channel through the use (through an active promotion program) of over 3,000 automatic banking machines and the establishment of a large scale call center and tele-banking services. We are also building our system and infrastructure to offer Internet banking to our customers as described above and diversifying our offerings through the introduction of mobile telephone and smart card banking.

We intend to convert branches mainly into front line sales offices to enable our staff to focus on marketing activities. Accordingly, those counters used for fast and mechanical transactions will be segregated from those used for longer consultations, enabling discussions between our customers and our staff to take place in a relaxed atmosphere. Since November 1999, processing centers located throughout Korea have been focusing on those tasks which do not require direct contacts with clients. In contrast to these processing centers, all of our branches will in due course include a special lounge to cater to important clients, together with a personal banking section staffed with specialists in personal finance offering a personal relationship and one stop service in banking, insurance and investments.

Principal Banking Activities

Our principal banking activities include:

- retail banking, including mortgage financing;
- corporate banking focusing on services to small and medium sized enterprises; and
- capital markets activities.

Through our mortgage financing activities we provide financing for the purchase, construction, improvement and rental of homes. Through our other retail banking activities we take deposits from retail customers through multiple products and distribution channels and provide personal loans and other services, including credit cards. Through our corporate banking activities we take deposits and provide loans and other services to companies, with an emphasis on small and medium sized enterprises. Through our capital markets activities we seek to optimize profits from our securities portfolio.

The following table presents information regarding our revenues and profit by categories of activities during each of the last two years ended December 31, 1998 and 1999.

	Years Ended December 31,	
	1998	**1999**
	(in ₩ billion)	
Retail Banking		
Revenue	2,548	2,579
Profit	268	220
Corporate Banking		
Revenue	1,577	939
Profit	359	83
Capital Market Activities		
Revenue	1,007	1,159
Profit	(88)	32
Total		
Revenue	5,132	4,677
Profit	539	335

Retail Banking

Through our retail banking operations we provide financial products and services to retail customers. These products and services include mortgage financing, other consumer loans, deposit products and credit card services. As of December 31, 1999, our retail lending amounted to ₩24,938 billion and accounted for 77.6% of our total loans and our retail deposits amounted to ₩26,652 billion and accounted for 79.8% of our total deposits. As of December 31, 1998, our retail lending amounted to ₩19,062 billion and accounted for 72.3% of our total loans and our retail deposits amounted to ₩22,669 billion and accounted for 82.3% of our total deposits. As of December 31, 1997, our retail lending amounted to ₩18,882 billion and accounted for 75.8% of our total loans and our retail deposits amounted to ₩19,205 billion and accounted for 85.5% of our total deposits. In 1998, retail banking activities generated net income of ₩268 billion, while in 1999 they generated net income of ₩220 billion.

Mortgage Financing

Mortgage financing has historically been our core business. As of December 31, 1999, our market share of the outstanding Korean private mortgage market was 74.1%. As of December 31, 1999, our mortgage lending amounted to ₩17,246 billion and accounted for 53.7% of our total loans. In the year ended December 31, 1999, mortgage lending accounted for 58.9% of our interest and fees on loans. As of December 31, 1998, our mortgage lending amounted to ₩15,890 billion and accounted for 60.3% of our total loans. In the year ended December 31, 1998, mortgage lending accounted for 60.6% of our interest and fees on loans and leases. As of December 31, 1997, our mortgage lending amounted to ₩15,928 billion and accounted for 63.9% of our total loans. We do not receive any fee income related to the origination of loans, excluding out of pocket expenses such as commissions payable for the appraisal of collateral. Pursuant to our articles of incorporation, at least 50% of our Won currency lending, other than government policy lending, must be in the form of mortgage lending. The number of housing units that we financed in 1999 was 240,825, comprised of 97,620 ready-built housing units, 49,212 existing housing units and 93,993 rental housing units. The number of housing units that we financed was 201,994 in 1998 and 174,764 in 1997.

The Housing Finance Market in Korea. The housing finance market in Korea is divided into public sector and private sector lending. In the public sector, two government entities, the NHF and the National Agricultural Cooperative Federation, are responsible for most of the mortgage lending. In the private sector a number of financial institutions and installment finance companies, including ourselves, provide mortgage lending. Prior to the late 1980s, Korea suffered a housing shortage. A series of government programs designed to stimulate construction have since increased the amount of available housing in Korea. According to Korea's Ministry of Construction and Transportation and the National Statistical Office of Korea, for the year ended December 31, 1998, the percentage of total dwellings in Korea to total households was 92.4%, an increase from 72.4% in 1990.

The housing finance market in Korea is relatively small compared with those of other countries. According to statistics obtained from the International Monetary Fund, The Government Housing Loan Corporation (Japan), the Ministry of Finance and Economy (Korea) and The Journal of Housing Finance, the ratio of outstanding mortgage loans to gross domestic product was 11.7% as of December 1997 (the last year for which figures are available for purposes of comparison), as compared to 29.4% in Japan, 52.3% in the United States and 53.7% in the United Kingdom. This is due in large part to the government's historical restrictions on mortgage lending that were designed to promote the funding of strategic industries and the existence of an informal home financing system known as the ‘‘chonsé’’ system.

Government restrictions on mortgage lending were largely lifted in 1997. All commercial banks in Korea can now offer long-term mortgages and restrictions on maximum amounts and on the maximum size of homes eligible for a mortgage have been eliminated. This has led to a more competitive mortgage lending market. In 1998, the Korean government promulgated new laws to facilitate mortgage backed securitization transactions by Korean banks. We believe that the demand for these transactions will increase, which should contribute to the growth of the mortgage lending market by increasing the amount of funding available to lenders and allowing lenders to manage their credit risk and increasing the potential buyer's purchasing power.

According to the most recently available public data published by the Bank of Korea and the Korean government, personal income in Korea rose 8.2% and the population increased 0.9% in 1999. Housing prices in Korea increased 3.4% in 1999 from 1998 levels according to our research, which has been certified by the Korean government, and the number of housing construction permits increased 33% in 1999, according to statistics released by Korea's Ministry of Construction and Transportation.

Mortgage Loan Products. Our retail mortgage loan products consist of:

- loans to individuals to finance the purchase of homes;
- loans to individuals to finance the construction of homes;
- home improvement loans;
- loans to individuals to finance the rental of homes; and
- loans to individuals to finance the purchase of housing sites.

Prior to 1997, government regulations limited the types of mortgage lending products we could offer. We could only provide individual housing loans in amounts not greater than ₩25 million and interest rates on our mortgage loans were restricted to between 9.5% to 11.5% per year which were generally lower than market rates. Repayment schedules ranged from three to 25 years on an installment basis. To be eligible for individual housing loans, the floor area of a house could not be greater than 100 square meters, and in the case of housing rental loans, the floor space could not be greater than 85 square meters. To be eligible for an individual housing loan, a borrower needed to have accumulated a specified number of monthly installments in one of our housing related saving programs, or have maintained a specified deposit balance in prescribed deposit accounts.

Following the repeal of the Housing Bank Act in 1997, we were able to expand our product offerings. We have introduced a number of products with more flexible features, including terms, repayment schedules, amounts and eligibility for loans and are now able to offer interest rates on a commercial basis. The maximum term of our mortgage loans is now 33 years and there are no restrictions on maximum floor area. In addition, any customer is eligible for an individual housing loan regardless of whether it participates in one of our housing related savings programs and as long as it is not barred by regulation from obtaining a housing loan because of a bad credit history. However, customers who hold deposit accounts with us receive preferential interest rates on loans. In 1999, we introduced the ''Power-Housing Loan'', a new housing loan product for individuals which can be issued in amounts up to the appraised value of the collateral and which has flexible repayment schedules ranging from three to 33 years. These loans currently carry adjustable fixed interest rates of 9.8% to 11.8% per year.

As of August 31, 2000, approximately 73% of our mortgage loans were secured by a first mortgage on the property which is the subject of the loan and the remaining 27% of our mortgage loans were guaranteed by the Housing Finance Credit Guarantee Fund (HFCGF), a government housing-related entity. Our policy is to lend an amount up to 100.0% of the assessed value of a property after deducting prior mortgage lien value from the appraisal value. The average initial loan to value ratio of our housing loans, which is a measure of the amount of our loan exposure to the appraised value of the security collateralizing the loan, has been approximately 28.0% over the past five years. One reason that our loan to value ratio is so low is that housing prices are high in Korea relative to average income so most people cannot afford to borrow an amount equal to the entire value of their collateral and make interest payments on such an amount. Nevertheless, if the real estate prices in Korea drop significantly, we could suffer losses.

A borrower's eligibility for our mortgage loans depends on the borrower's creditworthiness, the appropriateness of the use of proceeds and our ability to take a good first mortgage.

Pricing of Mortgage Loans. The interest rates on our retail mortgage loans are either linked to our long-term prime rate or are based on a rate established by our Market Opportunity Rate system, which reflects our internal cost of funding. Interest rates based on our long-term prime rate are adjustable rates and are adjusted by a margin. This margin is lower for customers who have deposits with us and increases as the length of the mortgage increases. Our current long-term prime rate, which is 9.75%, has not changed since March 1999. Interest rates based on the Market Opportunity Rate system which reflects our internal cost of funding may be adjusted periodically at our option together with a margin. Customers who choose our Market Opportunity Rate-based mortgages may decide whether the rate can be adjusted every year or every six months. Since June 1999, when we began offering our Market Opportunity Rate-based mortgages, our Market Opportunity Rate-based mortgages had lower interest rates than our mortgages based on our prime rate. As a result, most of our customers who have taken out a mortgage loan in 2000 have chosen Market Opportunity Rate-based mortgage loans. Our current Market Opportunity Rate is 9.4% for rates that are adjusted every year and 9.1% for rates that are adjusted every six months.

As of December 31, 1999, approximately ₩14,518 billion, or 84.2%, of our outstanding mortgage loans were priced based on our long-term prime rate, and the average interest rate on such loans was 11.2% per year. As of that date, approximately ₩2,591 billion, or 15.0%, of our outstanding mortgage loans were Market Opportunity Rate-based. Under this method, the average interest rate for individual housing loans is 9.8% per year.

As of December 31, 1998, approximately ₩15,571 billion, or 98.0%, of our outstanding mortgage loans were priced based on our long-term prime rate. As of December 31, 1997, approximately ₩15,578 billion, or 97.8%, of our outstanding mortgage loans were priced based on our long-term prime rate.

Other Retail Banking

Other Retail Loans. Our other retail loans consist of general loans and overdrafts to households, loans on mutual installment savings and loans on other savings deposits. Our other retail loans amounted to ₩2,256 billion, ₩2,400 billion and ₩6,476 billion and accounted for 9.1%, 9.1% and 20.2% of our total loans as of December 31, 1997, 1998 and 1999, respectively. These loans may be secured by real estate, securities or deposits or may be unsecured. As of the end of 1999, secured loans accounted for approximately 56.4% in aggregate principal amount of our retail loans. Among the secured loans, approximately 99.7% were secured by real estate or deposits.

We classify our other retail loans into short-term loans with a maturity of three years or less and medium- to long-term loans with a maturity of more than three years. A majority of our medium- to long-term retail loans are secured, and unsecured medium- to long-term loans consist only of loans to individuals working in the government or the military up to the amount of their pension.

Interest rates are determined using our prime rate plus a margin based on the type of security, for secured loans, and the borrower’s credit score under our credit scoring system for unsecured loans. The loans can generally be renewed annually as long as the borrower maintains the same credit score.

A borrower’s eligibility for our other retail loans is primarily determined by the borrower’s credit, and if the borrower’s credit deteriorates, it may be difficult for us to recover the loan. As a result, we review the borrower’s creditworthiness, collateral value and credit scoring when evaluating a borrower. In addition, to reduce our default risk, we take collateral and personal guarantees and we use the deposits that the borrower has with us as collateral.

Retail Deposit Products. We offer a wide range of deposit products, some of which are closely related to our mortgage lending activities. The total level of our deposits was ₩22,462 billion, ₩27,543 billion and ₩33,379 billion as of December 31, 1997, 1998 and 1999, respectively. We believe that the increase in deposits over this period was due in part to the recent difficulties in the Korean banking sector. We have found that many people have withdrawn their deposits from banks they perceive to be weaker, and opened accounts with banks they perceive as stronger, such as ourselves. This has led to increased competition among banks, even some of the stronger banks in Korea, for these customers, causing increased marketing activities and price competition. However, because we believe that we are a market leader in terms of pricing and asset quality, we have decided not to engage in price competition for deposits but instead have decided to focus on enhancing our profitability by improving our relationships with our existing customers and providing preferential services to our larger customers.

Our principal deposit products include the following:

- *Demand deposits*, which either do not accrue interest or accrue interest at a lower rate than time or savings deposits.
- *Time deposits*, which generally require the customer to maintain a deposit for a fixed term during which the deposit accrues interest at a fixed rate. If the amount of the deposit is withdrawn prior to the end of the fixed term, the customer will be paid a lower interest rate than that originally offered. The terms for time deposits typically range from one to three years.
- *Savings deposits*, which allow depositors to deposit and withdraw money at any time and accrue interest at an adjustable interest rate, which varies depending on the period of deposit, or to deposit specified amounts on an installment basis. Most installment savings deposits offer fixed interest rates.
- *Certificates of deposit*. The maturities of our certificates of deposit range from 30 days to 365 days with a required minimum deposit of ₩5 million. Interest rates on certificates of deposit are determined based on the length of the deposit and prevailing market rates. Our certificates of deposit are sold at a discount to their face value, reflecting the interest payable on the certificate of deposit.
- *Foreign currency deposits*. We offer foreign currency demand and time deposits and checking and passbook accounts in 29 currencies. These deposits and accounts accrue interest at an adjustable rate and are available to Korean residents, non-residents and overseas immigrants.

We also offer deposits which provide the holder with preferential rights to housing subscriptions and eligibility for mortgage loans. These products include:

- *Housing subscription time deposits*, which are special purpose time deposit accounts providing the holder with a preferential right to subscribe for new private apartment units under the Housing Construction Promotion Law which is the basic law setting forth various measures supporting the purchase of houses by low income residents and the supply of such houses by construction companies. These products accrue interest at a fixed rate for one year, and at an adjustable rate after one year. Deposit amounts per account range from ₩2 million to ₩15 million depending on the size and location of the dwelling unit. These deposit products target high and middle income households.
- *Housing installments savings deposits*, which are monthly installment savings programs providing the holder with a preferential subscription right under the Housing Construction Promotion Law to acquire newly-built apartment units with a size of up to 85 square meters. Account holders are also eligible for our mortgage loans. These deposits require monthly installments of ₩50,000 to ₩500,000 with maturities of between one and five years and accrue interest at an adjustable fixed rate depending on the term. These deposit products target low and middle-income households.

We have also developed various financial products tailored to specific market segments. Our goal is to attract new customers from specific target market segments with these products. These products include:

- *Next generation housing deposits*, which are housing installment savings deposits that target customers under the age of 25. These deposits have a three year maturity which may be renewed every three years for up to 30 years. We offer loans against these deposits to finance education, marriage and housing to next generation housing deposit customers. We also offer fringe benefits to holders of these deposits periodically such as free life insurance coverage. Since the launch of these products in June 1992, approximately four million people have opened one of these accounts with us, representing approximately 20.0% of the total eligible population of Korea. Interest rates are adjustable.

- *Bluechip time deposits and Bluechip installment deposits,* which give additional interest to depositors when the closing price of our stock is higher than any other Korean commercial banks' stock price or the actual closing stock price the day before maturity date of the account is within a range chosen by the depositor when the account was opened. The additional interest rates currently range from 0.1% to 1.4%. Customers must deposit a minimum of ₩3 million into the time deposit account or make minimum monthly installments of ₩30,000.

We also have a ''Power Loyal Customer Program'' which categorizes customers according to their average deposit balance over the most recent three month period and their contribution to our revenue. Customers in each of the categories receive different treatment in various areas, including interest rates and fee rates on our other products and are eligible for different types of credit cards.

The following table sets forth the number of our depositors by customer type and the number of our domestic branches as of the dates indicated.

	As of December 31,		
	1997	**1998**	**1999**
	(thousands, except branches)		
Retail deposit customers[1]	13,255	13,380	13,570
Active retail deposit customers[2]	9,418	8,503	8,707
Domestic branches	500	546	518[3]

(1) Includes individuals, households, sole-proprietors and non-profit organizations.
(2) Includes customers whose account balances as of December 31, 1999 were W100,000 or more.
(3) Excluding 19 corporate relationship management branches.

The following table sets forth information on our deposits based on the principal types of deposits we offer:

	Year ended December 31,		
	1997	**1998**	**1999**
	(in ₩ billion)		
Demand deposits	4,992	5,446	7,504
Time deposits[1]	8,646	16,619	20,075
Savings deposits	486	525	920
Certificates of deposit	1,052	177	41
Mutual installment deposits[2]	7,286	4,776	4,839
Total deposits	22,462	27,543	33,379

(1) Balance includes housing subscription time deposits of ₩3,395 billion, ₩2,156 billion and ₩3,035 billion for 1997, 1998 and 1999, respectively.
(2) Balance includes housing installment savings deposits of ₩6,165 billion, ₩3,948 billion and ₩3,585 billion for 1997, 1998 and 1999, respectively.

Credit Cards. We commenced our credit card operations in 1984, two years after five nationwide banks established the Korean Bank Card Association, which was subsequently renamed the BC Card Co., Ltd. BC Card is currently owned by 12 member banks, including ourselves. BC Card issues credit cards under the names of the member banks, substantially all of which are licensed to use MasterCard, Visa or the Japanese Credit Bureau (JCB). BC Card provides a number of services for our card operations including issuing cards, providing billing services and managing arrears and delinquencies. We own 4.9% of BC Card.

As of December 31, 1999, we had 5.1% of total credit cards issued in Korea which represented 15.3% of the total number of BC Cards issued. As of December 31, 1999, we had more than 1.9 million cardholders, compared to approximately 1.3 million cardholders and 1.6 million cardholders as of December 31, 1997 and 1998, respectively.

We receive fees and commissions from our credit card operations. Our fees and commissions consist principally of cardholders' purchase fees including interest on late and deferred payments, cash advance fees, annual fees paid by cardholders and merchant fees payable by service establishments. Cardholders are required to pay the entire amount of their purchases within approximately 22 to 53 days after purchase. Accounts which remain unpaid after such period, except in the case of installment purchases, are deemed to be delinquent. We charge penalty interest on delinquent accounts and closely monitor such accounts. For installment purchases, we charge interest on unpaid installments at rates which vary according to the terms of repayment. In the year ended December 31, 1999, we received ₩231 billion in fees and commissions from our credit card operations, including interest revenue. In the year ended December 31, 1998, we received ₩192 billion in fees and commissions from our credit card operations, including interest revenue.

We believe that credit cards are one of our core retail products and are a key element in our retail financial services strategy to diversify our income sources. We expect that the use of credit cards in Korea will increase as the Korean economy and consumer spending recover from the recent financial and economic difficulties. The ratio of consumer borrowing to gross domestic product in Korea is low compared to that in other developed countries so we believe credit card use can be expected to increase. In addition, the government has been promoting the use of credit cards in Korea. The government has required commercial establishments to accept credit cards as a means of preventing tax evasion by these establishments and provided tax benefits to businesses that accept credit cards. In addition, the government has recently introduced a credit card receipt lottery where winners receive cash prizes that they can choose to have deposited to their accounts and there is a tax deduction for amounts spent using credit cards.

To promote our credit card business we introduced a number of initiatives in 1999, including:

- offering cards which provide additional benefits such as frequent flyer miles and cards which provide cash back depending on the amount and frequency of usage;
- introducing a platinum card for our most important customers which has a higher credit limit and provides additional services in return for a higher fee; and
- introducing peripheral services including payment for telephone bills with credit cards and early repayment of cash advances without penalty.

In order to develop further our credit card business, we are concentrating on the following:

- acquiring new customers through alliances and cross-marketing with other companies and special offers such as waiving membership fees;
- encouraging increased use of credit cards by existing customers through special offers for frequent users;
- introducing new features, such as revolving credit cards, in addition to installment payment cards;
- creating a credit scoring system for credit card customers;
- creating a fraud detection system to prevent the misuse of credit cards and strengthening the encryption and security systems for the use of credit cards over the Internet; and
- issuing smart cards and preparing for a cardless business environment in which customers can use credit cards to make purchases by phone or over the Internet.

We plan to remain in the BC Card consortium in order to take advantage of its brand name and infrastructure, continue to receive information about our customers, capitalize on cross-selling opportunities and reduce our risks in the credit card business. However, in order to provide better services, we are considering establishing our own internal system to support our credit card operations, which would enable us to market our own cards and product services and develop an efficient customer relations capability independently from BC Card.

The following table sets forth our credit card operations as of and for the years ended December 31, 1997, 1998 and 1999.

	As of and for the year ended December 31,		
	1997	**1998**	**1999**
	(in ₩ billion, except where indicated and percentages)		
Number of card-holders (thousands)	1,314	1,611	1,942
Billings	2,893	2,771	4,842
Fees and commissions (including interest revenue)	159	191	231
Expenses(1)	14	14	20
Net operational profit	146	175	209
Year end credit card account balance	698	772	1,216
Delinquency rate(2) (%)	1.4	1.6	0.6

(1) Expenses include employee commissions, card payment expenses and allowance for lost credit cards.

(2) Total delinquent balance at year-end divided by payments billed to customers by us during that year. Delinquent balances are balances that are overdue for more than three months.

The increase in the delinquency rate in 1998 was mainly due to the economic difficulties experienced by households during the recent financial and economic downturn in Korea. The decrease in the delinquency rate in 1999 (despite the increase in billings) reflects the improvements in the Korean economy and our efforts to minimize delinquencies.

Distribution Channels

We distribute our retail products and services through a variety of distribution channels, including traditional branches, ATMs, PC banking, telephone banking and through the Internet.

Branches. In Korea, retail transactions are generally concluded in cash, and conventional checking accounts are not offered or used as widely as in other countries. As a result, an extensive branch network is important as customers generally handle their transactions at bank branches.

We have an extensive branch network which covers the main regions of Korea. As of December 31, 1999, we had 537 retail branches throughout the country. In connection with our customer service strategy, we have implemented a program to improve the operational efficiency of our branch network and to focus on customer service. We have centralized loan processing, loan management and other back office functions in 41 newly created processing centers. In addition, we have set up a call center which is open 24 hours a day to serve customer needs over the phone. The call center is staffed by over 500 people. These measures have allowed us to reduce the number of staff at each branch and have freed our branch staff to focus on customer service.

We are also introducing mini-branches which are staffed by a maximum of five people who will focus solely on marketing and customer relationships. We have assigned over 900 personal bankers to provide personal banking services to our high net worth individual customers. These bankers have been staffed at most of our branches. We believe that focus on the customer will be a key factor in our efforts to strengthen our image and retain profitable customers.

Automated Banking Machines. As of December 31, 1999, we had a total of 3,722 automated banking machines. These consist of ATMs, including ATMs that only dispense cash, and passbook printers located inside branches and automated banking booths. We have actively promoted the use of these distribution outlets in order to maximize the marketing and sales functions at the branch level and to minimize the cost of our distribution channels. We now estimate that automated banking machines account for as much as 70.0% of our total deposit and withdrawal transactions in amounts less than ₩700,000, other than transactions through PC-banking and telephone banking. We plan to install 400 additional automated banking machines in 2000 at a cost of ₩10 billion.

PC Banking. We launched PC banking services in March 1994. Through our PC banking service we offer a variety of services, including inter-account fund transfers, balance inquiries and product inquiries. In 1999, we had over 327,000 PC banking customers who performed over almost eight million transactions using PC banking.

Telephone Banking. We launched our telephone banking services in June 1996, allowing customers to conduct a number of types of transactions by telephone. Through telephone banking we offer a variety of services, including inter-account fund transfers, preset automatic transfers, balance inquiries, and customer service inquiries. In 1999, we had approximately 1.2 million telephone banking customers.

Internet. We began to offer a number of services over the Internet in July 1999. These services included all the banking services offered through our telephone banking services, including funds transfers, applications for non-guaranteed loans, responses to inquiries about household credit lines and taking of lottery ticket orders and deduction of their price from customers' deposit accounts. As of December 31, 1999, we had approximately 9,000 registered Internet service customers. We have been improving our Internet banking system to strengthen our competitiveness, and we relaunched our Internet banking services in June 2000. Our site now offers all the services that are currently available at our branches, to the extent permitted by relevant laws, including loan applications for mortgage loans and other secured and unsecured loans for individuals and opening of new deposit accounts. We are developing our site into a financial portal where users can gain one-stop access to banking, insurance, investment securities and real estate information. See ''—Strategy—Pursue Growth by Increasing Our Personal Banking Business and Strengthening Our Internet Banking Capability''.

Other Channels. We are actively pursuing additional distribution channels. In November 1998, we entered into a strategic alliance with the Federation of Community Credit Cooperatives which enables customers to make deposits, withdraw cash or pay loan interest at any one of the 1,800 Community Cooperatives in Korea. We have similar strategic alliances with 18 securities companies, four investment trust companies, two credit card companies and 21 credit unions. We also have a strategic alliance with Hyundai Refineries, which enables customers to withdraw cash from their account at all of Hyundai Refineries' gas stations in Korea.

The following table sets forth information, for the period indicated, on the number of users, the number of transactions and the fee revenue of each of our principal distribution channels.

	For the year ended December 31,		
	1997	1998	1999
	(in ₩ billion, except number of users and number of transactions)		
ATMs[1]			
Number of transactions (000)	74,376	102,191	155,060
Fee revenue	5	6	14
PC Banking:			
Number of users	136,188	309,441	327,854
Number of transactions (000)	1,520	5,750	7,876
Fee revenue	—	1	1
Telephone Banking:			
Number of users	288,321	800,462	1,240,662
Number of transactions (000)	836	6,815	33,126
Fee revenue	—	1	2
Internet:			
Number of users	—	—	9,000
Number of transactions (000)	—	—	94,000
Fee revenue[2]	—	—	—

(1) Includes ATMs which only dispense cash.
(2) Included in PC Banking fee revenue.

Corporate Banking

Through our corporate banking activities, we provide financial products and services to corporate customers. These products and services include deposit products, loans and guarantees, including syndicated loans, foreign exchange and trade finance and project finance. The focus of our corporate banking activities is on expanding our presence in the small and medium sized enterprise market in Korea.

Historically, we had a limited number of corporate banking customers. Our corporate customers were predominantly large construction companies and companies belonging to chaebols, the large Korean conglomerates. Consistent with our retail oriented-strategy, since early 1999, we have increased the range of our corporate banking activities and diversified our corporate customer base to include small and medium sized enterprises in industries such as manufacturing, services and telecommunications.

As of December 31, 1999, our corporate lending amounted to ₩7,196 billion and accounted for 22.4% of our total loans and our corporate deposits amounted to ₩5,538 billion and accounted for 16.6% of our total deposits. In the year ended December 31, 1999, corporate banking activities generated net income of ₩83 billion. As of December 31, 1998, our corporate lending amounted to ₩7,292 billion and accounted for 27.7% of our total loans and our corporate deposits amounted to ₩4,084 billion, and accounted for 14.8% of our total deposits. In the year ended December 31, 1998, corporate banking activities suffered a loss of ₩359 billion. As of December 31, 1997, our corporate lending amounted to ₩6,041 billion and accounted for 24.2% of our total loans and our corporate deposits amounted to ₩2,509 billion and accounted for 11.2% of our total deposits.

Historically, our lending to the corporate sector in Korea was principally to housing-related companies, particularly the construction industry. Since November 1999, we have significantly increased our non-housing related lending to the corporate sector. In addition, our acquisition of DongNam Bank increased our overall corporate customer base, including small and medium sized enterprises. As of December 31, 1999, our corporate loans denominated in Won amounted to ₩5,722 billion, which represented 17.8% of our total loans. Of this amount, loans to small and medium sized enterprises amounted to ₩4,300 billion. As of December 31, 1998, our corporate loans denominated in Won amounted to ₩5,408 billion, which represented 20.5% of our total loans. As of December 31, 1997, our corporate loans denominated in Won amounted to ₩3,746 billion, which represented 15.0% of our total loans.

The principal focus of our corporate banking activities is on the small and medium sized enterprise market in Korea because lending to small and medium sized enterprises has been growing quickly in Korea and we believe that we possess the necessary elements to succeed in the small and medium sized enterprise market, including our extensive branch network, our credit rating system for credit approval and our marketing capabilities. The government has also encouraged capital flows to small and medium sized enterprises. To increase our lending to the small and medium sized enterprise market we:

- have analyzed approximately 60,000 small and medium sized enterprises in Korea on the basis of their financial condition and other circumstances using our credit rating system and identified approximately 11,000 small and medium sized enterprises as priority target customers. Our marketing efforts are directed toward establishing a relationship with these small and medium sized enterprises;

- have begun operating a relationship management system in November 1999 to provide targeted customer service to small and medium sized enterprises. We have a staff of almost 500 people involved in corporate banking. We have 19 corporate banking branches and 50 relationship management teams located at various other retail branches. The corporate banking branches and teams perform marketing as well as loan review and approval for smaller loans that pose less credit risks; and

- have begun to focus on cross-selling our loan products with other products. For example, when we lend to construction companies building apartment houses, we also market our subscription account products to the future owners of the apartments. Similarly, when we provide loans to companies, we also explore opportunities to cross-sell retail loans or deposit products to the employees of those companies.

Through our international corporate banking operations we provide foreign exchange services, such as money exchange services and overseas fund remittances to and from Korea, and trade finance services, such as letters of credit and bills purchased, and participate in syndicated loans and project finance. We also invest in securities issued by foreign companies, mainly in Southeast Asia. Currently, we provide these services from our head office as well as from our branches in Tokyo, London and New York, and one subsidiary in Hong Kong. Trade finance services and other services related to exports and imports are also provided by 138 domestic branches. Our international banking activities currently employ 76 people. As a result of the adverse financial and economic situation in Korea and Asia in 1997 and 1998, we have reduced the volume of our international operations. The current focus of our international banking operations is to strengthen our trade finance activities and develop products catering to the needs of small and medium sized enterprises. We have dispatched international finance specialists to relationship management teams to support small and medium sized enterprises whose international trading activities are expected to increase.

Deposit Products

We currently offer our corporate customers several types of corporate deposits. The deposit products can be divided into two general categories: deposits such as the Corporate Freedom Deposits that have no restrictions on deposits or withdrawals, but which offer a relatively low interest rate and deposits where withdrawals are restricted for a period of time, but offer relatively high interest rates. In addition, our other deposit products such as installment savings deposits are also available to corporate customers. The total amount of deposits from corporate customers amounted to ₩2,509 billion at the end of 1997, or 11.2% of our total deposits, ₩4,084 billion at the end of 1998, or 14.8% of our total deposits, and ₩5,538 billion at the end of 1999, or 16.6% of our total deposits. As we are focusing on increasing our transactions with small and medium sized enterprises, we expect that the amount of corporate deposits will increase.

Loan Products

Our principal loan products are collective housing loans and working capital loans to corporations. Our collective housing loans are mortgage loans to home builders or developers who build or sell houses. We offer a variety of collective housing loans, including:

- loans to contractors to finance the construction of housing units having two or more apartments. These loans are generally assumed by the buyers of the apartments instead of being paid off by the contractor;
- loans to provide working capital to contractors constructing housing units with 20 or more apartments;
- loans to finance the purchase of property on which to build a housing unit of two or more apartments;
- loans to contractors to finance the construction of rental housing units containing two or more apartments;
- loans to companies to finance the construction of housing units to be sold or rented to employees;
- loans to housing-site developers to finance the development of housing sites of 12,000 square meters or more for housing construction; and
- loans to educational establishments, small and medium sized enterprises and non-profit entities to finance the construction of dormitories.

Our collective housing loans are currently subject to a limit based on the total collateral value of the housing units. Collective housing loans currently bear interest rates of 11.0% to 11.8% per year, as determined by our Risk Management Committee. Repayment schedules range from one to 15 years.

Collective housing loans subject us to the risk that the housing units will not be sold. As a result, we review the probability of the sale of the housing unit when evaluating the extension of a loan. We also review the borrower's creditworthiness and the adequacy of the use of proceeds. Furthermore, we take the land on which the housing unit is to be constructed as collateral, and, in case the collateral is not sufficient to cover the loan, we take a guarantee from the HFCGF as security.

Our corporate loans other than collective housing loans typically have a one year maturity and their terms may be adjusted at the time they are rolled over. As of December 31, 1997, 1998 and 1999, 48.2 %, 47.0%, and 47.0 % respectively, of our total corporate loans other than collective housing loans were unsecured or partially unsecured. We receive fees in relation to credit evaluation, collateral appraisal and other services provided in connection with an extension of a loan.

When evaluating the extension of working capital loans, we review the corporate customer's creditworthiness and capability to generate cash. Furthermore, we take personal guarantees and credit guaranty letters from other financial institutions and use time and savings deposits that the borrower has with us as collateral.

Pricing

The interest rates on our collective housing loans are fixed rates based on our Market Opportunity Rate system. The rates we actually offer for collective loans vary based on the borrowers' credit rating determined by our credit rating system.

We establish the price for our other corporate loan products based principally on transaction risk, our cost of funding and market considerations. Transaction risk is measured by such factors as the credit rating assigned to a particular borrower and the value and type of collateral. We determine our cost of funding based on our Market Opportunity Rate system, which measures the current market interest rate and our Activity-Based Cost, and a spread calculated to achieve a target ''return on asset'' ratio set for the year. In addition, depending on the price and other terms set by competing banks for similar borrowers, we may reduce the interest rate we charge to compete more effectively with other banks.

Distribution Channels

Our domestic corporate banking products are distributed through our corporate banking branches and through the relationship management teams at our retail branches. Members of our relationship management teams regularly visit the corporate customers in their region. We intend to introduce a system to allow our relationship management teams to use portable computers and mobile phones to access our centralized credit rating system while they are visiting a corporate client in order to provide prompt feedback to companies regarding loan eligibility.

Capital Markets Activities

Through our capital markets operations, we invest and trade in debt and equity securities and, to a lesser extent, are involved in derivatives and brokerage activities. For the year ended December 31, 1999, capital markets activities generated net income of ₩32 billion.

Securities investment and trading

We invest in and trade securities for our own account in order to maintain adequate sources of liquidity and generate interest and dividend income and capital gains. As of December 31, 1997, 1998 and 1999, our investment portfolio, which consists of held-to-maturity securities and available-for-sale securities, and our trading portfolio had a combined total book value of ₩3,873 billion, ₩9,062 billion and ₩9,285 billion and represented 11.3%, 22.5% and 20.5% of our total assets, respectively.

Our trading and investment portfolios consist primarily of debt securities either issued or guaranteed by the Korean government. As of December 31, 1997, 1998 and 1999, we held debt securities with a total book value of ₩3,819 billion, ₩8,966 billion and ₩9,048 billion, respectively. As of December 31, 1997, 1998 and 1999 debt securities accounted for ₩46 billion, ₩225 billion and ₩2,660 billion, or 100.0%, 100.0% and 100.0%, respectively, of our held-to-maturity portfolio, ₩3,773 billion, ₩7,755 billion and ₩4,245 billion or 98.6%, 99.8% and 97.4%, respectively, of our available-for-sale portfolio, and ₩0 billion, ₩986 billion and ₩2,144 billion, or 0%, 92.2% and 94.6%, respectively, of our trading portfolio.

Of this amount, debt securities issued or guaranteed by the Korean government as of December 31, 1997, 1998 and 1999, amounted to ₩0 billion, ₩151 billion and ₩1,235 billion, or 0%, 67.4% and 46.4%, respectively, of our held-to-maturity portfolio, ₩2,659 billion, ₩6,173 billion and ₩2,526 billion, or 69.5%, 79.5% and 57.9%, respectively, of our available-for-sale portfolio, and ₩0 billion, ₩878 billion and ₩2,025 billion, or 0%, 82.1% and 89.4%, respectively, of our trading portfolio.

From time to time we also purchase equity securities for our securities portfolios. Our equity securities consist primarily of equities listed on the Korea Stock Exchange and KOSDAQ, although we also hold unlisted equity securities. As of December 31, 1997, 1998 and 1999, equity securities in our available-for-sale portfolio had a book value of ₩54 billion, ₩12 billion and ₩115 billion or 1.4%, 0.2% and 2.5% of our available-for-sale portfolio and a book value of ₩428 million, ₩83 billion and ₩122 billion or 100%, 7.8% and 5.4% of our trading portfolio, respectively.

The book value of our total trading and investment portfolio has increased from ₩3,873 billion as of December 31, 1997 to ₩9,062 billion as of December 31, 1998 and ₩9,285 billion as of December 31, 1999.

The increase has been driven by our increased level of funding as a result of the increase in our deposit taking. Funds which were not used for lending activities have been used to purchase securities.

The following table shows, for the periods indicated, the gross unrealized gains and losses within our investment securities portfolio and the amortized cost and fair value of the portfolio by type of investment security.

	As of December 31, 1997			
	Amortized cost	Gross unrealized gain	Gross unrealized loss	Fair value
	(in ₩ billion)			
Available for sale:				
Korean treasury securities and government agencies	2,771	—	(113)	2,659
Debt securities issued by financial institutions	504	36	(147)	393
Corporate debt securities	586	12	(136)	462
Other debt securities	266	5	(15)	259
Equity securities	173	2	(121)	54
Total available for sale	4,303	55	(531)	3,827
Held to maturity:				
Korean treasury securities and government agencies	—	—	—	—
Debt securities issued by foreign government	1	—	—	1
Debt securities issued by financial institutions	20	13	—	33
Corporate debt securities	25	13	—	38
Total held to maturity	46	26	—	72
Total securities	4,349	81	(531)	3,899

	As of December 31, 1998			
	Amortized cost	Gross unrealized gain	Gross unrealized loss	Fair value
	(in ₩ billion)			
Available for sale:				
Korean treasury securities and government agencies	5,903	295	(24)	6,173
Debt securities issued by financial institutions	717	50	(2)	765
Corporate debt securities	446	35	(4)	477
Other debt securities	325	15	—	340
Equity securities	29	—	(17)	12
Total available for sale	7,420	395	(47)	7,768
Held to maturity:				
Korean treasury securities and government agencies	151	10	—	161
Debt securities issued by foreign government	1	—	—	1
Debt securities issued by financial institutions	17	3	(3)	17
Corporate debt securities	55	3	(6)	52
Total held to maturity	224	16	(9)	231
Total securities	7,644	411	(56)	7,999

	As of December 31, 1999			
	Amortized cost	Gross unrealized gain	Gross unrealized loss	Fair value
	(in ₩ billion)			
Available for sale:				
Korean treasury securities and government agencies	2,542	11	(27)	2,526
Debt securities issued by financial institutions	486	15	(9)	492
Corporate debt securities	432	6	(2)	436
Other debt securities	751	40	—	791
Equity securities	114	9	(8)	115
Total available for sale	4,325	81	(46)	4,360
Held to maturity:				
Korean treasury securities and government agencies	1,235	4	(13)	1,226
Debt securities issued by foreign government	2	—	—	2
Debt securities issued by financial institutions	152	—	(2)	150
Corporate debt securities	400	3	(8)	395
Other debt securities	870	16	—	886
Total held to maturity	2,659	23	(23)	2,659
Total securities	6,984	104	(69)	7,019

Derivatives

Our derivatives activities are fairly limited and consist primarily of interest rate swaps, currency swaps and foreign exchange contracts. In the year ended December 31, 1999, we had net trading gains of ₩32 billion from our derivatives activities. As of December 31, 1998, we had net trading gains of ₩132 billion.

The major reason for the limited use of derivatives is that there have historically been no liquid domestic interest rate derivatives that could be used effectively to hedge our interest rate risk. Only over the last few years has there been sufficient deregulation of the financial markets in Korea to encourage the development of these products. In addition, the volatility of interest rates has increased due to the more competitive financial environment in which we operate, and therefore, the need for derivative instruments has increased. In October 1999, we began to use Korean Treasury Bond futures to manage the interest rate risk arising from domestic bond trading activities. We also plan to use these contracts to hedge interest rate risks of non-trading activities.

We use cross currency swaps to convert our Japanese Yen fixed rate borrowing to US dollar floating rate borrowings and forward foreign exchange contracts to fund foreign currency lending. These swaps do not qualify for hedge accounting under US GAAP and consequently are treated as trading derivatives. We also perform proprietary currency trades within our open position limits.

The following table shows the underlying principal amount and net replacement cost of derivatives held or issued for trading purposes as of December 31, 1999.

	As of December 31, 1999	
	Underlying Notional Amount	Net replacement cost
	(in ₩ billion)	
Interest rate swaps(1)	3	—
Cross currency swaps(1)	326	101
Foreign exchange contracts:		
Spot, forwards and futures purchased	344	1
Spot, forwards and futures sold	261	2
Total	934	104

(1) Contracts are denominated in US dollars.

The following table shows the underlying principal amount and net replacement cost of derivatives held or issued for purposes other than trading as of December 31, 1999.

	As of December 31, 1999	
	Underlying Notional Amount	Net replacement cost
	(in ₩ billion)	
Interest rate swaps[1]	33	1

(1) Contracts are denominated in US dollars.

Asset backed securities activities

We have been participating in the asset-backed securities market in Korea since the introduction of asset-backed securities in Korea in 1999. We act as the trustee for issuances of asset-backed securities, and we have a significant share of this trustee market. We have also issued securities backed by non-performing loans and collateralized bond obligations.

The market for mortgage-backed securities is not yet active in Korea, and we are not considering issuing mortgage-backed securities. However, we have been preparing for the issuance of mortgage-backed securities for several years so that we can issue them quickly should funding needs arise and market conditions allow.

Other Businesses

The following table presents information regarding our revenues and profit by categories of activities during each of the last two years ended December 31, 1998 and 1999.

	Years Ended December 31,	
	1998	1999
	(in ₩ billion)	
Trust Account Management Services		
Revenue	85	75
Profit	(145)	49
Management of the National Housing Fund		
Revenue	137	152
Profit	136	152
Subsidiaries		
Revenue	262	197
Profit	(75)	(46)
Other		
Total revenue	149	218
Profit	(193)	59
Total		
Revenue	633	641
Profit	(277)	214

Trust Account Management Services

We provide trust account management services for money trusts, which are trusts for which we have broad discretion in investing the assets of the trust. We receive fees for our trust account management services that are based upon a percentage of the total assets under management and upon the performance of the trust. For the year ended December 31, 1999, our fees ranged from 1.0% to 2.0% of total assets under management depending on the trust. We also receive penalty payments when customers terminate their trust accounts prior to the original contract maturity. For the year ended December 31, 1999, our total fee income from trust account management was ₩162 billion. For the year ended December 31, 1998, our total fee income from trust account management was ₩156 billion.

Under Korean law, the assets of our trust accounts are segregated from our other assets and are not available to any of our potential creditors. We are, however, permitted to lend surplus funds generated by trust assets to our banking accounts to earn interest.

As of December 31, 1999, the total balance of our money trusts was ₩9,102 billion on a Korean GAAP basis, representing 38.1% of the total balance of our trust accounts. As of December 31, 1999, the trust assets we managed consisted principally of securities investments. Securities investments consist of corporate debt securities, government-related debt securities and other securities, primarily commercial paper. Trust accounts may make loans in a manner similar to loans made by our bank accounts. As of December 31, 1999, our trust accounts had made loans in the principal amount of ₩3,140 billion on a Korean GAAP basis, which accounted for approximately 13.2% of our money trust assets. Because we act as trustee, loans by money trusts are made at our discretion and are subject to the same credit approval process as our loans from our banking account. As of December 31, 1999, 64.9% of the amount of loans from our money trust accounts were collateralized or guaranteed.

Our trust accounts also invest, to a lesser extent, in equity securities, including beneficiary certificates issued by investment trust companies. As of December 31, 1999, equity securities in our trust accounts amounted to ₩1,951 billion on a Korean GAAP basis, which accounted for approximately 22.7% of our total trust assets.

We provide trust account management services for eight money trusts. The money trusts we manage are generally trusts with a fixed life which allow investors to share in the performance of the investments of the trust in proportion to the amount of their investment in the trust. Certain of our money trusts also make periodic distributions of interest. In addition, we offer several trusts which offer features targeted to a specific customer base, including:

- retirement plan trusts in which investments accumulate gains tax free;
- a trust available to qualifying low-income households in which investments accumulate gains tax free; and
- a trust for high net worth individuals which offers the investor the ability to direct where trust assets are invested.

For some of the money trusts we manage we have guaranteed the principal amount of an investor's investment as well as a fixed rate of interest. In addition, we guarantee the principal amount of an investor's investment in the pension-related money trusts we manage. On January 1, 1999, as a result of a change in FSC regulations, we can no longer offer new money trusts where we guarantee the principal amount and a fixed rate of interest. However, we can continue to offer trust products where we guarantee the principal amount of an investor's investment in pension-related money trusts.

As of December 31, 1999, most of the money trusts for which we guaranteed both the principal and interest had a maturity of two years or less. The rate of interest which is guaranteed for these trusts ranges from 7.0% to 20.0% per year.

We continue to offer interests in pension-related money trusts which provide a guarantee of the principal amount of an investor's investment. The deposit insurance program established by the KDIC currently insures all the losses on the principal amount of a pension-related money trust without any limits. Starting January 1, 2001, however, the KDIC will insure losses on the principal amount and interest of a pension-related trust account only up to a total of ₩20 million. See ''—Supervision and Regulation—Principal Regulations Applicable to Banks in Korea—Deposit Insurance System''.

If the income from a money trust for which we provide a guarantee is less than the amount of the payments we have guaranteed, we will need to pay the amount of the shortfall with funds from the reserves maintained in our trust accounts or funds from our general banking operations. In 1997, we made payments of ₩90 billion to cover shortfalls in our guaranteed return trusts. In 1998, we made payments of ₩206 billion due to more stringent loan loss reserve requirements that came into effect. In 1999, we made no such payments.

The following table shows the balances of our money trusts by type for the periods indicated as determined in accordance with Korean GAAP.

	As of December 31,		
	1997	1998	1999
		(in ₩ billion)	
Principal and interest guaranteed trusts	615	1,085	540
Principal guaranteed trusts	2,048	1,009	829
Performance trusts	8,128	9,733	6,910
Total	10,791	11,827	8,279

The balance of our trusts decreased 24.4% between December 31, 1998, and December 31, 1999. The decrease was the result of a number of factors which made investing in trust accounts less attractive, including:

- regulatory changes which prohibited the sale of interest guaranteed money trusts;
- the exclusion of performance money trusts from KDIC's insurance coverage; and
- a drop in yields as the result of a decrease in interest rates as the Korean economy recovered from its recent economic and financial difficulties.

The money trusts are not consolidated within our US GAAP financial statements.

We also act as a trustee for eight investment trusts, which are entities established by securities investment trust management companies to invest in securities using funds raised by the sale of beneficial certificates in such trusts to investors. We receive a fee for acting as a trustee and generally perform the following functions:

- holding securities for the benefit of the investment trust;
- receiving payments made in respect of such securities;
- executing trades in respect of such securities on behalf of the investment trust, based on instructions from the relevant securities investment trust management company; and
- in certain cases, authenticating beneficial certificates issued by the investment trust and handling settlement in respect of such beneficial certificates.

For the year ended December 31, 1999, our fee income from our trustee services was ₩11 billion. More than half of the securities investment trusts for which we provide trustee services are managed by Jooeun Investment Trust Management which is a subsidiary owned 80% by us and 20% by ING.

Management of the National Housing Fund

Since 1981, we have managed the operations of the NHF. The NHF provides financial support to low income households in Korea by providing mortgage financing and construction loans for projects to build small and medium-sized housing. As of December 31, 1999, the NHF accounted for over 55.0% of the total amount of housing loans outstanding in Korea. The activities of the NHF are funded by loans from the government, the issuance of national housing bonds, which must be purchased by persons wishing to make real estate-related registrations and filings, subscription savings deposits held at the NHF and the sale of lottery tickets.

In return for managing the operations of the NHF we receive a monthly fee. The fee we receive for managing the NHF consists of a fund raising fee, a loan origination fee and a management fee. The fund raising fee is based on the number of NHF subscription savings deposit accounts opened, the number of NHF bonds issued or redeemed and the number of NHF lottery tickets we sell to raise funds for the NHF during the month. The loan origination fee is based on the number of new NHF loans and the number of NHF mortgage loans to contractors constructing housing units which are assumed by the individual buyers of housing units during the month. The management fee is based on the number of outstanding accounts at the end of the month and the number of overdue loans owed to the NHF at the end of the month. In 1999, we received total fees of ₩152 billion for our management of the NHF, which accounted for 46.3% of our total fee and commission income.

In connection with our management of the NHF we also manage the NHF's lottery. The lottery is used to raise funds for the NHF. We manage three lotteries for the NHF. There is a weekly drawing lottery, an instant lottery which uses scratch cards and a multiple drawing lottery in which the prize money is rolled into the next drawing twice if there is no winner. The lotteries have cash prizes and are self-funded. In 1999, an average of ₩17 billion worth of lottery tickets were sold each month.

The financial accounting for the NHF is entirely separate from our financial accounting, and the non-performing loans and loan losses of the NHF do not impact our financial condition. Regulations and guidelines for managing the NHF are issued by the Minister of Construction and Transportation pursuant to the Housing Construction Promotion Law.

The Housing Construction Promotion Law was recently amended so that other financial institutions could also be designated by the Minister of Construction and Transportation to manage the NHF.

Subsidiaries

Jooeun Investment Management Co., Ltd.

In addition to providing trust account management services for money trusts, we provide trust account investment services through Jooeun Investment Management, our consolidated subsidiary. Jooeun Investment Management receives a fee for performing the following functions:

- raising funds from the sale of beneficial certificates to investors and investing such funds in equity and debt securities;
- providing investment advisory services; and
- publishing and selling materials related to securities investing.

Jooeun Investment Management was established in April 1988 as a subsidiary of Kookmin Investment Trust Company and became our wholly-owned subsidiary in December 1992. In January 2000, ING invested ₩27.8 billion for a 20% stake in the company. For the year ended December 31, 1999, we derived revenues of ₩25 billion and incurred net loss of ₩22 billion from income earned by Jooeun Investment Management for performing trust account investment services.

Jooeun Real Estate Trust Co., Ltd.

Jooeun Real Estate Trust was established in December 1996 as our wholly-owned subsidiary. The company provides real estate brokerage service and assists small and medium-sized construction companies by managing trusts related to the real estate industry including housing redevelopment trusts, rental housing management trusts and unsold apartment management trusts. For the year ended December 31, 1999, we derived revenues of ₩44 billion and net income of ₩6 billion from income earned by Jooeun Real Estate Trust for providing these services.

Jooeun Industrial Co., Ltd.

Jooeun Industrial Co. was established in March 1993 as our wholly-owned subsidiary engaged in housing construction and providing protection for potential occupants by taking over housing projects of construction companies which are insolvent. For the year ended December 31, 1999, we derived revenues of ₩72 billion and net income of ₩1 billion from Jooeun Industrial Co.'s activities. Jooeun Industrial Co. carries out the following activities:

- acquiring projects of insolvent construction companies and completing the construction;
- acquiring projects of insolvent construction companies and completing the construction;
- acquiring unsold housing units for sale or lease;
- constructing housing units for sale or lease;
- providing real property brokerage services; and
- providing real property management services.

H&CB Finance Ltd. (H.K.)

H&CB Finance is a restricted license bank in Hong Kong providing a broad range of corporate banking services. As a restricted license bank, H&CB Finance is not permitted to accept deposits other than time deposits with minimum of $500,000. The bank was initially established in July 1995 as a wholly-owned subsidiary of DongNam Bank and reorganized as H&CB Finance in December 1998 in connection with our acquisition of DongNam Bank. For the year ended December 31, 1999, we derived revenues of ₩31 billion and net income of ₩7 billion from H&CB Finance's activities.

Other Subsidiaries

For the year ended December 31, 1999, we derived revenues of ₩25 billion and a net loss of ₩38 billion from our remaining subsidiaries, which individually do not account for a significant amount of our business.

Other

The remaining portion of our Other Businesses consists of miscellaneous activities, the most significant of which are interest expenses from the BOK, government borrowings and various other operating expenses. Interest expenses from the BOK and government borrowings declined ₩143 billion in 1999 compared to 1998 because we reduced our borrowings as a result of the increase in cash we received, which was due to the significant increase in deposits. Various other operating expenses also decreased by ₩53 billion in 1999 compared to 1998.

Competition

We compete principally with other nationwide commercial banks in Korea, but we also face competition from a number of additional sources including regional banks, development banks, specialized banks, branches of foreign banks operating in Korea and, with respect to the provision of mortgage loan products, with installment finance corporations. We also compete for customer funds with other types of financial institutions, including savings institutions (such as mutual savings and finance companies and credit unions and credit cooperatives), investment institutions (such as merchant banking corporations) and life insurance companies. Competition in the domestic banking industry is generally based on the types and quality of the products and services offered, including the size and location of retail networks, the level of automation and interest rates charged and paid.

General regulatory reforms in the Korean banking industry have resulted in increased competition among banks for deposits, generally leading to lower margins from lending activities. Among these reforms was the lifting of the regulatory restrictions on mortgage lending and housing deposit taking activities that had prevented the other commercial banks in Korea from competing directly with us in the provision of mortgage finance products. This means that we now face broad competition in our core mortgage lending activities. The increased competition in the mortgage sector has also contributed to lower margins from our lending activities.

We believe that Korea's recent economic difficulties and the Korean government's commitments to the International Monetary Fund have accelerated and will continue to bring about regulatory reforms in and liberalization of the Korean financial industry, leading to increased competition among financial institutions in Korea.

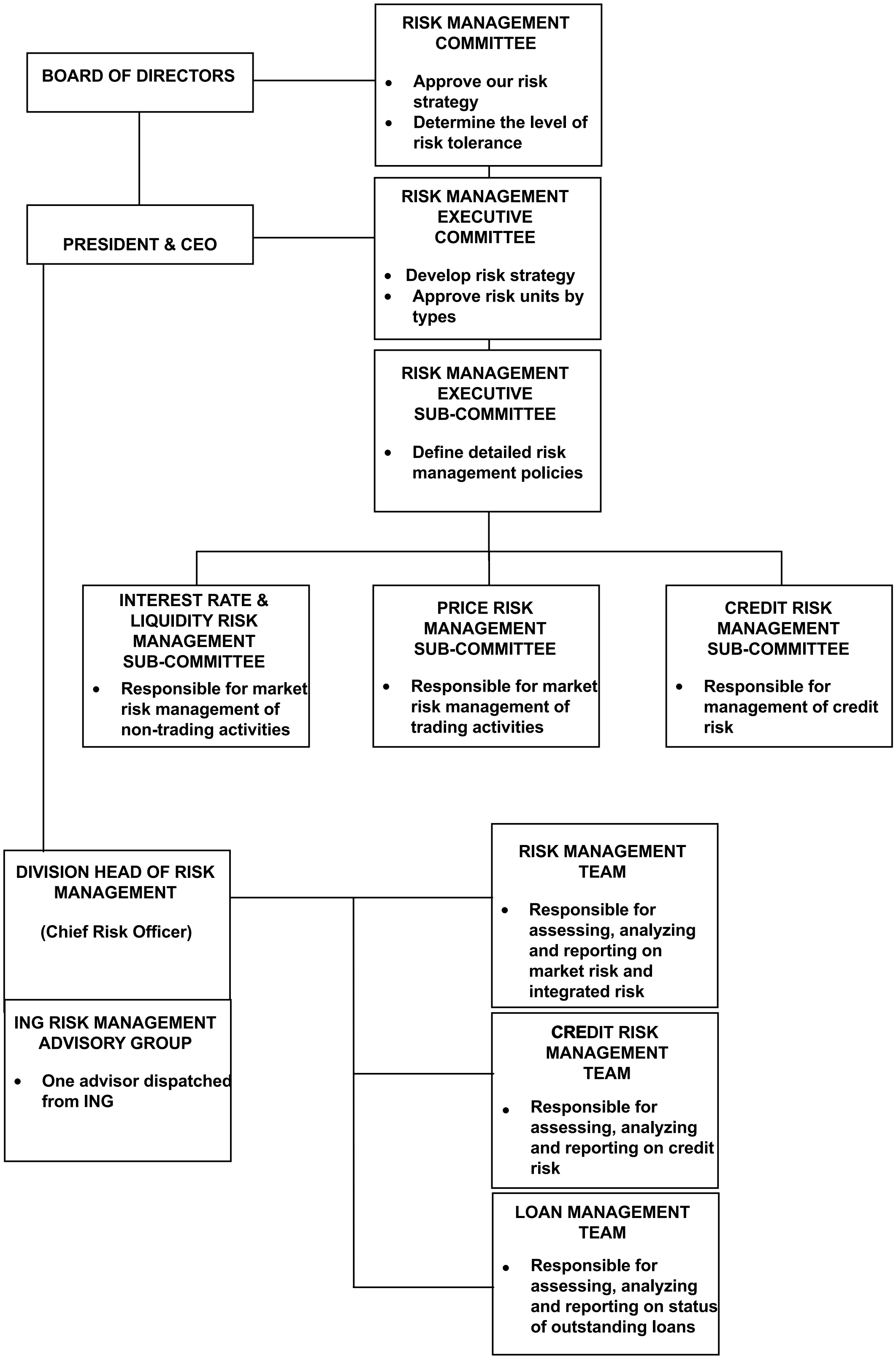
As the reform of the financial sector continues, foreign financial institutions, many with greater resources than us, have entered, and may continue to enter, the Korean market either by themselves or in partnership with existing Korean financial institutions and compete with us in providing financial and related services. In addition, the Korean commercial banking sector is undergoing significant consolidation. A number of significant mergers and acquisitions in the industry have taken place in Korea during the last two years which have reduced the number of nationwide commercial banks in Korea from 16 as of December 31, 1997, to 11 as of December 31, 1999. We expect that the merger and acquisition activity in the Korean commercial banking sector will continue and we intend to review potential acquisition opportunities as they arise. In addition, the government has indicated that it may advocate further mergers in the commercial banking sector. We cannot guarantee that we will not be involved in such a merger. In addition, some of the banks resulting from these mergers are or may be significantly larger and may have more financial resources than us.

Risk Management

As a financial services provider, we are exposed to various risks that are particular to our lending and trading businesses, deposit taking activities and our operating environment. Our goal in risk management is to ensure that we understand, measure and monitor the various risks that arise and that our organization adheres strictly to the policies and procedures which are established to address these risks. The principal risks to which we are exposed are credit risk, market risk, liquidity risk, operational risk and legal risk.

In March 1999, our risk management activities were reorganized and integrated into a single Risk Management Division. The division is responsible for identifying, assessing, monitoring and managing all our principal risks in accordance with well defined policies and procedures. The Risk Management Division works in close association with our business units to implement our risk management strategies. The Risk Management Division is completely independent of all business operations. The Risk Management Division consists of 44 experienced bankers and analysts. The head of the division is the Chief Risk Officer who reports directly to our Chairman, President and Chief Executive Officer.

The following diagram sets out our Risk Management Division and the function of each element in the organization.


BOARD OF DIRECTORS
RISK MANAGEMENT COMMITTEE
• Approve our risk strategy
• Determine the level of risk tolerance
PRESIDENT & CEO
RISK MANAGEMENT EXECUTIVE COMMITTEE
• Develop risk strategy
• Approve risk units by types
RISK MANAGEMENT EXECUTIVE SUB-COMMITTEE
• Define detailed risk management policies
INTEREST RATE & LIQUIDITY RISK MANAGEMENT SUB-COMMITTEE
• Responsible for market risk management of non-trading activities
PRICE RISK MANAGEMENT SUB-COMMITTEE
• Responsible for market risk management of trading activities
CREDIT RISK MANAGEMENT SUB-COMMITTEE
• Responsible for management of credit risk
DIVISION HEAD OF RISK MANAGEMENT
(Chief Risk Officer)
ING RISK MANAGEMENT ADVISORY GROUP
• One advisor dispatched from ING
RISK MANAGEMENT TEAM
• Responsible for assessing, analyzing and reporting on market risk and integrated risk
CREDIT RISK MANAGEMENT TEAM
• Responsible for assessing, analyzing and reporting on credit risk
LOAN MANAGEMENT TEAM
• Responsible for assessing, analyzing and reporting on status of outstanding loans

Credit Risk

In our lending operations, we are principally exposed to credit risk. Credit risk is the risk of loss that may occur from the failure of a borrower to abide by the terms and conditions of any financial contract with us, principally the failure to make required payments on loans due to us. We currently measure, monitor and manage credit risk for each borrower. We have a structured and standardized credit approval process which includes a well-established procedure of comprehensive credit appraisal.

Our credit risk management strategy is to reduce credit risk through a diversified and balanced loan portfolio. In 1999, we created new credit risk management guidelines which set out our basic principles for managing credit risk. Credit limits are established by the Credit Risk Management Executive Subcommittee based on the policies established by the Risk Management Committee and the Risk Management Executive Committee. We separately monitor and control exposure to companies that are members of chaebols.

Credit Approval

All loan applicants and guarantors are subject to credit review before any loans can be approved, except for loans guaranteed by letters of guarantee issued by the HFCGF or by highly rated banks and applicants whose loans will be fully secured by their deposits with us. The loan approval process differs depending on whether the loan is a mortgage loan, a retail consumer loan or a corporate loan.

Mortgage Loan and Secured Retail Loan Approval Process

Mortgage loans and retail loans secured by real estate, securities or deposits are approved by the staff at our processing centers following a review of the value of the collateral for the loan. Loan applications are forwarded by our branch staff to our processing centers. Our lending decision is made on the basis of our assessment of the value of the collateral, although by law we cannot lend to individuals registered as ‘‘red warning’’ individuals by the Korean Federation of Banks’ Credit Information data base.

For mortgage loans, we evaluate the value of the real estate that is the collateral for a loan using a data base we have developed which contains information about real estate values throughout Korea. In addition, we use information from a third party provider of information about the real estate market in Korea which provides up to date market value information about real estate values in Korea. In addition, staff from our processing centers appraise the real estate.

For loans secured by securities, we evaluate the value of the securities based upon the average market value of the securities. If the value of the securities decreases over the life of the loan the borrower will be required to post additional securities as collateral. For loans secured by deposits we will grant loans in an amount up to 100.0% of the deposit amount if the deposit is held with us, or, if the deposits are held with another financial institution, a lesser amount determined on the basis of the credit rating of the relevant financial institution. We also require borrowers in respect of secured obligations to observe specified collateral ratios. Corporate borrowers must also provide financial statements to us every year for credit supervision purposes.

A loan approval decision is generally made within five to seven days.

Unsecured Retail Loan Approval Process

Loan applications for unsecured retail loans are reviewed in accordance with our credit scoring system. The credit scoring system is an automated credit approval system used to evaluate loan applications and determine the appropriate pricing for the loan. Loans are approved by the staff of our processing centers based on the results of the credit scoring system.

The system ranks the borrower in one of seven classes, taking into account such factors as the borrower's income, assets, profession, age and credit history with us and other financial institutions. We implemented the credit scoring system in November 1999. The credit scoring system was developed with the assistance of external management consultants. The major benefits of the credit scoring system are that it yields a uniform result regardless of the user, it can be used effectively by employees who lack experience in credit evaluation and it can be updated easily to reflect changing market conditions by changing the weighting assigned to each of the factors. We have developed two models for the credit scoring system, one to evaluate new loans and the other to evaluate the roll-over of existing loans.

Depending on the particular borrower, we may or may not apply the credit scoring system for loans to:

- borrowers with a significant transaction history with us and for whom we have accumulated substantial data or our ''power loyal'' customers;
- borrowers who have already provided us with real estate collateral in connection with a previous loan;
- borrowers who are school teachers or who are government or military employees who agree to repay the loan directly out of their retirement allowance; and
- students who will be paying tuition with the loans.

Corporate Loan Approval Process

Loan applications from corporate borrowers are reviewed in accordance with a credit rating system which measures different aspects of the applicant's financial condition, business performance and prospects, payment history, quality of management and the applicant's relationship with its employees. Loans are approved at different levels of our organization depending upon the size and type of the loan, whether the loan is secured by collateral and the level of credit risk established by the credit rating system and, if the loan is secured, an assessment of the collateral. The lowest level of authority is the corporate branch manager who can approve small loans and loans which have the lowest range of credit risk. Larger loans and loans which are determined to have greater credit risk are approved by higher levels of authority depending on where they fall in a rubric of size and credit risk. The levels of authority increase from a single corporate branch manager to two credit officers, to a committee of credit officers and ultimately, for the largest loans or loans which present a large credit risk, to our Loan Committee which is made up of seven members: the Executive Vice President of the Corporate Banking Business Unit, the Executive Vice President of the Risk Management Division, the General Manager of the Credit Analysis Team, the General Manager of the Management Research Team, the General Manager of the Banking Trust Team, the General Manager of the Loan Management Team and the General Manager of the NHF Team.

The nature of the scoring system depends on whether the borrower is a large company or a small and medium sized enterprise. For large companies, we use an internally developed credit evaluation model. The model ranks the borrower in one of 12 classes. In carrying out our credit review, we also consult reports prepared by external credit rating services such as the Korea Information Service, the National Information and Credit Evaluation Inc. and the Korea Management Consulting and Credit Rating. We use these services to provide us with support for the accuracy of the credit review we conduct during the credit evaluation of large corporate customers. The results of the credit assessment are reviewed by a credit officers' committee that assigns the borrower a credit rating.

For small and medium sized enterprises that have assets of at least ₩500 million and that have at least two years of financial statements we use a credit rating system that ranks the borrower in one of 11 classes. For small and medium sized enterprises that do not meet these criteria, we assign a credit rating based on a credit evaluation table that takes into account such factors as transaction history with us, the management's ability, the stability of the business and the outlook for the industry in which the borrower operates. The credit rating system was devised with the assistance of external consultants. The system was implemented in November 1999, and it has standardized our credit decisions and focused our attention on the quality of the borrowers rather than the volume of our loans. The credit rating system includes both quantitative factors based on the borrower's financial data and qualitative factors based on the judgment of credit analysts. The quantitative factors we consider include approximately 170 financial variables such as return on assets and cashflow to total debt ratios. The qualitative factors we consider include the borrower's competitive position in its industry, the nature of the borrower's industry, the quality of its management and controlling shareholders, technological capabilities, labor relations and whether its financial statements are audited by independent auditors.

We establish and manage credit limits for corporate counterparties in order to optimize the use of credit availability and avoid excessive risk concentration. We establish credit limits for individual corporations and chaebols taking into account their ability to repay, their industry, size, financial ratios and credit rating. For small and medium sized enterprises, their credit limits are set using the credit rating system. Our basic credit limit is 20.0% of our Tier I and Tier II capital for a single chaebol, 10.0% of our Tier I and Tier II capital for individual corporations with a credit rating of BBB or higher using our internal credit rating system and 5.0% of our Tier I and Tier II capital for companies with a credit rating of BB or lower. These credit limits are lower than the regulatory limits that Korean banks must follow. In determining the actual credit limit for each individual corporation and chaebol we consider mainly their credit rating and their size. The credit limit is set by our Credit Risk Management Executive Subcommittee. Loans to corporations that are secured by sufficient collateral or that pose a low credit risk may be extended even if the applicable credit limit is exceeded.

Credit limits are managed and controlled on a daily basis. The principal system that we use for managing and controlling credit limits is the Total Exposure Management System. This system allows us to monitor and control our total exposure to corporations and chaebols. We monitor our exposure to individual corporations to which we have an exposure exceeding ₩5 billion and our exposure to the 100 largest chaebols in Korea based on total assets. Our Total Exposure Management System integrates all of our credit related risk including credit extended by our foreign branches. The assets subject to the system include all Won currency and foreign currency loans and loan-like products from the banking and trust accounts, including guarantees and acceptances, trade-related credits, commercial paper and corporate bonds.

We recently introduced the Integrated Collateral System for managing the liquidation value of collateral. The Integrated Collateral System is a computerized collateral management system that can be accessed from our headquarters and our branches. Through the Integrated Collateral System, we can more accurately assess the actual liquidation value of collateral, determine the recovery rate on our loans and use this information for our credit risk management and loan policies. The adoption of the Integrated Collateral System brought two fundamental changes in the way we manage collateral. First, we are now able to monitor the value of all the collateral provided by a borrower, instead of monitoring collateral on a loan-by-loan basis. Second, we monitor the value of the collateral based on its liquidation value instead of its book value. When appraising the value of real estate collateral, which make up the largest part of our collateral, we consult a regularly updated database provided by a third party that tracks the prices at which various types of real estate in various regions of the country are sold. We appraise the value of collateral at the time a loan is originated, when the loan is due for renewal and when events occur that may change the value of the collateral.

Credit Approval Procedures for Credit Cards

We believe that the improper verification of identity and applicant information and payment delinquencies are the main source of credit risk in the credit card business.

Approval of credit card applications is based largely on the credit history, occupation, job title and income of the applicant. For credit card applicants with whom we have existing relationships, approval is also based on factors such as repayment ability, total assets, the length of the existing relationship and the applicant's contribution to our profitability.

Credit checks are undertaken before the credit card applicants are approved. We gather information about applicants from a number of external agencies including BC Card, other credit card companies in Korea, the Korean Federation of Banks and credit rating agencies. These credit checks contain a list of the delinquent customers of all of the credit card issuers in Korea. We plan to develop a credit scoring system that can be used to evaluate credit card applications model by the end of 2000.

At the time we approve an application for a credit card, we set a credit limit primarily based on such factors as the applicant's credit history, occupation, job title, income, assets, employment history and contribution to our profitability.

Credit Monitoring of Corporate Customers

Following the extension of credit to a small and medium sized enterprise or other corporate customer, we monitor the performance of the credit both at the headquarters and branch levels. The loan maintenance section of the branch monitors the status of interest payments and, where required, makes visits to borrowers and reviews the condition of collateral.

We have developed our own loan monitoring system, which monitors interest payments and identifies loans in arrears and dishonored bills. The system also keeps track of information about the credit status of the borrower. This information is input automatically from internal and outside sources while other data is gathered manually by our relationship management teams. The system automatically inputs:

- the total amount of loans that were extended by other financial institutions to the same borrower, as reported monthly by the Korea Federation of Banks;
- financial data relating to the borrower supplied by Korea Information Service;
- our internal credit rating;
- the estimated recovery rate for collateral provided by the borrower;
- whether a borrower is included in the list of borrowers who have declared bankruptcy or have received a ''yellow'' or ''red'' warning from any Korean bank, with yellow indicating that a borrower is more than three months in arrears and red indicating that the borrower is more than six months in arrears; and
- whether the borrower has defaulted on any payments owed to us.

Information is also input by the relationship management team for borrowers with whom we have more than ₩1 billion of exposure. The information is derived from a standard questionnaire that the relationship management personnel must fill out periodically and as the need arises. Information in the questionnaire includes:

- whether the borrower has ceased operating for more than three months;
- for construction companies, whether construction has stopped for more than three months;
- whether contests for management control are taking place;
- whether there is labor strife;
- whether the borrower is resorting to use of high yield financing from the bond market; and
- whether the borrower is carrying on sales at excessive discounts to secure liquidity.

Depending on the nature of the problem detected by the Early Warning System, a borrower is directly classified as a ''deteriorating credit'' and undergoes evaluation for a possible downgrade in its credit rating, or it is initially classified as a ''borrower showing early warning signs''. For borrowers in the latter classification, the relevant relationship management team is ordered to gather information and conduct a review of the borrower to determine whether it should be classified as a deteriorating credit. The adjustment in the credit rating of a borrower classified as a deteriorating credit is made by the relationship management team for exposures of ₩1 billion or less and by the credit analysis team at our headquarters for exposures greater than ₩1 billion.

Quantitative and Qualitative Disclosures About Market Risk

Market risk is the risk that changes in the level of interest rates, the rate of exchange between currencies or the price of securities or other financial contracts, including derivatives, will have an adverse impact on our results of operations or financial condition. The principal market risk to which we are exposed is interest rate risk and to lesser extent, equity risk and foreign exchange risk. The financial instruments that expose us to such risks are loans, deposits, securities and derivatives, which are used primarily for non-trading purposes. We are not exposed to commodity risk, the other recognized form of market risk, as we do not hold any commodity positions.

In order to manage our exposure to market risk, we use a combination of risk management techniques including position limits, stop loss limits, sensitivity analyses and Value at Risk for trading activities, and gap and sensitivity analyses for non-trading activities.

We do not currently engage in transactions involving products with significant leverage features.

Market Risk Management Procedures

Our overall market risk policy is established by our Risk Management Committee. The Risk Management Committee has delegated the responsibility for market risk management of trading activities to the Price Risk Management Sub-Committee and of non-trading activities to the Interest Rate and Liquidity Risk Management Sub-Committee.

The Price Risk Management Sub-Committee and Interest Rate and Liquidity Risk Management Sub-Committee are chaired by our Chief Risk Officer. They meet on a regular basis to respond to developments in the market and the economy. Based on policies approved by the Risk Management Committee, members of the Interest Rate and Liquidity Risk Management Sub-Committee and Risk Management Committee review our interest rate and liquidity gap positions monthly, formulate a view on interest rates, set deposit and prime lending rates and review the business profile and its impact on asset liability management. Members of the Price Risk Management Sub-Committee and Risk Management Committee review and approve monthly reports which include trading profits and losses, position reports, sensitivity analyses and Value at Risk results.

We recently implemented two new enhanced market risk management systems which cover both trading and non-trading activities. These extended responsibilities and the new systems have been fully implemented and are operational.

The new system for our trading activities covers all of our trading instruments. It extends our market risk management and reporting capabilities by enabling additional scenario analyses and stress testing to be performed. It also enhances our existing monitoring of open positions, sensitivity analyses and Value at Risk.

The new system for our non-trading activities provides market value and Earnings at Risk analyses of our non-trading activities and also enhances our simulation analyses by allowing more realistic market conditions to be reflected.

The decision to implement these new systems is in line with the more stringent market risk supervision regulations of the FSC which will require Korean banks to maintain capital for market risk from December 31, 2001, in addition to the existing capital requirements based on credit risk.

Non-Trading Market Risk

Interest rate risk

We are a financial intermediary and provider of financial services offering a range of banking, mortgage and savings products with varying interest rate features and maturities. Our balance sheet consists predominantly of Won denominated interest rate sensitive assets and liabilities. Interest rate risk from these non-trading activities therefore constitutes our main source of market risk and arises due to mismatches in the maturities or re-pricing periods of these rate sensitive assets and liabilities.

In order to measure and manage interest rate risk from non-trading activities, we use a combination of gap and sensitivity analyses. Gap analysis measures the differences (or gaps) between the amount of our interest-earning assets and interest-bearing liabilities that mature or re-price within certain periods of time. Sensitivity analysis forecasts the impact on our net interest income over a given time period consequent to specific changes in interest rates.

Gap analysis provides us with a static view of the maturity and re-pricing characteristics of our balance sheet positions. We prepare gap reports by classifying all assets and liabilities into various time period categories according to contracted maturities or anticipated re-pricing dates. The difference in the amount of assets and liabilities being re-priced or maturing within each time period category provides us with an indication of the extent to which we are exposed to the risk of potential changes in the margins on new or repriced assets and liabilities. We manage our assets and liabilities by controlling the interest rate gap for future periods within approved limits so as to reduce any potential adverse impact that future changes in interest rates may have.

In preparing our interest rate gap position analysis, we make several assumptions that reflect certain behavioral characteristics of our customers and products. The main assumptions we make are the following:

- In accordance with guidelines issued by the FSS, demand deposits are classified into two types, core and non-core demand deposits;
- The interest rate maturity (or re-pricing period) of core demand deposits is assumed to be over 3 years as the rates paid are rarely changed to reflect changes in market rates. These have historically paid an average of approximately 1.0%;
- Non-core demand deposits are assumed to mature or re-price evenly over 3 months; and
- Loans linked to our prime rate are re-priced within 1 month as we have discretion as to when the interest rate on these loans is adjusted.

The following table shows our non-consolidated interest rate gap as of December 31, 1999.

	As of December 31, 1999(1)					
	0-3 months	3-6 months	6-12 months	103 years	Over 3 years	Total
	(in ₩ billion, except percentages)					
Interest earning assets						
Due from banks	370	40	267	—	156	833
Loans	21,006	1,702	1,309	3,901	2,148	30,066
Securities	2,814	472	776	1,599	3,704	9,365
Others	1,526	527	—	—	—	2,053
Total	25,716	2,741	2,352	5,500	6,008	42,317
Interest bearing liabilities						
Deposits	17,670	2,804	6,273	5,442	809	32,998
Borrowings	642	281	832	943	2,085	4,783
Others	608	840	—	—	—	1,448
Total	18,920	3,925	7,105	6,385	2,894	39,229
Sensitivity gap	6,796	(1,184)	(4,753)	(885)	3,114	3,088
Cumulative gap	6,796	5,612	859	(26)	3,088	—
% of total assets	14.6%	12.0%	1.8%	(0.1%)	6.6%	—

(1) The figures included are those used for internal management purposes. The numbers are therefore prepared on a non-consolidated Korean GAAP basis. If the report had been prepared on a consolidated basis to take into account our interest bearing assets and liabilities, total interest bearing assets would increase by approximately ₩650 billion and total interest bearing liabilities would increase by approximately ₩550 billion.

Our Risk Management Committee monitors interest rate risk exposure using these gap reports. We use these reports to calculate a ratio representing the adjusted cumulative gap for assets and liabilities being re-priced within 1 year to total assets. This ratio is compared against an approved maximum amount which as of December 31, 1999 was 12.6%. Our actual ratio as of that date was 9.5%. Historically we have revised the limit of acceptable interest rate risk exposure on an annual basis but we have the ability to also do so whenever market conditions change dramatically.

Based on these gap reports, we develop sensitivity analyses to measure the sensitivity of our net interest income to changes in interest rates. As of December 31, 1998 and 1999, an immediate downward parallel shift in interest rates of 100 basis points for non-trading instruments would lead to a fall in net interest income for the next 12 months of ₩22 billion and ₩24 billion for us on a non-consolidated basis and ₩22 billion and ₩25 billion for us on a consolidated basis, respectively. In preparing this sensitivity analysis, we make the following key assumptions:

- We have discretion to change the rates on certain domestic loans linked to our prime rate and therefore this results in a non-linear sensitivity to changes in market rates;
- For our non-trading financial instruments denominated in foreign currencies, there is a linear sensitivity to changes in market interest rates since the instruments are priced using market rate indices such as LIBOR;
- There are no changes in the balance sheet as a result of new accounts openings, withdrawals, and prepayments triggered by the simulated change in market interest rates;
- The impact of hedging instruments is included in the analysis; and
- We assume a parallel shift in the yield curve.

Historically we have not used a significant number of hedging instruments to mitigate our non-trading interest rate risk since the liquidity of these derivatives in Korea has been poor. Instead, we have attempted to minimize our interest rate gap by limiting the amount of our fixed rate lending. We occasionally use interest rate swaps to convert the coupon of certain foreign currency investment securities from fixed to floating to match our funding. In the future we also intend to use Korean Treasury Bond Futures to hedge our non-trading interest rate risk as the liquidity of these instruments improves and we increase the volume of our fixed rate products.

Foreign Exchange Risk

Foreign exchange risk arises because we have assets, liabilities and off-balance sheet items such as foreign exchange forwards and currency swaps that are denominated in currencies other than the Won.

Assets and liabilities denominated in US dollars account for the majority of our foreign currency assets and liabilities. Those denominated in Japanese Yen, the Euro and Hong Kong Dollars account for the remainder. We use cross currency swaps to convert our Japanese Yen fixed rate borrowings to US dollar floating rate borrowings and forward foreign exchange contracts to fund foreign currency lending.

The difference between our foreign currency assets and liabilities is offset against forward foreign exchange positions to obtain our net foreign currency open position. This is our foreign exchange risk. The Risk Management Committee manages our foreign exchange exposure for both trading and non-trading purposes by establishing a limit for this net foreign currency open position, together with stop loss limits for our forward foreign exchange contracts. We also perform proprietary trades within these limits.

The following table shows our non-consolidated net open positions at the end of 1998 and 1999, respectively.

Currency	As of December 31,[1] 1998	1999
	(in US$ million)	
USD	(13.2)	8.3
JPY	0.3	(1.1)
Others	0.2	0.3
Total	(12.7)	7.5

(1) Positive amounts represent long exposures and negative amounts represent short exposures.

Our subsidiary in Hong Kong also has assets and liabilities denominated in foreign currencies. The impact of including that entity in the above table would not be significant.

We have not computed any quantitative measure of foreign exchange risk as, based on the open positions disclosed above, such risk is not considered significant.

Trading Activities

Interest rate risk

Interest rate risk from trading activities arises mainly from our trading of domestic debt securities. Our strategy is to benefit from short-term movements in the prices of debt securities arising from changes in interest rates. From December 1999 we have also started to trade Korean Treasury Bond Futures for hedging trading activities and for proprietary purposes.

As of December 31, 1998 and 1999, we had trading assets with a market value of approximately ₩1,184 billion and ₩2,371 billion, respectively. The volume of our trading activities and the size of our trading portfolio is determined by the liquidity of the domestic debt security market, capital constraints and our current funding position.

Our exposure to interest rate risk arising from our trading activities is controlled primarily with position limits and stop loss limits approved by the Risk Management Committee and the RMEC. We also use sensitivity analysis and Value at Risk on a daily basis.

Value at Risk is a statistical method that expresses the maximum potential loss in Won that can arise at a chosen level of probability over a certain period of time.

The following tables show our daily and ten day Value at Risk amounts. For 1999, we calculated the year end, average, minimum and maximum Value at Risk amounts. For 1998, we calculated our year end position. Prior to November 1998, we used gap and sensitivity analyses to manage our entire portfolios, since we did not separately manage trading and non-trading activities. We assume a 95.0% confidence level for daily and ten day holding periods. We consider the correlation between sub-risk factors (such as those which solely affect interest rate risk) but do not consider any correlation between different risk factors (such as those between interest rate risk and equity price risk). We use historical data for the past year with greater weight placed on more recent data.

Daily Value at Risk of trading positions

	As of December 31, 1998	As of December 31, 1999 (in ₩ billion) Average	Minimum	Maximum	Year end
Risk class					
Interest rate risk	1.4	2.5	0.2	8.5	2.9
Equity risk	3.2	2.5	0.1	4.8	3.1
Overall portfolio	4.6	5.0	—(1)	—(1)	6.0

(1) The minimum and maximum for each risk category occurred on different days so it is not meaningful to present total amounts.

Ten-day Value at Risk of trading positions

	As of December 31, 1998	As of December 31, 1999 (in ₩ billion) Average	Minimum	Maximum	Year end
Risk class					
Interest rate risk	4.5	7.9	0.5	26.9	9.1
Equity risk	10.1	8.0	0.3	15.3	9.9
Overall portfolio	14.6	15.9	—(1)	—(1)	19.0

(1) The minimum and maximum for each risk category occurred on different days so it is not meaningful to present total amounts.

We do not use Value at Risk to measure our foreign exchange risk as this is not significant. It is managed primarily using net foreign currency open positions and stop loss limits as described above.

Our interest rate risk measured by Value at Risk is relatively small since we generally hold debt securities with a short remaining maturity. Interest rate risk measured by Value at Risk increased as of the end of 1999 compared to the end of 1998 due to increased trading volumes.

We use Value at Risk as one of our risk management tools but it has some inherent limitations, some of which are more apparent in the Korean market than other markets. Most significantly, market liquidity must be maintained to ensure the validity of our Value at Risk numbers. This means either one day or ten days is assumed to be sufficient to liquidate the relevant underlying position. If this is not the case, the Value at Risk numbers may understate our risk.

We now use Value at Risk as our main tool for market risk management since completing the implementation of our new enhanced market risk management system. The more traditional risk control techniques we also use, such as position limits, stop loss limits and sensitivity analysis, continue to support Value at Risk.

Equity Risk

We do not hold a large domestic equity portfolio given the volatility of the domestic equity market. Similarly, we do not trade in foreign equities. We use position and stop loss limits to manage equity risk in addition to Value at Risk described above.

Liquidity Risk

Liquidity risk arises in the funding of lending, trading and investment activities and in the management of trading positions. Liquidity risk includes both the risk of unexpected increases in the cost of funding our asset portfolio at appropriate maturities and the risk of being unable to liquidate a position in a timely manner at a reasonable price in order to meet a maturing liability. The goal of liquidity management is for us to be able, even under adverse conditions, to meet all our liability repayments on time and fund all investment opportunities.

Liquidity is maintained by holding sufficient quantities of assets that can be liquidated to meet actual or potential demands for funds from depositors and others. Liquidity is also managed by ensuring that the excess of maturing liabilities over maturing assets in any period is kept to manageable levels relative to the amount of funds we believe we can raise by issuing housing bonds when required. We seek to minimize our liquidity costs by managing our liquidity position on a daily basis and by limiting the amount of cash at any time that is not invested in interest earning deposits or money market instruments.

We maintain diverse sources of liquidity to facilitate flexibility in meeting funding requirements. We fund our operations principally by accepting deposits from retail and corporate depositors, accessing the call loan market (a short-term market for loans with maturities of less than one month), payments of loans and sales of short-term securities. We use the majority of funds raised by us to extend loans or purchase securities. Generally, deposits are of shorter average maturity than loans or investments.

We have a liquidity contingency program in place, which specifies actions to be taken in the event of a liquidity problem. The Interest Rate and Liquidity Risk Management Subcommittee is responsible for setting liquidity limits within the limits set by the Risk Management Committee and reviewing our liquidity status on a monthly basis. The Interest Rate and Liquidity Risk Management Subcommittee also establishes liquidity management strategies based on reports on our liquidity status that the Risk Management Team provides to the Risk Management Committee. We have not experienced any serious foreign currency liquidity problem to date, even during Korea's foreign currency liquidity crisis in 1997 and 1998, as we always complied with the foreign currency liquidity ratios set by the FSC. In 1999, we maintained a relatively stable liquidity status both in domestic and foreign currency.

Recently, the FSC adopted new criteria for evaluating the liquidity position of Korean banks. As of January 1, 1999, Korean banks were required to maintain a Won liquidity ratio (defined as Won liquid assets (including marketable securities) due within three months divided by Won liabilities due within three months) in excess of 100.0% and to report their respective ratios to the FSS on a quarterly basis. For us, however, the FSS only required that we maintain a Won liquidity ratio in excess of 70.0% because the FSS recognized that our liquidity ratios may be lower than other banks since we are the main provider of long-term housing loans in Korea.

The FSC defines liquid assets as any assets which mature within three months. The following table sets forth amounts of our Won and foreign currency liquid assets and liabilities and liquidity ratios, in accordance with the new FSC criteria, as of December 31, 1999.

	As of December 31, 1999		
	Liquid Assets	Liquid Liabilities	Liquidity Ratio
	(in ₩ billion and US$ million, except percentages)		
Won currency	₩12,469	₩14,605	85.4%
Foreign currency	US$ 763	US$ 498	153.0%

For a description of Korean laws and regulations relating to liquidity, see ''Item 1. Description of Business—Supervision and Regulation''.

Operational and Legal Risk

Operational risks are risks arising from system failure, human error or non-adherence to systems and procedures, or from fraud or inadequate internal controls and procedures, resulting in financial or reputational loss.

The inspection department operates the internal inspection systems, the internal checking system and the regular computerized inspection system for internal controls. The internal inspection system carries out regular inspections, general inspections, special inspections and the branches' inspections.

The internal checking system prevents the occurrence of accidents by enforcing the circulation of work in working areas which have a high probability of accidents. The regular computerized inspection system operates the early warning system and the computerized daily inspection system with respect to the branches.

The Audit Committee, which consists of four non-executive directors and one executive director, supervises our internal controls and our observance of ethical and legal principles in addition to reviewing our financial statements.

Pursuant to the Banking Act revisions relating to compliance, we established in August 2000 the Compliance Team, which operates a compliance inspection system. This system is designed to make all of our employees comply with the law. The compliance inspection system's main function is to monitor the degree of improvement in compliance with the law, accomplish internal controls and educate our employees about observance of the law.

The FSS conducts a general audit of our operations once a year and also special audits as the need arises on particular aspects of our operations such as risk management, credit monitoring and liquidity.

We consider legal risk as a part of our operational risk. The uncertainty of the enforceability of the obligations of our customers and counterparties, including the foreclosure on collateral, creates legal risk. Changes in law and regulation could also adversely affect us. Legal risk is higher in new areas of business where the law is often untested in the courts although legal risk can also increase in our traditional business to the extent that the legal and regulatory landscape in Korea is changing and many new laws and regulations governing the banking industry remain untested.

We seek to minimize legal risk by using stringent legal documentation, employing procedures designed to ensure that transactions are properly authorized and consulting legal advisers. Our internal auditors review loan documentation to ensure that these are correctly drawn up to withstand scrutiny in court.

We have created a System Management Unit that continually monitors all of our electronic and computerized network processes to minimize operational risk due to system failure. We believe this is important since the integrity of electronic systems is crucial in the banking industry. The unit reports any unusual delays encountered by our branches in processing transactions. We have implemented the Business Recovery System for use in the event of any problems with our systems. The Business Recovery System allows us to carry out our daily business even in the event of internal system failure by accessing a duplicate system located off-site. We also created an independent IT Security Unit in 1999, responsible for the daily monitoring of the entire information security system.

Assets and Liabilities

Loan Portfolio

Our total loan portfolio, as of December 31, 1999, was ₩32,134 billion, an increase of 21.9% from ₩26,354 billion at December 31, 1998.

Approximately 95.5% of our total loans were Won denominated loans at December 31, 1999. Growth in the portfolio primarily reflects an increase in non-mortgage consumer loans and in corporate loans to borrowers which are not in the construction industry.

Loan Types

The following table presents the types of loan by category of borrower for the last five years ended December 31, 1995, 1996, 1997, 1998 and 1999.

	As of December 31,				
	1995(1)	1996(1)	1997	1998	1999
	(in ₩ billion)				
Commercial and industrial	1,574	2,116	4,554	5,251	5,595
Construction loans	632	684	1,519	2,041	1,601
Households					
Residential Mortgages	13,874	14,764	15,928	15,890	17,246
Other consumer loans	1,524	1,897	2,224	2,400	6,476
Credit cards	581	662	698	772	1,216
Total loans	18,185	20,123	24,923	26,354	32,134

(1) Adjustments were necessary to reconcile the aggregate loan balance from Korean GAAP to a basis comparable to 1997, 1998 and 1999. See the table below.

The following table sets forth the adjustments necessary to reconcile the aggregate loan balance for 1995 and 1996 from Korean GAAP to a basis comparable to the later years disclosed above.

	As of December 31	
	1995	1996
	(in ₩ billion)	
Total loan balance under Korean GAAP	18,433	19,674
Add/(less) adjustments to US GAAP:		
De-consolidation of trust accounts	(755)	(171)
De-consolidation of Jooeun Lease Co., Ltd	(229)	(271)
Reclassification of items not classified as loans under Korean GAAP	733	889
Other	3	2
Total	18,185	20,123

Concentration of Total Exposure

As discussed in more detail in ‘‘Item 1. Description of Business—Risk Management—Credit Risk’’, we limit our exposure to any single borrower to 10.0% of our total Tier I and Tier II capital. We also limit our exposure to any single group of companies belonging to the same conglomerate to 20.0% of our total Tier 1 and Tier II capital. Although we do not currently limit our exposure to any particular industry, we plan to adopt such a limit during 2000 as we diversify our corporate exposure away from the construction industry.

Our ten largest exposures as of December 31, 1999, excluding those to the Korean government and its agencies, totaled ₩1,773 billion and accounted for 3.8% of our total exposures.

The following table sets forth as of December 31, 1999, our total exposures to the ten borrowers to whom we have the largest exposures, excluding those exposures to the Korean government and its agencies.

Company	Loans: Won currency	Loans: Foreign currency	Equity securities	Debt securities	Guarantees and acceptances	Others	Total exposures	Amounts classified as substandard or below(1)
				(In ₩ billion)				
Korea Housing Guarantee Co., Ltd	333	—	—	32	—	—	365	—
Daewoo Corporation	10	182	—	14	24	—	230	214
Woo Bang Co., Ltd.	147	—	8	24	—	—	179	179
Hyundai Electronics Industries Co., Ltd.	—	154	4	15	—	—	173	—
Jooeun Lease Co., Ltd.	—	—	—	—	—	171	171	171
Korea Life Insurance Co., Ltd	—	—	—	—	—	151	151	—
SK Global Corporation	30	57	2	—	57	—	146	—
Samsung Shipbuilding & Heavy Industries Co., Ltd.	—	—	—	11	114	—	125	—
SK Corporation	—	6	—	15	99	—	120	—
Kyobo Life Insurance Co., Ltd.	—	—	—	—	—	113	113	—
Total	520	398	14	111	294	435	1,773	564

(1) Based on FSC asset classifications.

Our largest exposure to a borrower is our exposure to the KHGC, which is currently experiencing substantial financial difficulties. The KHGC was formed in June 1999 to replace the Korean Housing Financial Cooperative (KHFC) that had been formed in April 1993 by construction companies in Korea to provide loans and loan guarantees to Korean construction companies. As a result of the financial crisis in Korea in 1997 and 1998 and the resulting deterioration of the real estate market, many construction companies became insolvent, and the KHFC faced a major liquidity problem as a result of payments it had to make under loan guarantees that it had provided to these companies. To solve the KHFC's liquidity problem, the government and the KHFC's creditors, including us, reorganized the KHFC into the KHGC and provided financial assistance to the KHGC. The capital contributed by construction companies to the KHFC was reduced from ₩3,250 billion to ₩848 billion, the government injected ₩500 billion in capital and creditors converted ₩101 billion in debt into equity and purchased ₩99 billion in convertible bonds issued by the KHGC. As a result, as of December 31, 1999, construction companies own 50.2%, the government owns 41.5% and financial institutions, including us, own 8.3% of the outstanding shares of the KHGC. As of December 31, 1999, we owned 3.4% of the outstanding share capital of the KHGC, which we acquired for ₩41 billion. We have written off this amount in 1999 due to the financial troubles of the KHGC.

The KHGC receives fees for taking responsibility for the completion of construction projects if construction companies become insolvent while their projects are in progress and the other construction companies that issued guarantees undertaking to take over and complete the projects fail to perform under the guarantees. The KHGC hires other companies to finish the projects, and if it is unable to find a suitable replacement to complete the project, it refunds the subscription and installment payment that had been paid by those who would have owned the housing that did not get completed. As of December 31, 1999, the KHGC had outstanding guarantees of ₩53 trillion, of which ₩48 trillion was for the sale of newly-built houses and ₩5 trillion was for refurbishment projects. As of that date, the KHGC was responsible for the completion of 265 housing projects in which the original construction companies became insolvent.

Our total direct exposure to the KHGC as of December 31, 1999, was ₩365 billion, which consisted of:

- ₩333 billion of loans;
- ₩16 billion of commercial paper; and
- ₩16 billion of convertible bonds.

As of that date, we had a loan loss allowance relating to the KHGC of ₩126 billion.

In addition, as of December 31, 1999, we had loans to construction companies guaranteed by the KHGC of ₩147 billion. Of these amounts, ₩97 billion were to companies that were insolvent or in corporate reorganization proceedings. The KHGC is experiencing substantial liquidity problems due to high interest payment obligations and increasing payments under loan guarantees it provided to construction companies that have become insolvent. Representatives of the KHGC, the Ministry of Construction and Transportation and creditor banks of the KHGC, including us, held a series of meetings in March and April 2000 and agreed on a framework for restructuring part of the KHGC's debts. Recently, the government and the creditors have agreed on a program for restructuring the KHGC's debts. This program involves rescheduling the maturities and adjusting the interest rates of the loans and converting guarantee obligations to loans, and does not require creditors to provide additional loans, forgive any loans, swap debt for equity or purchase additional convertible bonds issued by the KHGC. Under the program, the government agreed to provide new funds to the KHGC in the amount of ₩300 billion and, if necessary, additional funds.

One of our top ten borrowers as of December 31, 1999 was Jooeun Lease Co., Ltd., a leasing company in which we currently own an 85% interest. Jooeun Lease faces significant financial difficulties, and on January 13, 2000, we and Jooeun Lease entered into a memorandum of understanding with other creditors of Jooeun Lease, whereby we and the other creditors agreed on detailed terms of a debt restructuring plan for Jooeun Lease. In accordance with the restructuring plan, the maturities of ₩244 billion of Jooeun Lease's debt were extended until the end of 2005. We converted our loans to Jooeun Lease to an equity investment in the amount of ₩82 billion on January 20, 2000 and, correspondingly, Jooeun Lease issued 16.46 million shares of its common stock to us. The memorandum of understanding requires us to provide two additional loans in the total amount of ₩100 billion to Jooeun Lease upon Jooeun Lease's request. A loan of ₩50 billion may be extended during the period from April 1, 2000 to March 31, 2001. The remaining ₩50 billion may be extended during the year following March 31, 2001.

As of December 31, 1999, 5.3% of our total exposure was to the thirty largest chaebols. The following table shows as of December 31, 1999, our total exposures and the asset quality assigned with respect to the ten chaebol groups to which we have the largest exposure.

Chaebol	Loans: Won currency	Loans: Foreign currency	Equity securities	Debt securities	Guarantees and acceptances	Total exposures	Amounts classified as substandard or below(1)
				(In ₩ billion)			
Hyundai	60	269	7	75	69	480	—
SK	102	67	2	20	157	348	—
Daewoo	51	218	—	48	31	348	294
LG	120	39	15	109	7	290	—
Samsung	17	11	32	82	117	259	—
Bu Young	130	—	—	—	—	130	—
WooBang	148	—	8	24	—	180	179
Dae Dong	115	4	—	—	11	130	43
Kabool	17	47	—	—	—	64	64
Hwa Sung	57	—	—	—	—	57	5
Total	817	655	64	358	392	2,286	585

(1) Based on FSC asset classifications.

In August 1999, the creditor banks of one of the largest chaebols, the Daewoo Group, decided to commence workout proceedings with respect to 12 member companies of the Daewoo Group. As of December 31, 1999, our total exposure to the Daewoo Group was approximately ₩348 billion. Our exposure consists of ₩269 billion in loans outstanding, ₩48 billion in corporate bonds and ₩31 billion in guarantees and acceptances.

The following table shows information relating to our Daewoo Group total exposure as of December 31, 1999.

Company	Loans: Won currency	Loans: Foreign currency	Debt securities	Guarantees and acceptances	Total exposures	Amounts classified as substandard or below(1)
	(In ₩ billion)					
Daewoo Corporation	10	182	14	24	230	214
Daewoo Motors	6	1	5	4	16	10
Daewoo Electronics	22	10	5	2	39	32
Ssangyong Motors	8	—	5	—	13	8
Daewoo Heavy Industries, Ltd	5	3	10	1	19	8
Daewoo Telecommunications	—	—	9	—	9	—
Daewoo Ind. Co., Japan Corp.	—	17	—	—	17	17
Daewoo Hongkong	—	5	—	—	5	5
Total	51	218	48	31	348	294

(1) Based on FSC asset classifications.

Loan Concentration by Size of Loans

The following table shows the aggregate balances of our loans by outstanding loan amount as of December 31, 1999.

	Aggregate loan balance	**Percentage of Total loan balance**
	(₩ billion)	**(percentages)**
Commercial and industrial		
Up to ₩10 million	14	0.04
Over ₩10 million to ₩50 million	244	0.76
Over ₩50 million to ₩100 million	275	0.86
Over ₩100 million to ₩500 million	832	2.59
Over ₩500 million to ₩1 billion	403	1.25
Over ₩1 billion to ₩5 billion	1,186	3.69
Over ₩5 billion to ₩10 billion	641	1.99
Over ₩10 billion to ₩50 billion	1,315	4.09
Over ₩50 billion to ₩100 billion	389	1.21
Over ₩100 billion	296	0.92
Sub total	5,595	17.41
Construction loans		
Up to ₩10 million	2	0.01
Over ₩10 million to ₩50 million	5	0.02
Over ₩50 million to ₩100 million	2	0.01
Over ₩100 million to ₩500 million	37	0.12
Over ₩500 million to ₩1 billion	69	0.21
Over ₩1 billion to ₩5 billion	501	1.56
Over ₩5 billion to ₩10 billion	685	2.13
Over ₩10 billion to ₩50 billion	245	0.76
Over ₩50 billion	55	0.17
Sub total	1,601	4.99
Household—mortgage		
Up to ₩10 million	4,552	14.17
Over ₩10 million to ₩50 million	11,393	35.45
Over ₩50 million	1,301	4.05
Sub-total	17,246	53.67
Credit Cards		
Up to ₩10 million	1,150	3.58
Over ₩10 million	66	0.21
Subtotal	1,216	3.79
Household—other	2,900	9.02
Up to ₩10 million	2,900	9.02
Over ₩10 million to ₩50 million	2,186	6.80
Over ₩50 million	1,390	4.33
Sub-total	6,476	20.15
Total	32,134	100.00

Maturity Analysis

The following table shows the scheduled maturities of our total loans as of December 31, 1999.

	1 Year or less	1 Year to 5 Years	After 5 Years	Total
		(in ₩ billion)		
Commercial and industrial	2,830	2,446	319	5,595
Construction loans	1,241	282	78	1,601
Households				
Residential mortgages	1,216	7,668	8,362	17,246
Other consumer loans	1,148	2,902	2,426	6,476
Credit cards	1,216	—	—	1,216
Total	7,651	13,298	11,185	32,134

Interest Rate Sensitivity

The following table shows, as of December 31, 1999, the total amount of loans which have fixed interest rates or variable or adjustable interest rates.

	As of December 31, 1999
	(in ₩ billion)
Fixed rate(1)	4,041
Variable or adjustable rates(2)	28,092
Total	32,134

(1) Fixed rate loans are loans for which the interest rate is fixed for the entire term.
(2) Variable or adjustable rate loans are loans for which the interest rate is not fixed for the entire term.

Non Performing Loans

Non-performing loans are defined as loans greater than 90 days past due. For classification of non-performing loans under Korean regulatory requirements, see ''— Supervision and Regulation—Principal Regulations Applicable to Banks in Korea—Asset Classification''.

The following table shows, for the periods indicated, certain details of our total non-performing loan portfolio.

	As of December 31,		
	1997	1998	1999
	(in ₩ billion, except percentages)		
Total non-performing loans	1,857	2,628	2,440
As a percentage of total loans	7.5	10.0	7.6

The above table does not reflect the amount of loans classified as substandard or below that we sold to KAMCO in connection with a government program to assist the Korean banking industry. See ''Item 9. Management's Discussion and Analysis of Financial Condition and Results of Operations—Overview—Sales of Substandard or Below Loans to KAMCO''. As of December 31, 1999, we had sold ₩341 billion of substandard or below loans to KAMCO. We currently have guaranteed ₩87 billion of loans sold to KAMCO. As of December 31, 1999, we have repurchased ₩52 billion of these loans from KAMCO and these are reflected in the table above.

Non-accrual loans. The following table presents a three-year analysis of loans that were placed on a non-accrual status. Loans are placed on a non-accrual status when they are past due by one day or more.

	As of December 31,		
	1997	**1998**	**1999**
		(in ₩ billion)	
Loans accounted for on a non-accrual basis	4,594	5,431	5,460

We are not able to provide information for non-accrual and non-performing loans for the years ended December 31, 1995 and 1996 due to changes made in our information systems. We believe that the amounts of non-accrual and non-performing loans for the years ended December 31, 1995 and 1996 were lower than for the subsequent years due to the impact of the Asian financial crisis in 1997. Prior to 1997, due to our limited range of lending activities, our non-performing and non-accrual loans arose mainly from our mortgage and other consumer loan portfolios.

Accruing loans past due 90 days. As of December 31, for each of the three years to 1999, we did not have any loans that were over 90 days past due and remained on an accrual status.

Troubled debt restructurings. The following table presents a three year analysis of loans not included above which are "troubled debt restructurings" as defined under US GAAP.

	As of December 31,		
	1997	**1998**	**1999**
		(in ₩ billion)	
Loans not included above which are classified as "troubled debt restructurings"	—	195	208

Comparable information for 1995 and 1996 is not available. However, the level of loans classified as troubled debt restructurings were not significant in 1995 and 1996.

Potential Problem Loans. As of December 31, 1999, ₩1,221 billion of loans classified as substandard or below were not included as non-performing because they were less than 90 days past due. These amounts are classified as impaired and therefore included in our calculation of loan loss allowance under US GAAP.

We have certain other interest-earning assets that, if they were loans, would be required to be disclosed as part of the non-accrual, past due or restructuring disclosures provided above. As of December 31, 1999, we had debt securities with an amortized cost of ₩53 billion and a market value of ₩52 billion on which interest was past due.

Exposures to Companies in Workout, Corporate Reorganization and Composition. Workout is a voluntary procedure through which we, together with borrowers and other creditors, restructure a borrower's credit terms. In 1998, we joined the other financial institutions in Korea in entering into an accord which sets forth certain guidelines and procedures with respect to voluntary workout programs. Under the accord, the lead creditor bank or financial institution creditors holding not less than 25.0% of the total credit amount of a borrower held by the participants of the accord may convene a meeting of creditors for workout and commence preparation of a workout plan with respect to such borrower. The workout plan will be binding on all the financial institution creditors that entered into the accord upon approval by the accord participants representing at least 75.0% of the total accord debt. The accord also imposes penalties on financial institution creditors that fail to abide by the guidelines and procedures set forth in the accord.

Corporate reorganization procedure and composition are court supervised procedures to rehabilitate an insolvent company. The restructuring plan is adopted at a meeting of interested parties and is subject to approval of a court. In a corporate reorganization, the management power of the company is taken over by a court appointed receiver. Creditors must report their claims to the court and if they fail to do so, their claims are discharged at the end of the reorganization. Creditors may enforce their claims only in compliance with the reorganization plan. In composition proceedings the management of the company retains its management power. Unreported claims are not discharged at the end of a composition plan although the creditors are required to report their claims to the court if they want to exercise their votes at the meeting of interested parties. In addition, secured creditors may enforce their security interest outside the composition proceeding unless they waive their security interest and consent to the composition plan.

Our non-performing assets in restructuring are managed and collected by the Loan Management Team. As of December 31, 1999, ₩286 billion or 0.9% of our total loans were under restructuring. Upon approval of the workout plan a non-performing asset is initially classified as precautionary or lower and thereafter cannot be classified higher than precautionary with limited exceptions.

The following table shows, as of December 31, 1999, our ten largest exposures that were in the process of being negotiated or had been negotiated in workouts, were in composition or were under court receivership.

	Loans					
Company	**Won currency**	**Foreign currency**	**Debt securities**	**Guarantees and acceptances**	**Equity Securities**	**Total exposures**
			(In ₩ billion)			
Daewoo Corporation	10	182	14	24	—	230
WooBang Co., Ltd.	147	—	24	—	8	179
Dongbo Construction Co., Ltd	106	—	—	—	—	106
Dongsung Construction Co., Ltd	57	—	—	1	—	58
Daewoo Heavy Industries, Ltd	5	3	10	1	—	19
HwaSung Ind. Co., Ltd.	53	—	—	—	—	53
Dong Ah Construction Ind. Co., Ltd.	18	—	—	—	2	20
Daewoo Electronics	22	10	5	2	—	39
Kabool Textiles	2	32	—	—	—	34
Kabool, Ltd.	8	15	—	—	—	23
Total	428	242	53	28	10	761

Recognition of Allowance for Losses on Loans

Our method for loan loss provisioning depends on whether a loan is a corporate loan or a consumer loan.

Specific loan loss allowances for corporate loans are established based on whether the loan is impaired or not. Loan loss allowances for impaired loans are established by discounting the cash flow we expect to receive on the loan evaluated on an individual borrower basis. Where the impaired loan, or a portion of the impaired loan, is collateralized or if the loan is subject to a guarantee, the fair value of the collateral and/or the estimated guarantee payment is considered in establishing the level of the allowance. The determination as to whether a loan is impaired is based upon loan grades and past due status. Loans rated substandard and below or that are at least 30 days past due are considered impaired. Loan loss reserves on impaired loans are determined on an individual borrower basis. Loan loss reserves allocable to impaired borrowers based on their classification are as follows:

	As of December 31		
	1997	**1998**	**1999**
		(Percentages)	
Normal(1)	1.2	60.0	0.5
Special Mention	15.5	20.9	25.7
Substandard	24.5	14.9	39.8
Doubtful	42.4	44.9	73.9
Loss	75.4	92.0	82.7

(1) The 60.0% reserve rate for normal loans in 1998 was substantially caused by loans to the Daewoo Group which were classified as normal. If these loans are excluded the reserve percentage for this classification would be 5.02%.

Loan loss reserves on the remainder of the commercial portfolio are established on a pool basis, which considers such factors as historical charge-offs and migrations analyses. We also establish allowances for loan losses on consumer loans on a pool basis, which considers such factors as historical performance, charge-off information, and migration analyses. All of the loan allowances are subject to qualitative factors including our concentration in the particular industry, current economic conditions, changes in underwriting procedures and the recourse available through collateral and guarantees.

Under Korean GAAP, the allowance for loan losses is generally established based on FSS guidelines, which require that the minimum allowance be established, based on the classification of the loan. We have used these guidelines in establishing our minimum reserve levels. Starting in 1998, we also established voluntary additional reserves on individual credits, in addition to the FSS percentage guidelines below, to be more in line with international banking practices. The FSS reserve percentage guidelines are set forth for the periods indicated:

	1997	1998	1999
		(Korean GAAP Percentages)	
Normal	0.5	0.5	0.5
Special Mention	1	2	2 to 19
Substandard	20	20	20 to 49
Doubtful	75	75	50 to 99
Loss	100	100	100

Applying the FSS reserve percentage guidelines, as well as establishing voluntary reserves, would generally not produce a loan loss reserve in accordance with US GAAP, which requires loan reserves to be established at a level that is deemed adequate to provide for known and inherent losses that existed as of the balance sheet date.

Non-Accrual Loans

We do not recognize interest on non-accrual loans or credit interest to our income account unless it is collected. Any interest accrued and not received on past due loans is reversed and charged against our current earnings. We return non-accrual loans to accrual status when all past due contractual principal and interest amounts are collected.

Interest foregone is the interest due on non-accrual loans that has not been accrued in our books of accounts. Interest foregone for loans that were on non-accrual status at December 31, 1999 was ₩172 billion and for loans that were on non-accrual status at December 31, 1998 was ₩194 billion. The amount of interest income on those loans that was included in net income for the period was ₩417 billion and ₩393 billion, respectively.

Loan Aging Schedule

The following table shows our loan aging schedule (excluding accrued interest) as of the dates indicated.

	Normal		Past Due 1-3 Months		Past Due 3-6 Months		Past Due More Than 6 Months		Total
As of December 31,	Amount	%	Amount	%	Amount	%	Amount	%	Amount
			(in ₩ billion, except percentages)						
1997	20,329	81.6	2,737	11.0	1,115	4.5	742	3.0	24,923
1998	20,923	79.4	2,802	10.6	1,451	5.5	1,178	4.5	26,354
1999	26,674	83.0	3,020	9.4	1,092	3.4	1,348	4.2	32,134

Sectoral Analysis of Non-Performing Loans

The following table sets forth, for the periods indicated, our total non-performing loans by borrower type.

	As of December 31,		
	1997	1998	1999
	(in ₩ billion)		
Commercial and industrial	328	514	644
Construction loans	28	283	140
Households			
Residential mortgages	1,380	1,638	1,396
Other consumer loans	109	179	246
Credit cards	12	14	14
Total non-performing loans	1,857	2,628	2,440

Top ten non-performing loans

At December 31, 1999, our ten largest non-performing loans accounted for 5.1% of our total non-performing loan portfolio.

The following table shows, for the periods indicated, certain information regarding our ten largest non-performing loans.

	As of December 31, 1999		
	Industry	Gross principal outstanding	Allowance for loan losses(1)
		(in ₩ billion)	
Borrower A	Manufacturing	24	14
Borrower B	Manufacturing	21	7
Borrower C	Construction	16	9
Borrower D	Construction	15	6
Borrower E	Trading	8	8
Borrower F	Trading	8	7
Borrower G	Construction	8	3
Borrower H	Trading	8	7
Borrower I	Manufacturing	8	6
Borrower J	Construction	8	5
Total		124	72

(1) The net realizable value of these loans on a present value basis is determined by discounting the estimated cash flow over the expected period of repayment by the rate implicit in the loan. Under US GAAP, the net present value of a non-performing loan includes the net present value, to the extent realizable, of the underlying collateral, if any.

Non-Performing Loans Strategy

Our Credit Risk Team is responsible for finding early solutions and pursuing the recovery of non-performing loans. In addition, we have a loan collection agency called Jooeun Credit Information Co., Ltd. of which we own 50.0% of the outstanding share capital and its workers own the remaining share capital. Jooeun is a loan recovery company, which receives payments on charged off loans and loans that are overdue for over six months (three months in the case of credit card loans). Jooeun has over 300 employees, including loan recovery experts, legal experts and management employees. The fees that Jooeun receives are based on the amounts of non-performing and charged off loans that are recovered. From October 1999, when we started using Jooeun for loan recovery services through March 2000, Jooeun recovered ₩52 billion, including ₩39 billion from non-performing loans and ₩13 billion from charged off loans.

Methods for resolving non-performing loans include the following:

- For loans in arrears for more than three months but less than six months and for loans to bankrupt companies:
  - on-performing loans are transferred from the operating branch or call center to the non-performing loan management team in the processing centers;
- a demand note is dispatched by mail if payment is five months past due;
  - calls and visits are made by our processing center staff to customers encouraging them to make payments;
  - borrowers with loans over ₩15 million and payments three months past dues are registered as ‘‘yellow warning’’ borrowers in the Federation of Banks’ Credit Implementation data base;
  - prepare for judicial means, including foreclosure and auction of the collateral; and
  - credit card loans are transferred to Jooeun for collection.
- For loans in arrears for more than six months but less than one year and for loans to bankrupt companies over three months after bankruptcy:
  - for mortgage loans other than individual housing loans, foreclosure and an auction are commenced;
  - for unsecured loans other than credit card loans, transfer the loan to Jooeun for collection; and
  - borrowers with loans over ₩15 million and payments six months past due are registered as ‘‘red warning’’ borrowers and borrowers with loans less than ₩15 million and payments six months past due are registered as cautionary borrowers in the Korean Federation of Banks’ Credit Information data base.
- For loans in arrears for over one year:
  - for individual housing loans, foreclosure and commencement of an auction proceeding;
  - in the case of unsecured loans, they will be treated as loan losses; and
  - charged off loans will be given to Jooeun for collection, except for loans where the cost of collection exceeds the possible recovery or where the statute of limitations for collection has expired.

Analysis of loan loss allowance

The following table presents the allocation of the loan loss allowance by loan type. The ratio represents the percentage of loans in each category to total loans.

	As of December 31,					
	1997		1998		1999	
	(in ₩ billion, except percentages)					
Commercial and industrial						
Impaired loans	257	2.4%	723	7.6%	828	5.5%
Unimpaired loans	313	15.9	121	12.3	43	11.9
Construction						
Impaired loans	96	2.6	298	5.6	233	3.2
Unimpaired loans	19	3.5	3	2.2	4	1.8
Household						
Residential mortgages	16	63.9	17	60.3	19	53.7
Other consumer loans	41	8.9	45	9.1	92	20.2
Credit cards	47	2.8	52	2.9	68	3.8
Total	789	100.0	1,259	100.0	1,287	100.0

The loan loss allowances for commercial and industrial loans increased by 15% in 1998. Accordingly, the ratio of the loan loss allowance for commercial and industrial loans to total commercial and industrial loans increased from 12.5% in 1997 to 16.1% in 1998. The increase in the amount of the allowance resulted from the economic downturn in Korea, which started in late 1997. We did not reclassify or identify our impaired loans as of December 31, 1997 until 1998, however, we did allocate a portion of our loan loss reserve to these unidentified impaired loans. The economic downturn adversely affected the construction industry and resulted in a 34% increase in the allowance for loan loss reserve for construction loans in 1998. As of December 31, 1997, the reserve for construction loans amounted to 7.6% of total construction loans but that ratio increased to 14.7% in 1998 and remained at 14.8% in 1999 because the construction industry still has not fully recovered from the Asian financial crisis. The allowance for other consumer loans more than doubled in 1999 as consumer loans increased by 169.8% in 1999 due to our efforts to expand our retail lending activities. Unlike allowances for commercial loans, allowances for household and credit card loans sustained their level of provisioning in 1998 and 1999.

Analysis of loan loss experience

The following table presents an analysis of our loan loss experience for the years ended December 31, 1998 and 1999.

	As of December 31,	
	1998	**1999**
	(in ₩ billion)	
Balance at the beginning of the period	789	1,259
Amounts charged to operations	434	306
Allowance relating to loans acquired, transferred or sold	102	(50)
Charge-offs	(71)	(244)
Recoveries	5	16
Balance at the end of the period	1,259	1,287
Ratio of net charge-offs to average loans outstanding during the period	0.2%	0.8%

The following table presents a five-year summary of charge-offs by type of loan.

	Year ended December 31,				
	1995	**1996**	**1997**	**1998**	**1999**
	(in ₩ billion)				
Commercial and industrial	1	3	4	3	151
Construction	—	2	2	—	24
Households					
Residential mortgages	—	1	1	2	7
Other consumer loans	1	2	5	20	40
Credit cards	6	21	29	46	22
Total charge-offs	8	29	41	71	244

We have not calculated our charge to operations for provision for loan losses under US GAAP for the years ended December 31, 1995, 1996 and 1997. However, based on our Korean GAAP loan loss reserve data and other credit quality information we believe that the provision charged to operations for loan losses under US GAAP for the periods prior to 1997 would have been substantially lower than for the periods 1997 and after. During 1995 and 1996 the predominance of the relatively lower risk mortgage lending would have led to a relatively low level of credit losses under US GAAP. During 1997 the increase in commercial and industrial and construction lending and the initial impact of the Asian financial crisis would have led to a significant increase in loan loss provisions under US GAAP as compared to the years ended December 31, 1995 and 1996. See ''—Assets and Liabilities—Loan Portfolio—Recognition of Allowance for Losses on Loans'' for a discussion of loan loss reserving methodologies under US GAAP and Korean GAAP.

The following table presents a three year summary of recoveries by type of loan for the years ended December 31, 1997, 1998 and 1999.

	Year ended December 31, (in ₩ billion)		
	1997	1998	1999
Other consumer loans	—	—	3
Credit Cards	4	5	13
Total	4	5	16

We do not have information on recoveries by type of loan for earlier years. For the years ended December 31, 1995 and 1996 the levels of recoveries were not significant.

Loan Charge-offs

Basic Principles. We attempt to minimize loans to be charged off, by practicing a sound credit approval process based on credit risk analysis prior to extending loans and a systematic management of outstanding loans.

If charge-offs are necessary, we charge off the loans at an early stage in order to:

- improve the transparency in accounting; and
- minimize any waste of resources in managing loans which have a low probability of being collected.

Loans To Be Charged Off. Loans are charged off if they fall under the following categories:

- loans for which collection is not foreseeable due to bankruptcy, compulsory execution, disorganization or abrogation of incorporation of debtors, their successors or other obligators;
- loans for which collection is not foreseeable due to the death, or disappearance of debtors;
- loans for which expenses of collection exceed the collectable amount;
- loans for which collection is not foreseeable either because of legal actions, such as auctions or by any other possible procedures;
- uncollectable arrears of credit cards which have been overdue for more than six months; and
- the portion of loans categorized as ‘‘estimated loss’’, for which collection is deemed to be impossible.

All loans to be charged off are required to be investigated and approved by our Loan Readjustment Committee.

Application for Charge-off Approval. An application for loans to be charged-off must be submitted to the relevant Teams such as the Loan Management Team and the Credit Card Team. An application may only be submitted after the completion of any legal proceedings and the settlement of principal and relevant legal expenses. The application must be made within one month of the date the loan is classified as estimated loss.

Applications for charge-offs are evaluated and approved by the team concerned, the Loan Management Team or the Credit Card Team on a case by case basis.

Treatment of Loans Charged-Off. Loans charged off are classified as charged-off-loans and managed based on a different set of procedures.

Repossessed Assets. If a collateralized loan is overdue for over a year, we will petition a court for an auction to sell the collateral for the loan. Based on our experience, during the time the petition is being reviewed by the court, about 50.0% of the overdue loans will be repaid, as the sales price of collateral at auctions is generally about 20.0% less than the market value. If a loan is not repaid during the petition review, once the court approves the auction, the collateral will be sold and we will recover the full principal amount and accrued interest up to the sales price. The mortgage loan default rate was 0.005% for 1999.

The following table sets forth information on our residential mortgage arrears as of December 31, 1997, 1998 and 1999. In the table, all percentages shown are percentages of total residential mortgage loans by number.

	As of December 31,		
	1997	1998	1999
	(Percentages)		
6 months to 12 months in arrears	2.1	2.9	2.5
12 months or more in arrears	0.8	1.5	1.8

Investment Portfolio

To maintain adequate sources of back up liquidity and generate additional interest income and dividend income, as well as capital gains, to supplement income from our core lending activities, we invest in and trade Won and, to a much lesser extent, foreign currency, securities for our own account.

Held to Maturity Securities

The following table presents the carrying values of securities held to maturity on the dates indicated. Securities for which we have the positive ability and intent to hold to maturity are recorded at cost, adjusted for accretion or amortization of discounts and premiums. Declines in the fair value of individual held-to-maturity securities below their cost that are other than temporary result in write-downs of the individual securities to their fair values.

	As of December 31,		
	1997	1998	1999
	(in ₩ billion)		
Debt securities			
Korean treasury securities and government agencies	—	151	1,235
Debt securities issued by financial institutions	20	17	152
Corporate debt securities	25	55	400
Debt securities issued by foreign government	1	1	2
Other debt securities(1)	—	—	870
Total	46	224	2,659

(1) Other debt securities represent our holding in the Bond Market Stabilization Fund.

Securities available for sale

The following table presents the carrying values of securities available for sale on the dates indicated. Securities are classified as available for sale when management intends to hold the securities for an indefinite period of time or when the securities may be utilized for tactical asset/liability purposes and may be sold from time to time to effectively manage interest rate exposure and resultant prepayment risk and liquidity needs. Securities available for sale are reported at fair value with unrealized gains and losses being recorded in other comprehensive income within stockholders' equity.

	As of December 31,		
	1997	**1998**	**1999**
	(in ₩ billion)		
Equity securities	54	12	115
Debt securities			
Korean treasury securities and government agencies	2,659	6,173	2,526
Debt securities issued by financial institutions	393	765	492
Corporate debt securities	462	477	436
Other[(1)]	259	340	791
Total	3,827	7,768	4,360

(1) Other represents beneficiary certificates issued by other financial institutions.

Trading Securities

The following table presents the carrying values of trading securities on the dates indicated. Trading assets include securities held in anticipation of short-term market movements. Trading securities are reported at fair value, with unrealized gains and losses being recorded in income.

	As of December 31,		
	1997	**1998**	**1999**
	(in ₩ billion)		
Equity securities	428	83	122
Debt securities			
Korean treasury securities and government agencies	—	878	2,025
Debt securities issued by financial institutions	—	32	48
Corporate debt securities	—	—	60
Other trading securities	—	75	11
Total	428	1,068	2,266

We take into account a number of factors, including macroeconomic trends, industrial analysis and credit evaluation in determining whether to make particular investments in securities. Our investments in securities are also subject to a number of guidelines, including limitations prescribed under the Bank Act. Under these regulations, banks must limit their investments in equity securities and in bonds with a maturity in excess of three years (other than monetary stabilization bonds and national bonds) to 60.0% of their respective total Tier I and Tier II capital amount. Banks are also prohibited from purchasing or retaining ownership permanently in equity securities of other banking institutions or acquiring more than 15.0% of the shares with voting rights issued by any other corporation. See ''—Supervision and Regulation—Principal Regulations Applicable to Banks in Korea—Restrictions on Investments in Property'' and ''—Restrictions on Shareholdings in Other Companies''.

Our investment and trading activities in securities are supervised by the Risk Management Division.

Maturity Analysis of Held-to-Maturity Securities

The following table presents the carrying value of our investment securities by maturity and gives the weighted average yield for each maturity range and each category of held to maturity investments within each maturity range as of December 31, 1999. The weighted average yield for the portfolio represents the yield to maturity for each individual security, weighted using its book value (amortized cost).

	Within one year	Weighted average yield	Over one but within five years	Weighted average yield	Over five but within ten years	Weighted average yield	Over ten years	Total	Weighted average yield
	(in ₩ billion, except percentages)								
Held to maturity									
Korean treasury securities and government agencies	95	7.54%	1,110	8.77%	30	8.78	—	1,235	8.68%
Debt securities issued by financial institutions	96	10.10	56	8.42	—	—	—	152	9.47
Corporate debt securities	102	8.70	298	8.62	—	—	—	400	8.64
Debt securities issued by foreign government	—	—	2	8.06	—	—	—	2	8.06
Other debt securities(1)	870	—	—	—	—	—	—	870	—
Total	1,163	8.78	1,466	8.72	30	8.78	—	2,659	8.74

(1) Other debt securities represent our holding in the Bond Market Stabilization Fund and were not utilized in calculating the weighted average yield as the fund bears no interest.

Maturity Analysis of Securities Available for Sale

The following table presents the carrying value of our investment securities by maturity and gives the weighted average yield for each maturity range and each category of available for sale investments within each maturity range as of December 31, 1999. The weighted average yield for the portfolio represents the yield to maturity for each individual security, weighted using its book value (fair value).

	Within one year	Weighted average yield	Over one but within five years	Weighted average yield	Over five but within ten years	Weighted average yield	Over ten years	Total	Weighted average yield
	(in ₩ billion, except percentages)								
Available for Sale:									
Korean treasury securities and government agencies	516	9.11%	1,817	8.43%	193	10.0%	—	2,526	8.69%
Debt securities issued by financial institutions	154	10.43	315	9.08	23	7.22	—	492	9.42
Corporate debt securities	266	12.56	168	14.60	2	25.83	—	436	13.41
Other(1)	791	0	—	—	—	—	—	791	—
Total	1,727	10.31	2,300	8.97	218	9.85	—	4,245	9.39

(1) Other debt securities represent our holding of beneficiary certificates issued by other financial institutions and were not utilized in calculating the weighted average yield.

Concentrations of Risk

The following table presents the book and market value of those securities of individual issuers where the aggregate amount of those securities exceeded 10.0% of stockholders' equity as of December 31, 1999.

	As of December 31, 1999	
	Book Value	**Market Value**
	(in ₩ billion)	
Name of issuer		
Korean Government	3,464	3,454
Korea Deposit Insurance Company	1,833	1,833
Bond Market Stabilization Fund	870	886
Jooeun Investment Trust	376	376
Industrial Bank of Korea	324	324
KAMCO	264	264
Korea Development Bank	201	200
Total	7,332	7,337

Our stockholders' equity as of December 31, 1999 was ₩1,756 billion.

Credit-related Commitments

We have other credit-related commitments that are not reflected on the balance sheet, which primarily consist of unused lines of credit, and to a lesser extent, guarantees and commercial letters of credit. Guarantees include guarantees for loans, debentures, trade financing arrangements and guarantees for other financings.

As of December 31, 1999, we had issued a total of ₩473 billion in guarantees and commercial letters of credit. Of this amount, ₩15 billion was rated as precautionary, ₩13 billion as substandard and ₩22 billion as doubtful.

The following table sets forth our credit-related commitments as of the dates indicated.

	As of December 31,	
	1998	**1999**
	(₩ billion)	
Guarantees		
Loan guarantees	95	52
Debt securities	228	43
Trade finance	60	50
Performance	136	89
Others	83	45
	602	279
Commercial letters of credit	125	194
	727	473
Unused lines of credit		
Commercial	957	1,556
Consumer	3,921	6,996
Other credit-related commitments		
Commitments to extend credit	54	22
	5,659	9,047

Funding

Our sources of funding include deposits, call money, borrowings from the Bank of Korea, other short term borrowings and other long term debt.

Our principal source of funding is customer deposits, which accounted for 83.6% of total funding as of December 31, 1999. Deposits accounted for 77.9% of our total funding as of December 31, 1998, and 73.6% of our total funding as of December 31, 1997.

In addition, we acquire funding through the issuance of bonds. Our borrowings consist mainly of borrowings from financial institutions, the Korean government and the NHF, to provide policy loans to low-income households or small and medium sized enterprise and foreign currency loans. Such borrowings are generally longer-term borrowings, with maturities ranging from one year to 20 years. Call money, which is available in both Won and foreign currencies, is obtained from the domestic call loan market, a short-term loan market for loans with maturities of less than one month.

Our funding strategy has been to increase the average balances of retail deposits, to increase the percentage of deposits constituted by demand deposits, savings deposits and other lower cost deposits and to diversify funding sources.

Deposits

Although the majority of our deposits are short-term, it has been our experience that the majority of our depositors generally roll over their deposits at maturity, providing us with a stable source of funding. The following table shows the average balances of our deposits and the average rates paid on our deposits for the periods indicated.

	1997		1998		1999	
	Average balance(1)	Average rate paid	Average balance(1)	Average rate paid	Average balance(1)	Average rate paid
	(in ₩ billion, except percentages)					
Demand deposits:						
Non-interest bearing	35	—	92	—	124	—
Interest bearing	4,278	3.68%	4,571	3.39%	6,370	2.65%
Time deposits:						
Certificates	1,286	11.04	704	15.34	63	6.35
Other time deposits	12,681	6.40	13,580	10.85	18,159	8.81
Savings deposits	315	3.38	473	5.92	777	3.99
Mutual installment deposits(2)	5,883	11.15	5,645	9.74	4,957	9.56
Average total deposits	24,478	7.26	25,065	9.27	30,450	7.51

(1) Average balances represent quarterly balances.

(2) Mutual installment deposits are interest bearing deposits offered by us which enable customers to become eligible for mortgage and other consumer loans while they maintain an account with us. The customer's account does not have to secure loan amounts once made but are a requirement for loan eligibility. Prior to qualifying for a loan a customer must make required monthly deposits to the mutual installment account for a contracted term of less than five years. A customer is not required to fulfill the deposit term prior to requesting a loan from us, but loan amounts and terms are not as favorable in the event of a loan request prior to completing the deposit contract term.

For a breakdown of our retail deposit products, see ''— Retail Banking ActivitiesRetail Deposit Products''.

The following table presents the balance and remaining maturities of time deposits, certificates of deposit and mutual installment deposits which have a fixed maturity in excess of ₩100 million or more as of December 31, 1999.

	Certificate of Deposits	Other time deposits	Mutual Installment Deposits	Total
		(in ₩ billion)		
Maturing within three months	26	2,246	9	2,281
After three but within six months	2	648	12	662
After six but within 12 months	1	1,387	10	1,398
After 12 months	—	287	19	306
Total	29	4,568	50	4,647

Short term borrowings

The following table presents information regarding our short-term borrowings (borrowings with an original maturity of one year or less) for the periods indicated.

	As of December 31,		
	1997	1998	1999
	(in ₩ billion, except percentages)		
Call Money			
Year end balance	1,633	179	758
Average balance(3)	529	665	383
Maximum balance	1,633	1,220	825
Average interest rate(4)	4.72%	10.08%	4.96%
Year end interest rate	23.59%	6.74%	4.54%
Borrowings From the Bank of Korea(1)			
Year end balance	899	1,146	71
Average balance(3)	459	1,403	485
Maximum balance	899	1,926	1,068
Average interest rate(4)	3.71%	11.26%	3.30%
Year end interest rate	5.85%	4.97%	6.11%
Other short term borrowings(2)			
Year end balance	1,623	1,733	1,608
Average balance(3)	1,582	1,874	1,436
Maximum balance	1,804	2,614	1,824
Average interest rate(4)	4.43%	11.69%	8.46%
Year end interest rate	11.44%	9.53%	7.55%

(1) Borrowings from the Bank of Korea generally mature within one month for borrowings in Won and six months for borrowings in foreign currencies.

(2) Other short term borrowings include borrowings from trust accounts, bills sold, loans in domestic and foreign currency and foreign currency debentures. Other short term borrowings have maturities of 30 days to one year and are unsecured with the exception of borrowings from the Bank of Korea, borrowings obtained from the KHGC and borrowings from the Construction and Housing benevolent societies. These short term borrowings are secured by government securities and investments totaling ₩279 billion and ₩6 billion as of December 31, 1999, respectively. Also included in short-term borrowings are ₩60 billion of bonds which are full secured by our loans.

(3) Average outstanding balances have been calculated using quarterly averages.

(4) Average interest rates during the year are calculated by dividing the total interest expense by the average amount borrowed.

Information Technology

We believe that having an information technology platform capable of effectively serving our operations both as they exist now and as they develop in the future is a key component of achieving our goal of being a world class financial institution. We believe that advanced information technology systems are required in order to provide high quality service. We also believe that information technology will play a critical role in helping us reduce operating costs by allowing us to more accurately assess for the profitability of our operations.

We are currently working with a third party consultant to develop a best practices information technology system. The goal of this project is to develop a system that will:

- provide support for our existing management information and control systems;
- be flexible enough to allow us to take advantage of changing technology;
- include consumer protection capabilities such as privacy protection, pay system capabilities, electronic bill presentation and payment system capabilities;
- be capable of supporting an integrated customer relationship management capability; and
- support Internet banking.

For the year 2000, we have budgeted an amount of ₩163 billion to develop the system.

Employees

As of December 31, 1999, H&CB had 8,287 regular employees, a decrease of 230 from 8,517 employees as of December 31, 1998. In 1998, we reduced the number of our employees as part of our rationalization program. As a result the number of our employees fell to 8,517 as of December 31, 1998, from 12,176 as of December 31, 1997. In addition, we had 3,720 contractual employees with terms ranging from one to five years as of December 31, 1999. As of December 31, 1999, we had 3,322 of our employees in managerial or executive positions.

We consider our relations with our employees to be satisfactory. At December 31, 1999, 7,421 of H&CB's employees belonged to a union. There have been no strikes in the past five years.

Our subsidiaries had 165 employees as of December 31, 1999, 190 employees as of December 31, 1998 and 236 employees as of December 31, 1997.

We structure compensation packages and provide incentives to enhance performance. Effective January 1, 1999, we introduced a performance-based group reward system. Under this system, we pay our employees an annual base salary together with a periodic bonus which is dependent on the performance of each Division or Business Unit. In the future, we plan to introduce an individual performance-based reward system.

In addition to basic compensation, we provide a wide range of benefits to our employees including our executive directors, which cover housing subsidies, medical care assistance and educational and training opportunities. We have established an employee welfare fund to provide our employees with loans to finance certain educational expenditures.

Pursuant to the Korean National Pension Law, we prepay a portion of our accrued severance liabilities to the Korean National Pension Corporation at the rate of 4.5% of our employee's wages. Upon termination, our employees are entitled to receive an annuity and lump sum severance payment. The amount of the annuity and severance payment is based on the average wage of all subscribers to the pension, the average wage of the employee and the length of the employee's payment to the fund.

All of our employees are eligible to participate in our employee stock ownership association. We are not required to, and do not, make contributions to this plan. Members of the employee stock ownership association have certain pre-emptive rights in relation to our shares that are public offered under the Korean Securities and Exchange Act, as described in ''Item 14. Description of Securities to be Registered—Description of Capital Stock''.

We have training programs designed to meet the changing skill requirements of our employees. We provide internal training, external training, overseas training and correspondence training. These training programs include orientation sessions for new employees and management development programs for mid-level and senior executives. We also offer training programs at the Korea Banking Institute. Our training programs are conducted for developing functional as well as managerial skills. In addition, through our strategic alliance with ING, our employees will be able to participate in certain of ING's training programs.

Supervision and Regulation

Legal and Regulatory Framework in Korea

The banking system in Korea is governed by the Bank Act and the Bank of Korea Act. In addition, Korean banks come under the regulations and supervision of the Bank of Korea (BOK), the BOK's Monetary Board, the Financial Supervisory Commission (FSC) and the Financial Supervisory Service (FSS).

The BOK, established in June 1950 under the Bank of Korea Act, performs the customary functions of a central bank. It seeks to contribute to the sound development of the national economy by price stabilization through establishing and implementing efficient monetary and credit policies. The BOK acts under instructions of the Monetary Board which is the supreme policy-making body of the BOK.

The Monetary Board has as its primary responsibilities under the Bank of Korea Act the formulation of monetary and credit policies and determines the operations, management and administration of the BOK.

The FSC, established on April 1, 1998, exerts direct control over commercial banks pursuant to the Bank Act, including establishing guidelines on capital adequacy of commercial banks and prepares regulations relating to supervision of banks. Furthermore, due to the Amendment to the Government Organization Act and the Bank Act on May 24, 1999, instead of the Ministry of Finance and Economy, the FSC now regulates market entry into the banking business.

The FSS was established on January 4, 1999, as a unified body of the former Banking Supervisory Authority (the successor to the Office of Bank Supervision, the Securities Supervisory Board, the Insurance Supervisory Board and the Credit Management Fund. The FSS is subject to the instructions and directives of the FSC and carries out supervision and examination of commercial banks. In particular, the FSS sets requirements both for prudent control of liquidity and for capital adequacy and establishes reporting requirements, pursuant to which banks are required to submit annual reports on financial performance and shareholdings, regular reports on management strategy and non-performing loans, including write-offs, and management of problem companies and plans for the settlement of bad loans.

Under the Bank Act, permission to commence a commercial banking business or a long-term financing business must be obtained from the FSC. Commercial banking business is defined as the lending of funds acquired predominantly from the acceptance of deposits for a period not exceeding one year or subject to the limitation established by the FSC, for a period between one year and three years. Long-term financing business is defined as the lending, for periods in excess of one year, of funds acquired predominantly from paid-in capital, reserves or other retained earnings, the acceptance of deposits with maturities of at least one year, or the issue of bonds or other securities. A bank wishing to enter into any business other than commercial banking and long-term financing businesses, such as the trust business, must obtain permission from the FSC. Permission to merge with any other banking institution, to liquidate, to close a banking business or to transfer all or a part of a business must also be obtained from the FSC.

Principal Regulations Applicable to Banks in Korea

Capital Adequacy

The Bank Act provides for a minimum paid-in capital of ₩100 billion in the case of nationwide banks, such as us, and ₩25 billion in the case of regional banks.

In addition to minimum capital requirements, all banks including foreign bank branches in Korea are required to maintain a prescribed solvency position. Until March 31, 1999, a bank's outstanding liabilities arising from guarantees and other contingent liabilities (except those specifically excluded under the Bank Act) were not permitted to exceed 20 times its equity capital amount. However, beginning on April 1, 1999, such limitation on guarantees and contingent liabilities was eliminated and, for regulatory purposes, guarantees provided by banks are counted as an extension of credit and will be regulated accordingly. See ''—Financial Exposure to Any Individual Customer'' below. Also, in its allocation of the net profit earned in a fiscal term, a bank is required to credit at least 10.0% of such profit to a legal reserve until such time when the reserve equals the amount of its total paid-in capital.

All banks must meet the risk-weighted capital standards, determined in accordance with FSC requirements which have been formulated based on BIS Standards. These standards were adopted by the Monetary Board and the Office of Bank Supervision (the predecessor of the FSS) and became effective from the beginning of 1996. All domestic banks and foreign bank branches have to meet the requirement of at least 8.0% in accordance with the risk-weighted capital standards.

Liquidity

All banks are required to match the maturities of their assets and liabilities in accordance with the Bank Act in order to ensure liquidity.

Starting from January 1, 1999, the FSC requires each Korean bank to maintain a Won liquidity ratio (defined as Won assets due within three months (including marketable securities) divided by Won liabilities due within three months) in excess of 100.0% and to make quarterly reports to the FSS. However, we are required to maintain such ratio in excess of 70.0% as long as we are obliged to maintain a certain minimum ratio of mortgage lending under our articles of incorporation. Starting on January 1, 1999, the FSC had required each Korean bank to (1) maintain a foreign currency liquidity ratio (defined as foreign currency liquid assets due within three months divided by foreign-currency liabilities due within three months) in excess of 70.0%, (2) maintain foreign currency liquid assets due within seven days less foreign currency liabilities due within seven days divided by total foreign-currency assets above 0.0% and (3) maintain foreign currency liquid assets due within a month less foreign-currency liabilities due within a month divided by total foreign-currency assets above negative 10.0%.

The Monetary Board is empowered to fix and alter minimum reserve requirements that banks must maintain against their deposit liabilities. The current minimum reserve ratio is 5.0% for average balances of Won currency demand deposits outstanding, 1.0% for Won currency employee asset establishment savings deposits and employee long term savings deposits outstanding and 2.0% for average balances of Won currency time and savings deposits, mutual installments and certificates of deposit outstanding. For foreign currency deposit liabilities, a 7.0% minimum reserve ratio is applied to resident accounts, while a 1.0% minimum reserve ratio is set for non-resident accounts.

Banks may not invest in excess of an amount exceeding 60.0% of their Tier I and Tier II capital in stocks and other securities with the remaining period up to the maturities of over three years. However, this stipulation does not apply to government bonds or to Monetary Stabilization Bonds issued by the BOK.

Financial Exposure to Any Individual Customer

Under the ‘‘Ceiling System on the Sum of Large Exposures’’ introduced in December 1994, the sum of large exposures by a bank, that is, the total sum of its credits to single individuals or business groups that exceed 10.0% the sum of Tier I and Tier II capital, must be less than five times the sum of Tier I and Tier II capital. Beginning on April 1, 1999, the limit on a bank’s ratio of large exposures has been reduced from 15.0% to 10.0% of the sum of Tier I and Tier II capital. Beginning on January 1, 2000, subject to certain exceptions, no bank is permitted to extend credit (including loans, guarantees, purchases of securities (only in the nature of a credit) and such other transactions which directly or indirectly create credit risk) in excess of 20.0% of the sum of Tier I and Tier II capital to a single individual or juridical person, and no bank may grant credit in excess of 25.0% of the sum of Tier I and Tier II capital to a single group of companies which belong to the same conglomerate as defined in the Monopoly Regulations and Fair Trade Act. In addition, banks are limited in their ability to grant credits to shareholders holding voting shares in excess of 10.0% (or in the case of regional banks, 15.0%) of total shares issued and outstanding.

Interest Rates

Korean banks remain dependent on the acceptance of deposits as their primary source of funds. There are no legal controls on interest rates on loans in Korea. Historically, interest rates on deposits and lending rates were regulated by the Monetary Board of the BOK. Under the government’s Financial Reform Plan issued in May 1993, controls on deposit interest rates in Korea have been gradually reduced. Restrictions were removed in stages with respect to interest rates on most time deposits and savings deposits in 1994 and 1995. In July 1997, restrictions on all interest rates, except certain demand deposits, were removed. As a result of the government’s deregulation program, the interest income generated by the our loan portfolio and the interest expense resulting from deposits are determined to a greater extent than in the past by market interest rates and BOK monetary policy, including deposit reserve requirements. Deregulation of interest rates on deposits has increased competition for deposits based on interest rates offered and therefore may increase our interest expense.

Lending to Small and Medium Sized Enterprises

Banks are obligated to extend to small and medium sized enterprises a certain, minimum percentage of any monthly increase in their Won currency lending. Currently, the minimum percentage applicable to us is 35.0%. For other nationwide banks the minimum percentage is 45.0% and for regional banks, 60.0%. If a bank does not comply with the foregoing, all or a portion of the government funds provided to such bank in support of loans to small and medium sized enterprises may be reclaimed by the BOK.

Disclosure of Management Performance

For the purpose of reinforcing mandatory disclosure of management performance so that the general public, especially depositors and shareholders, will be in a better position to monitor banks, the FSC requires commercial banks to disclose certain matters as follows: (1) loans bearing no profit made to a single business group in an amount exceeding 10.0% of the sum of Tier I and Tier II capital as of the end of the previous month (where the loan exposure to such borrower is calculated as the sum of substandard credits, doubtful credits and estimated loss credits) except where the loan exposure to a single business group is not more than ₩4 billion, (2) any financial incident involving embezzlement, malfeasance or misappropriation of funds as soon as it occurs, unless the FSS made a public announcement regarding such incident and provided that the amount involved exceeds 1.0% of the bank’s sum of Tier I and Tier II capital and the bank has lost or expects to lose more than ₩1 billion as a result thereof and (3) any loss due to court judgments or similar decisions in civil proceedings in an amount exceeding 1.0% of the bank’s sum of Tier I and Tier II capital as of the end of the previous month except where the loss is not more than ₩1 billion.

Restrictions on Lending

Commercial banks are prohibited from making any of the following categories of loans:

- loans made for the purpose of speculation in commodities or securities;
- loans made directly or indirectly on the pledge of a bank's own shares, or on the pledge of shares in excess of 20.0% of the issued and outstanding shares of any other corporation (subject to certain exceptions that will apply on or after April 22, 2000);
- loans made directly or indirectly to enable a natural or juridical person to buy the bank's own shares;
- loans made directly or indirectly to finance political campaigns and other activities;
- loans made to any of the bank's officers or employees other than petty loans of up to ₩20 million (₩50 million in the case of any housing loan or general loan);
- credit (including loans) made on the pledge of shares of a subsidiary corporation of the bank or to enable a natural or juridical person to buy shares of a subsidiary corporation of the bank; and
- loans made to any officers or employees of a subsidiary corporation of the bank other than petty loans of up to ₩20 million (₩50 million in the case of a housing loan).

Asset Classification. The FSS requires banks in Korea to analyze and classify their credit exposures into one of five categories by taking into account a number of factors. The FSS revised its regulations concerning the method of classifying credit exposures and providing reserves for credit losses in July 1998, and again in September 1999. The FSS guidelines announced in September 1999, were devised to fully reflect each borrower's capacity to repay and not solely its past performance. For US GAAP purposes, we consider these classifications for determining loan loss allowances.

The new FSS guidelines require, among other things, that:

- the credit exposures classification criteria reflect customers' ability to repay their credits as well as their credit histories, including whether customers are in arrears or default in any payments;
- that financial institutions, including us, devise and operate credit evaluation and classification models to analyze customers' capability to repay the credits extended by them; and
- that financial institutions operate independent credit review units.

Within such guidelines, the new guidelines allow, to some degree, discretion of banks in their detailed specific applications. The new guidelines became effective on December 31, 1999. The asset classification categories and criteria established under the new FSC guidelines are as follows:

- *Normal.* Credits which do not raise concerns regarding their capability to repay the credits.
- *Precautionary.* Credits (1) which are judged to have potential risks with respect to their capability to repay the credits in the future, although there have not occurred any immediate risks for default in repayment; or (2) which are in arrears for one month or more but less than three months.
- *Substandard.* (1) Credits which are judged to have incurred considerable risks for default in repayment as the customers' capability to repay has deteriorated; or (2) that portion which is expected to be collected of total credits (a) extended to customers which have been in arrears for three months or more, (b) which are judged to have incurred serious risks due to the occurrence of final refusal to pay their promissory notes, liquidation or bankruptcy proceedings, or closure of their businesses or (c) of ''Doubtful Customers'' or ''Estimated-loss Customers'' (each as defined below).

- *Doubtful*. That portion of credits in excess of the amount expected to be collected of total credits extended to (1) customers (''Doubtful Customers'') which are judged to have incurred serious risks for default in repayment due to noticeable deterioration in their capability to repay; or (2) customers which have been in arrears for three months or more but less than twelve months.

- *Estimated Loss*. That portion of credits in excess of the amount expected to be collected of total credits extended to (1) customers (''Estimated-loss Customers''), which are judged to have to be accounted as loss as the inability to repay became certain due to serious deterioration in their capability to repay; (2) customers which have been in arrears for twelve months or more; or (3) customers which are judged to have incurred serious risks for default in repayment due to the occurrence of final refusal to pay their promissory notes, liquidation or bankruptcy proceedings, or closure of their businesses.

Under the FSS guidelines, promulgated in September 1999, until the end of fiscal year 2001, banks may classify their workout loans either as precautionary or as substandard based on the debtor's ability to repay loans.

Provisioning Requirements. The FSS has also implemented guidelines for establishing provisioning levels for different characteristics of assets. However, for US GAAP purposes we use a different methodology for determining loan loss allowances. See ''—Assets and Liabilities—Loan Portfolio—Recognition of Allowance for Losses on Loans''.

Restrictions on Investments in Property

A bank may possess real estate property only to the extent necessary for the conduct of its business; provided that the aggregate value of such real estate property must not exceed 60% of its Tier I and Tier II capital amount. Any property acquired by a bank (1) through the exercise of its rights as a secured party or (2) the acquisition of which is prohibited by the Bank Act must be disposed of within one year.

Restrictions on Shareholdings in Other Companies

Generally, banks may not own shares of another banking institution. In principle, a bank may not own more than 15% of outstanding shares with voting rights of another corporation, except, among other reasons, (1) where the corporation issuing such shares is engaged in a category of business provided by the FSC or where the acquisition of shares by such bank is necessary for corporate restructuring and is approved by the FSC and (2) where the total investment in the corporation by the bank does not exceed 15% of such bank's sum of Tier I and Tier II capital or where the acquisition satisfies the requirements as determined by the FSC.

Restrictions on Bank Ownership

Under the Bank Act, subject to certain exceptions, a single shareholder and persons who stand in a special relationship with such shareholder (as described in the Presidential Decree to such Act) may acquire beneficial ownership of up to 4% of a nationwide bank's total issued and outstanding shares with voting rights and up to 15% of a regional bank's total issued and outstanding shares with voting rights. The government of the Republic and KDIC are not subject to such ceiling. The ceilings do not apply to the following: (1) the acquisition of bank's shares by a foreign party, as defined in the Foreign Investment Promotion Act, that satisfy certain requirements provided in the Presidential Decree of the Bank Act, in which case such foreigner must report to the FSC when such foreigner acquires more than 4% and up to 10% of a nationwide bank's total issued and outstanding shares with voting rights and must obtain an approval from the FSC in each instance where the total holdings of the bank's shares by such foreigner exceeds 10% (in the case of a regional bank, 15%), 25% or 33% of a bank's total issued and outstanding shares with voting rights and (2) the acquisition of the shares of a bank, at the time of establishment, established by a foreigner, pursuant to the Presidential Decree, in which case such foreigner must obtain the approval from the FSC.

Deposit Insurance System

The Depositor Protection Act (Law No. 5042, December 29, 1995, as amended) provides, through a deposit insurance system, insurance for certain deposits of banks in Korea. Under the current rules, deposits made on or before July 31, 1998 are insured for their entire amount plus an agreed interest rate, and deposits made after July 31, 1998 that are more than ₩20 million are insured for their full amount but not for any interest. Starting January 1, 2001, the KDIC plans to insure only up to a total of ₩20 million for deposits and interest, regardless of when the deposits were made and the size of the deposits. Under the Depositor Protection Act, all banks governed by the Bank Act, including us, are required to pay to the KDIC an insurance premium at such rate as determined by the Presidential Decree to the Depositor Protection Act, which shall not exceed 0.5% of the bank's insurable deposits. The current insurance premium is 0.1% of insurable deposits. If the KDIC pays the insured amount, it will acquire the claims of the depositors within the payment amount.

Trust Business in Korea

A bank wishing to enter into the trust business must obtain the approval of the FSC. Trust activities of banks are governed by the Trust Act (Law No. 900, December 30, 1961, as amended) and the Trust Business Act (Law No. 945, December 31, 1961, as amended). Banks engaged in the banking business and trust business are subject to certain legal and accounting procedures requirements, including the following:

- Under the Bank Act, assets accepted in trust by a bank in Korea must be segregated from its other assets in the accounts of such bank. Accordingly, banks engaged in the banking and trust businesses must maintain two separate accounts, the ''Banking Accounts'' and the ''Trust Accounts'' and two separate sets of records which provide details of their banking and trust businesses, respectively, and
- Assets comprising the Trust Accounts are not available to depositors or other general creditors of such bank in a winding up.

With respect to each trust account of the Unspecified Money Trust for which a bank guarantees the principal amount or minimum yield thereon, the bank must make a special reserve of 25.0% or more of fees and commissions from each type of trust account until the total provision for each trust account equals 5.0% of the trust amount in such trust accounts.

In addition, a trustee bank must deposit with the court an amount equal to 0.1% of its capital until the aggregate amount of court deposits reaches 10.0% or more of its capital.

Laws and Regulations Governing Other Business Activities in Korea

To enter the foreign exchange business, a bank must register with the Ministry of Finance and Economy and foreign exchange business is governed by the Foreign Exchange Transaction Law (Law No. 5550, September 16, 1998, as amended). To enter the securities business, a bank must obtain the permission of the FSC and securities business is governed by regulations under the Securities and Exchange Act (Law No. 2920, December 22, 1976, as amended). Pursuant to the above mentioned laws, we are permitted to carry out foreign exchange business, securities repurchase business, governmental/public bonds underwriting business and governmental bonds dealing business.

Regulations Relating to Listing of the Global Depositary Shares on the Official List of the UK Listing Authority in the United Kingdom

The requirements for obtaining a listing on the Official List of the UK Listing Authority are contained in Part IV of the Financial Services Act 1986, as amended by the Public Offer of Securities Regulations 1995 and in the Listing Rules of the Financial Services Authority. A two stage admission process applies to companies who want to have their securities admitted to the markets of the London Stock Exchange for listed securities. The securities need to be admitted to the Official List of the UK Listing Authority and also admitted to trading by the London Stock Exchange. Once both processes are complete, the securities are officially listed on the London Stock Exchange. Once listed, the company is subject to a number of continuing obligations relating to the disclosure of price sensitive information and specific disclosures in respect of directors, the issue of audited annual reports and accounts and the notification of any acquisitions and disposals where the relevant thresholds are met.

Item 2. DESCRIPTION OF PROPERTY

Our registered office and corporate headquarters are located at 36-3, Yoido-dong, Youngdeungpo-gu, Seoul, 150-758 Korea. The office building has an area of approximately 39,650 square meters.

In addition, we own our training institute building which has an area of approximately 39,380 square meters and is located in Cheonan, Korea on a 196,649 square meter site. We also own our IT center in Seoul, Korea which has an area of approximately 14,230 square meters.

As of December 31, 1999, we had a country-wide network of 537 branches. 177 of these facilities are housed in buildings owned by us, while the 360 remaining branches are on leased properties. We also have a subsidiary in Hong Kong and branches in Tokyo, New York and London. We do not own any material properties outside of Korea.

The net book value of all the properties owned by us at December 31, 1999 was ₩322 billion.

Item 3. LEGAL PROCEEDINGS

We are involved in a number of legal proceedings in the ordinary course of our business. Excluding the legal proceedings discussed below, we and our subsidiaries are not a party to any proceedings and no proceedings are known by any of us or our subsidiaries to be contemplated by governmental authorities or third parties, which, if adversely determined, may have a material adverse effect on our consolidated financial condition or results of operations.

Following our acquisition of DongNam Bank, 1,104 former employees of DongNam brought a suit against us seeking to require us to employ them and to receive money damages. The claim is based on the argument that the acquisition of DongNam Bank was a business transfer in nature, triggering the requirement that all employees of DongNam be given the option to work with us after the acquisition. On May 25, 2000, Seoul District Court Southern Branch decided the case in our favor. However, the former employees of DongNam Bank appealed to the appellate court on June 12, 2000. If the case is ultimately decided against us, we could be forced to employ these former employees of DongNam and pay monetary damages. The amount of monetary damages we could be required to pay could be as much as ₩73 billion.

Item 4. CONTROL OF REGISTRANT

The following table presents information regarding the beneficial ownership of our shares at December 31, 1999, by each person known by us to own beneficially more than 10% of our outstanding shares.

Except as otherwise indicated, each shareholder identified by name has:

- sole voting and investment power with respect to its shares; and
- record and beneficial ownership with respect to its shares.

	Number of shares of common stock	Percent of total shares of common stock
The Government of Korea[1]	14,376,461	14.5
The Bank of New York[2]	12,995,701	13.1

(1) KDIC currently owns 17,790,000 shares of our preferred stock, which, unless repurchased by us, can be converted into common stock. See ''Item 9. Management's Discussion and Analysis of Financial Condition and Results of Operations — Overview — The Acquisition of DongNam Bank''.

(2) As depositary bank.

As of March 31, 1999, directors, including the Chairman, President and CEO, collectively owned 18,179 shares of our common stock and our officers, other than our Chairman, President and CEO, collectively own 17,693 shares of our common stock.

Other than as set forth above, no other person known by us to be acting in concert, directly or indirectly, jointly or separately, owned more than 10.0% of the outstanding common shares or exercised control or could exercise control over us as of December 31, 1999.

We entered into a strategic alliance with ING, one of the leading financing and banking firms in the world, on July 15, 1999. ING currently owns 9.99% of our shares of common stock which they acquired for ₩332 billion. In addition, ING has invested in Jooeun Investment Trust Management Co., Ltd., one of our subsidiaries. Furthermore, ING has both an executive director and a non-executive director on our board.

Item 5. NATURE OF TRADING MARKET

The Korean Securities Market

The Korea Stock Exchange

The Korea Stock Exchange began its operations in 1956. Currently it is the only stock exchange in Korea. It has a single trading floor located in Seoul. The Korea Stock Exchange is a non-profit making organization privately managed by its members, consisting of all Korean securities companies and some Korean branches of foreign securities companies.

As of December 31, 1999, the aggregate market value of equity securities listed on the Korea Stock Exchange was approximately Won 350 trillion. The average daily trading volume of equity securities for 1999 was approximately 279 million shares with an average transaction value of Won 3,482 billion.

The Korea Stock Exchange has the power in some circumstances to suspend trading in the shares of a given company or to de-list a security. The Korea Stock Exchange also restricts share price movements. All listed companies are required to file accounting reports annually and semiannually and to release immediately all information that may affect trading in a security.

The Government has in the past exerted, and continues to exert, substantial influence over many aspects of the private sector business community which can have the intention or effect of depressing or boosting the market. In the past, the Government has informally both encouraged and restricted the declaration and payment of dividends, induced mergers to reduce what it considers excess capacity in a particular industry and induced private companies to offer publicly their securities.

The Korea Stock Exchange publishes the Korea Composite Stock Price Index (KOSPI) every minute, which is an index of all equity securities listed on the Korea Stock Exchange. On January 1, 1983, the method of computing KOSPI was changed from the Dow Jones method to the aggregate value method. In the new method, the market capitalizations of all listed companies are aggregated, subject to certain adjustments, and this aggregate is expressed as a percentage of the aggregate market capitalization of all listed companies as of the base date, January 4, 1980.

Movements in KOSPI are set out in the following table together with the associated dividend yields and price earnings ratios.

	Opening	High	Low	Closing	Period Average: Dividend Yield(1) (percent)	Period Average: Price Earnings Ratio(2)
1979	131.28	131.28	104.38	118.97	17.8	3.8
1980	100.00	119.36	100.00	106.87	20.9	2.6
1981	97.95	165.95	93.14	131.37	13.2	3.1
1982	123.60	134.49	106.00	127.31	10.5	3.4
1983	122.52	134.46	115.59	121.21	6.9	3.8
1984	116.73	142.46	114.37	142.46	5.1	4.5
1985	139.53	163.37	131.40	163.37	5.3	5.2
1986	161.40	279.67	153.85	272.61	4.3	7.6
1987	264.82	525.11	264.82	525.11	2.6	10.9
1988	532.04	922.56	527.89	907.20	2.4	11.2
1989	919.61	1,007.77	844.75	909.72	2.0	13.9
1990	908.59	928.82	566.27	696.11	2.2	12.8
1991	679.75	763.10	586.51	610.92	2.6	11.2
1992	624.23	691.48	459.07	678.44	2.2	10.9
1993	697.41	874.10	605.93	866.18	1.6	12.7
1994	879.32	1,138.75	855.37	1,027.37	1.2	16.2
1995	1,013.57	1,016.77	847.09	882.94	1.2	16.4
1996	888.85	986.84	651.22	651.22	1.3	17.8
1997	653.79	792.29	350.68	376.31	1.5	17.0
1998	385.49	579.86	280.00	562.46	1.9	10.8
1999	587.57	1,028.07	498.42	1,028.07	1.1	13.5
2000 (through September 18, 2000)	1,059.04	1,059.04	577.56	577.56	2.0	17.4(3)

Source: The Korea Stock Exchange

(1) Dividend yields are based on daily figures. Before 1983, dividend yields were calculated at the end of each month. Dividend yields after January 3, 1984 include cash dividends only.

(2) The price earnings ratio is based on figures for companies that record a profit in the preceding year.

(3) Starting in 2000 the price earnings ratio includes all listed companies including those that did not record a profit in the preceding year.

Shares are quoted ‘‘ex-dividend’’ on the first trading day of the relevant company’s accounting period; since the calendar year is the accounting period for the majority of listed companies, this may account for the drop in KOSPI between its closing level at the end of one calendar year and its opening level at the beginning of the following calendar year.

With certain exceptions, principally to take account of a share being quoted ‘‘ex-dividend’’ and ‘‘ex-rights’’, permitted upward and downward movements in share prices on any day are limited under the rules of the Korea Stock Exchange to 15.0% of the previous day’s closing price of the shares, rounded down as set out below:

Previous Day’s Closing Price	Rounded Down to Won
Less than 5,000	5
5,000 to less than 10,000	10
10,000 to less than 50,000	50
50,000 to less than 100,000	100
100,000 to less than 500,000	500
500,000 or more ..	1,000

As a consequence, if a particular closing price is the same as the price set by the fluctuation limit, the closing price may not reflect the price at which persons would have been prepared, or would be prepared to continue, if so permitted, to buy and sell shares. Orders are executed on an auction system with priority rules to deal with competing bids and offers.

Due to a recent deregulation of restrictions on brokerage commission rates, the brokerage commission rate on equity securities transactions may be determined by the parties, subject to commission schedules being filed with the Korea Stock Exchange by the securities companies. In addition, a securities transaction tax will generally be imposed on the transfer of shares or certain securities representing rights to subscribe for shares. A special agricultural and fishery tax of 0.15% of the sales prices will also be imposed on transfer of these shares and securities on the Korea Stock Exchange. See ''Item 7. Taxation—Korea''.

The number of companies listed on the Korea Stock Exchange, the corresponding total market capitalization at the end of the periods indicated and the average daily trading volume for those periods are set forth in the following table:

	Market capitalization on the last day of each period			Average daily trading volume, value		
Year	**Number of Listed Companies**	**(Millions of Won)**	**(Thousands of Dollars)[1]**	**Thousands of Shares**	**(Millions of Won)**	**(Thousands of Dollars)[1]**
1979	355	2,609,414	5,391,351	5,382	4,579	4,641
1980	352	2,526,553	3,828,691	5,654	3,897	5,905
1981	343	2,959,057	4,224,207	10,565	8,708	12,433
1982	334	3,000,494	4,407,711	9,704	6,667	8,904
1983	328	3,489,654	4,386,743	9,325	5,941	7,468
1984	336	5,148,460	6,222,456	14,847	10,642	12,862
1985	342	6,570,404	7,380,818	18,925	12,315	13,834
1986	355	11,994,233	13,924,115	31,755	32,870	38,159
1987	389	26,172,174	33,033,162	20,353	70,185	88,584
1988	502	64,543,685	94,348,318	10,367	198,364	289,963
1989	626	95,476,774	140,489,660	11,757	280,967	414,431
1990	669	79,019,676	110,301,055	10,866	183,692	256,500
1991	686	73,117,833	96,182,364	14,022	214,263	281,850
1992	688	84,7171,982	107,502,515	24,028	308,246	391,175
1993	693	112,665,260	139,419,948	35,130	574,048	676,954
1994	699	151,217,231	191,729,721	36,862	776,257	984,223
1995	721	141,151,399	182,201,367	26,130	487,762	629,614
1996	760	117,369,988	139,031,021	26,571	486,834	575,733
1997	776	70,988,897	50,161,742	41,525	555,759	392,707
1998	748	137,798,451	114,090,455	97,716	660,429	471,432
1999	725	349,503,966	305,137,040	278,551	3,481,620	3,039,654
2000 (through September 25, 2000)	706	213,430,373	188,426,214	300,204	2,901,764	2,561,812

Source: The Korea Stock Exchange

(1) Converted at the Concentration Base Rate of The Bank of Korea or the Market Average Exchange Rate, as the case may be, at the end of the periods indicated.

The Korean securities markets are principally regulated by the FSC and the Securities and Exchange Act. The Securities and Exchange Act was amended fundamentally numerous times in recent years to broaden the scope and improve the effectiveness of official supervision of the securities markets. As amended, the law imposes restrictions on insider trading and price manipulation, requires specified information to be made available by listed companies to investors and establishes rules regarding margin trading, proxy solicitation, takeover bids, acquisition of treasury shares and reporting requirements for shareholders holding substantial interests.

Further Opening of the Korean Securities Market

A stock index futures market was opened on May 3, 1996, and a stock index option market was opened on July 7, 1997, in each case at the Korea Stock Exchange. Foreigners are permitted to invest in stock index futures and options without any investment ceiling. Remittance and repatriation of funds in connection with investment in stock index futures and options are subject to regulations similar to those that govern remittance and repatriation in the context of foreign investment in Korean stocks.

Starting from May 1, 1996, foreign investors were permitted to invest in warrants representing the right to subscribe for shares of a company listed on the Korea Stock Exchange or registered on the KOSDAQ, subject to certain investment limitations. A foreign investor may not acquire such warrants with respect to shares of a class of a company for which the ceiling on aggregate investment by foreigners has been reached or exceeded.

As of December 30, 1997, foreign investors were permitted to invest in all types of corporate bonds, bonds issued by national or local governments and bonds issued in accordance with certain special laws without being subject to any aggregate or individual investment ceiling. The FSC sets forth procedural requirements for such investments. The Government announced on February 8, 1998, its plans for the liberalization of the money market with respect to investment in money market instruments by foreigners in 1998. According to the plan, foreigners have been permitted to invest in money market instruments issued by corporations, including commercial paper, starting February 16, 1998, with no restrictions as to the amount. Starting May 25, 1998, foreigners have been permitted to invest in certificates of deposit and repurchase agreements.

Currently, foreigners are permitted to invest in certain securities including shares of all Korean companies which are not listed on the Korea Stock Exchange nor registered on the KOSDAQ and in bonds which are not listed.

Protection of Customer's Interest in Case of Insolvency of Securities Companies

Under Korean law, the relationship between a customer and a securities company in connection with a securities sell or buy order is deemed to be consignment and the securities acquired by a consignment agent (i.e., the securities company) through such sell or buy order are regarded as belonging to the customer in so far as the customer and the consignment agent's creditors are concerned. Therefore, in the event of a bankruptcy or reorganization procedure involving a securities company, the customer of the securities company is entitled to the proceeds of the securities sold by the securities company.

When a customer places a sell order with a securities company which is not a member of the Korea Stock Exchange and this securities company places a sell order with another securities company which is a member of the Korea Stock Exchange, the customer is still entitled to the proceeds of the securities sold received by the non-member company from the member company regardless of the bankruptcy or reorganization of the non-member company.

Under the Securities and Exchange Act, the Korea Stock Exchange is obliged to indemnify any loss or damage incurred by a counterparty as a result of a breach by its members. If a securities company which is a member of the Korea Stock Exchange breaches its obligation in connection with a buy order, the Korea Stock Exchange is obliged to pay the purchase price on behalf of the breaching member. Therefore, the customer can acquire the securities that have been ordered to be purchased by the breaching member.

When a customer places a buy order with a non-member company and the non-member company places a buy order with a member company, the customer has the legal right to the securities received by the non-member company from the member company because the purchased securities are regarded as belonging to the customer in so far as the customer and the non-member company's creditors are concerned.

As the cash deposited with a securities company is regarded as belonging to the securities company, which is liable to return the same at the request of its customer, the customer cannot take back deposited cash from the securities company if a bankruptcy or reorganization procedure is instituted against the securities company and, therefore, can suffer from loss or damage as a result. However, the Depositor Protection Act provides that the KDIC will, upon the request of the investors, pay investors an amount equal to the full amount of cash deposited with a securities company in case of the securities company's bankruptcy, liquidation, cancellation of securities business license or other insolvency events. However, this indemnification will be available only until the end of 2000. From 2001, the maximum amount to be paid to each customer of a securities company will be limited to ₩20 million. Pursuant to the Securities and Exchange Act, as amended, securities companies are required to deposit the cash received from its customers with the Korea Securities Finance Corporation, a special entity established pursuant to the Securities and Exchange Act. Set-off or attachment of cash deposits by securities companies is prohibited. The premiums related to this insurance are paid by securities companies.

Market Price Information and Trading Market

Our shares of common stock were listed on the Korea Stock Exchange, Korea on March 7, 1996. The Korea Stock Exchange is the principal trading market for our shares of common stock. The table below shows the high and low closing prices and the average daily volume of trading activity on the Korea Stock Exchange for our shares of common stock since January 1, 1998.

Period	High	Low	Average daily trading volume
	(₩)		(shares)
1998			
First Quarter	15,100	8,380	722,747
Second Quarter	10,050	4,510	748,664
Third Quarter	5,700	2,900	682,782
Fourth Quarter	16,000	3,400	2,306,968
1999			
First Quarter	28,900	13,400	1,272,832
Second Quarter	42,500	24,200	869,990
Third Quarter	38,000	23,500	771,676
Fourth Quarter	37,000	21,550	609,294
2000			
First Quarter(1)	37,650	19,700	781,393
Second Quarter	26,700	14,100	1,421,992
Third Quarter (through September 28, 2000)	27,800	20,950	711,696

(1) We issued 9,914,777 shares on March 20, 2000, as stock dividends to shareholders as of December 31, 1999. January 4, 2000, was the ex-rights date to adjust the market price for the stock dividends.

The sole trading market for our global depositary shares, each representing one share of our common stock, is the London Stock Exchange. As of December 31, 1999 there were 12,995,701 global depositary shares outstanding, which represented approximately 13.1% of our outstanding shares of common stock. As of June 30, 2000, approximately 5,206,694 of our global depositary shares were held by approximately 78 record holders in the United States. The table below shows the high and low closing prices and the average daily volume of trading activity on the London Stock Exchange for the global depositary shares since January 1, 1998.

Period	High	Low	Average daily trading volume
	(US$)		(GDRs)
1998			
First Quarter	9.11	4.81	213,460
Second Quarter	6.26	2.94	164,689
Third Quarter	3.78	1.87	326,964
Fourth Quarter	11.23	2.16	340,595
1999			
First Quarter	19.82	10.98	240,884
Second Quarter	32.44	18.18	203,188
Third Quarter	29.20	17.38	137,710
Fourth Quarter	29.75	16.67	56,818
2000			
First Quarter	31.95	17.50	47,883
Second Quarter	23.90	12.33	64,209
Third Quarter (through September 27, 2000)	24.73	19.48	59,890

We intend to conduct an exchange offer of American depositary shares, each representing one-half of one share of our common stock, for any and all of the outstanding global depositary shares and to de-list the global depositary shares from the Official List of the UK Listing Authority and to cancel our admission to trading on the London Stock Exchange following the completion of the exchange offer.

Item 6. EXCHANGE CONTROLS AND OTHER LIMITATIONS AFFECTING SECURITY HOLDERS

General

The Foreign Exchange Transaction Act and the Presidential Decree and regulations under that Act and Decree (collectively the ''Foreign Exchange Transaction Laws'') regulate investment in Korean securities by non-residents and issuance of securities outside Korea by Korean companies. Under the Foreign Exchange Transaction Laws non-residents may invest in Korean securities only to the extent specifically allowed by these laws or otherwise permitted by the Ministry of Finance and Economy. The FSC has also adopted, pursuant to its authority under the Korean Securities and Exchange Act, regulations that restrict investment by foreigners in Korean securities and regulate issuance of securities outside Korea by Korean companies.

Under the Foreign Exchange Transaction Laws, if the Government deems that certain emergency circumstances, including, but not limited to, sudden fluctuations in interest rates or exchanges rates, extreme difficulty in stabilizing the balance of payments or a substantial disturbance in the Korean financial and capital markets, are likely to occur, it may impose any necessary restrictions such as requiring foreign investors to obtain prior approval from the Minister of Finance and Economy for the acquisition of Korean securities or for the repatriation of dividends or sales proceeds arising from Korean securities or from disposition of the securities.

Government Review of Issuance of American Depositary Shares

In order for us to issue shares represented by American depositary shares in an amount exceeding US$50 million, we are required to file a prior report of the issuance with the Ministry of Finance and Economy. No further Korean governmental approval is necessary for the initial offering and issuance of the American depositary shares.

In order for a depositary to acquire any existing shares from holders of the shares other than from us, for the purpose of issuing depositary receipts representing the shares, the depositary would be required to obtain our consent. We can give no assurance that we would grant our consent. Therefore, a holder of American depositary receipts who surrenders American depositary receipts and withdraws shares may not be permitted subsequently to deposit those shares and obtain American depositary receipts.

Reporting Requirements for Holders of Substantial Interests

Any person whose direct or beneficial ownership of shares having voting rights whether in the form of shares or American depositary shares, certificates representing the rights to subscribe for shares and equity-related debt securities including convertible bonds and bonds with warrants (collectively, the ''Equity Securities'') together with the Equity Securities beneficially owned by certain related persons or by any person acting in concert with the person accounts for 5% or more of the total outstanding Equity Securities is required to report the status of the holdings to the FSC and the Korea Stock Exchange within five business days after the reaching the 5% ownership interest. In addition, any change in the ownership interest subsequent to the report which equals or exceeds 1% of the total outstanding Equity Securities is required to be reported to the FSC and the Korea Stock Exchange within five business days from the date of the change.

Violation of these reporting requirements may subject a person to criminal sanctions such as fines or imprisonment and may result in a loss of voting rights with respect to the ownership of Equity Securities exceeding 5%. Further, the FSC may issue an order to dispose of non-reported Equity Securities.

Restrictions Applicable to American Depositary Shares

No Korean governmental approval is necessary for the sale and purchase of American depositary shares in the secondary market outside Korea or for the withdrawal of shares underlying American depositary shares and the delivery inside Korea of shares in connection with the withdrawal, provided that a foreigner who intends to acquire the shares must obtain an investment registration card from the FSS as described below. The acquisition of the shares by a foreigner must be reported by the foreigner or his standing proxy in Korea immediately to the Governor of the FSS.

Persons who have acquired shares as a result of the withdrawal of shares underlying the American depositary shares may exercise their preemptive rights for new shares, participate in free distributions and receive dividends on shares without any further governmental approval.

Restrictions Applicable to Shares

As a result of amendments to the Foreign Exchange Transaction Laws and FSC regulations (together, the ‘‘Investment Rules’’) adopted in connection with the stock market opening from January 1992 and after that date, foreigners may invest, with limited exceptions and subject to procedural requirements, in all shares of Korean companies, whether listed on the Korea Stock Exchange or registered on the KOSDAQ, unless prohibited by specific laws. Foreign investors may trade shares listed on the Korea Stock Exchange or registered on the KOSDAQ only through the Korea Stock Exchange or the KOSDAQ, except in limited circumstances, including:

- odd-lot trading of shares;
- acquisition of shares (‘‘Converted Shares’’) by exercise of warrant, conversion right under convertible bonds or withdrawal right under depositary receipts issued outside of Korea by a Korean company;
- acquisition of shares as a result of inheritance, donation, bequest or exercise of shareholders’ rights, including preemptive rights or rights to participate in free distributions and receive dividends; and
- over-the-counter transactions between foreigners of a class of shares for which the ceiling on aggregate acquisition by foreigners, as explained below, has been reached or exceeded.

For over-the-counter transactions of shares between foreigners outside the Korea Stock Exchange or the KOSDAQ for shares with respect to which the limit on aggregate foreign ownership has been reached or exceeded, a securities company licensed in Korea must act as an intermediary. Odd-lot trading of shares outside the Korea Stock Exchange or the KOSDAQ must involve a licensed securities company in Korea as the other party. Foreign investors are prohibited from engaging in margin transactions with respect to shares which are subject to a foreign ownership limit.

The Investment Rules require a foreign investor who wishes to invest in shares on the Korea Stock Exchange or the KOSDAQ (including Converted Shares) to register its identity with the FSS prior to making any such investment; however, the registration requirement does not apply to foreign investors who acquire Converted Shares with the intention of selling such Converted Shares within three months from the date of acquisition of the Converted Shares. Upon registration, the FSS will issue to the foreign investor an investment registration card which must be presented each time the foreign investor opens a brokerage account with a securities company. Foreigners eligible to obtain an investment registration card include foreign nationals who are individuals residing abroad for more than six months, foreign governments, foreign municipal authorities, foreign public institutions, international financial institutions or similar international organizations, corporations incorporated under foreign laws and any person in any additional category designated by decree of the Ministry of Finance and Economy under the Securities and Exchange Act. All Korean offices of a foreign corporation as a group are treated as a separate foreigner from the offices of the corporation outside Korea. However, a foreign branch of a Korean securities company, a foreign corporation or depositary issuing depositary receipts may obtain one or more investment registration cards in its name in certain circumstances as described in the relevant regulations.

Upon a foreign investor's purchase of shares through the Korea Stock Exchange or the KOSDAQ, no separate report by the investor is required because the investment registration card system is designed to control and oversee foreign investment through a computer system. However, a foreign investor's acquisition or sale for shares outside the Korea Stock Exchange or the KOSDAQ (as discussed above) must be reported by the foreign investor or his standing proxy to the Governor of the FSS at the time of each such acquisition or sale; provided, however, that a foreign investor must ensure that any acquisition or sale by it of shares outside the Korea Stock Exchange or the KOSDAQ in the case of trades in connection with a tender offer, odd-lot trading of shares or trades of a class of shares for which the aggregate foreign ownership limit has been reached or exceeded, is reported to the Governor of the FSS by the securities company engaged to facilitate such transaction. A foreign investor must appoint one or more standing proxies from among the Korea Securities Depository, foreign exchange banks, including domestic branches of foreign banks, and securities companies, including domestic branches of foreign securities companies, which will act as a standing proxy to exercise shareholders' rights or perform any matters related to the foregoing activities if the foreign investor does not perform these activities himself. However, a foreign investor may be exempted from complying with these standing proxy rules with the approval of the Governor of the FSS in cases deemed inevitable by reason of conflict between laws of Korea and the home country of the foreign investor.

Certificates evidencing shares of Korean companies must be kept in custody with an eligible custodian in Korea. Only foreign exchange banks, including domestic branches of foreign banks, securities companies, including domestic branches of foreign securities companies and the Korea Securities Depository are eligible to act as a custodian of shares for a non-resident or foreign investor. A foreign investor must ensure that his custodian deposits its shares with the Korea Securities Depository. However, a foreign investor may be exempted from complying with this deposit requirement with the approval of the Governor of the FSS in circumstances where compliance with that requirement is made impracticable; including cases where compliance would contravene the laws of the home country of such foreign investor.

Under the Investment Rules, with certain exceptions, foreign investors may acquire shares of a Korean company without being subject to any foreign investment ceiling. As one such exception, designated public corporations are subject to a 30% ceiling on the acquisition of shares by foreigners in the aggregate. Designated public corporations may set a ceiling on the acquisition of shares by a single person within 3% of the total number of shares. Furthermore, an investment by a foreign investor of not less than 10% of the outstanding shares having voting rights of a Korean company is defined as a direct foreign investment under the Foreign Investment Promotion Law, which is, in general, subject to the report to, and acceptance, by the Ministry of Commerce, Industry and Energy. The acquisition of shares of a Korean company by a foreign investor may also be subject to certain foreign shareholding restrictions in the event that the restrictions are prescribed in each specific law which regulates the business of the Korean company.

Under the Foreign Exchange Transaction Laws, a foreign investor who intends to acquire shares must designate a foreign exchange bank at which he must open a foreign currency account and a Won account exclusively for stock investments. No approval is required for remittance into Korea and deposit of foreign currency funds in the foreign currency account. Foreign currency funds may be transferred from the foreign currency account at the time required to place a deposit for, or settle the purchase price of a stock purchase transaction to a Won account opened at a securities company. Funds in the foreign currency account maybe remitted abroad without any governmental approval.

Dividends on shares are paid in Won. No governmental approval is required for foreign investors to receive dividends on, or the Won proceeds of the sale of, any shares to be paid, received and retained in Korea. Dividends paid on, and the Won proceeds of the sale of, any shares held by a non-resident of Korea must be deposited either in a Won account with the investor's securities company or his Won Account. Funds in the investor's Won Account may be transferred to his foreign currency account or withdrawn for local living expenses up to certain limitations. Funds in the Won Account may also be used for future investment in shares or for payment of the subscription price of new shares obtained throughout the exercise of preemptive rights.

In 1995, designated securities companies were allowed to open foreign currency accounts and Won accounts with foreign exchange banks exclusively for accommodating foreign investor's stock investments in Korea. Through these accounts, these designated securities companies may enter into foreign exchange transactions on a limited basis, such as conversion of foreign currency funds and Won funds, either as a counterparty to or on behalf of foreign investors, without the investors having to open their own accounts with foreign exchange banks.

Item 7. TAXATION

United States

Certain United States Federal Income Tax Considerations

Except as described below under the heading ''Non-US Holders,'' the following discussion is a summary of certain material US federal income tax considerations that may be relevant to you if you invest in the American depositary shares and are a US holder. You will be a US holder if you are an individual who is a citizen or resident of the United States, a US domestic corporation, or any other person that is subject to US federal income tax on a net income basis in respect of an investment in the American depositary shares. This summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase the American depositary shares. In particular, this summary deals only with US holders that are eligible for a reduction of Korean withholding tax on dividends and the elimination of Korean withholding tax on capital gains under the US-Korea Tax Treaty (as defined in ''Korean Taxation'') and that will hold the American depositary shares as capital assets. It does not address considerations that may be relevant to you if you are an investor that is subject to special tax rules, such as a bank, thrift, real estate investment trust, regulated investment company, insurance company, dealer in securities or currencies, trader in securities or commodities that elects mark-to-market treatment, person that will hold the American depositary shares as a hedge against currency risk or as a position in a ''straddle'' or conversion transaction, tax-exempt organization, person whose ''functional currency'' is not the Dollar, or person that owns, directly or indirectly, 10% or more of our voting stock.

This summary is based on laws, regulations, rulings, and decisions now in effect, all of which may change. Any change could apply retroactively and could affect the continued validity of this summary.

You should consult your tax advisors about the tax consequences of holding the American depositary shares, including the relevance to your particular situation of the considerations discussed below, as well as the relevance to your particular situation of state, local, or other tax laws.

For US federal income tax purposes, US holders of the American depositary shares generally will be treated as the owners of the shares of common stock represented by those American depositary shares.

Taxation of Dividends

Dividends, if any, paid out of our current or accumulated earnings and profits (as determined for US federal income tax purposes) with respect to the American depositary shares will be includable in your gross income on the day such dividends are received by the depositary bank. Such dividends will not be eligible for the dividends received deduction allowed to US corporations in respect of dividends from a domestic corporation. Dividends paid in Won will be includable in your gross income in a Dollar amount calculated by reference to the exchange rate in effect on the day the depositary bank receives the dividend. If dividends paid in Won are converted into Dollars on the day they are received by the depositary bank, you generally should not be required to recognize any foreign currency gain or loss. You should consult your own tax advisors regarding the treatment of foreign currency gain or loss, if any, on any dividends paid in Won that are converted into Dollars on a date subsequent to the date of receipt.

In the event we pay any dividends, such dividends payable to US holders will constitute income from sources without the United States for US foreign tax credit purposes, and generally will constitute ''passive income'' or, in the case of certain US holders, ''financial services income''.

Korean withholding tax at the applicable treaty rate will be treated as a foreign income tax that, subject to generally applicable limitations under US federal income tax law, is eligible for credit against your US federal income tax liability or, at your election, may be deducted in computing your taxable income. Foreign tax credits will not be allowed for withholding taxes imposed in respect of certain short-term or hedged positions and arrangements in which the holder's expected economic profit, after non-US taxes, is insubstantial. You should consult your tax advisors concerning the implications of these rules in the light of your particular circumstances.

Distributions of shares of common stock that you receive as part of a *pro rata* distribution to all shareholders generally will not be subject to US federal income tax.

Sale, Exchange, or Other Disposition of the American Depositary Shares

Gain or loss that you realize on the sale, exchange, or other disposition of the American depositary shares will be subject to US federal income taxation as capital gain or loss in an amount equal to the difference between your adjusted basis in the American depositary shares and the amount realized on the disposition. Such gain or loss generally will be long-term capital gain or loss if you held the American depositary shares for more than one year. Long-term capital gain realized by an individual US holder is generally subject to a maximum tax rate of 20.0%.

Deposits and withdrawals of shares of common stock by US holders in exchange for American depositary shares will not result in the realization of gain or loss for US federal income tax purposes.

Non-US Holders

If you are a non-US holder of the American depositary shares, you generally will not be subject to US federal income or withholding tax on dividends received on such American depositary shares unless such income is effectively connected with your conduct of a trade or business in the United States. You will be a non-US holder if you are a holder of the American depositary shares that is, with respect to the United States, a foreign corporation or a nonresident alien individual. If you are a non-US holder of the American depositary shares, you will also generally not be subject to US federal income or withholding tax in respect of gain realized on the sale, exchange, or other disposition of such American depositary shares, unless (i) such gain is effectively connected with your conduct of a trade or business in the United States or (ii) in the case of gain realized by an individual non-US holder, you are present in the United States for 183 days or more in the taxable year of the sale and certain other conditions are met.

Information Reporting and Backup Withholding

Payments or other taxable distributions in respect of the American depositary shares that are made in the United States or by a US related financial intermediary will be subject to US information reporting rules. If you are a United States person, you generally will not be subject to a 31.0% United States backup withholding tax on such payments if you are a corporation or other exempt recipient or you provide your taxpayer identification number and certify that no loss of exemption from backup withholding has occurred. United States persons may also be subject to information reporting and backup withholding tax requirements with respect to the proceeds from a sale of the American depositary shares. If you are not a United States person, you may have to comply with certification procedures to establish that you are not a United States person in order to avoid information reporting and backup withholding tax requirements.

Korea

The following summary of Korean tax considerations applies to you so long as you are not:

- a citizen of Korea;

- a resident of Korea;
- a corporation organized under Korean law; or
- engaged in a trade or business in Korea through a permanent establishment or a fixed base.

Dividends on Shares of Common Stock or American Depositary Shares

We will deduct Korean withholding tax from dividends paid to you at a rate of 27.5%. If you are a resident of a country that has entered into a tax treaty with Korea, you may qualify for a reduced rate of Korean withholding tax. For example, if you are a qualified resident of the United States for purposes of the income tax treaty currently in effect between Korea and the United States and you are the ‘‘beneficial owner’’ of a dividend, a reduced withholding tax rate of 16.5% or 11.0%, depending on your shareholding ratio, will apply. You will not be entitled to claim treaty benefits if you are not the beneficial owner of a dividend.

In order to obtain the benefits of a reduced withholding tax rate under a tax treaty, you must submit to us, prior to the dividend payment date, such evidence of tax residence as may be required by the Korean tax authorities. Evidence of tax residence may be submitted to us through the depositary bank. Excess taxes withheld may not be recoverable even if you subsequently produce evidence that you were entitled to have tax withheld at a lower rate.

If we distribute to you free shares representing a transfer of certain capital reserves or asset revaluation reserves into paid-in-capital, that distribution may be subject to Korean tax.

Taxation of Capital Gains

You may be exempt from Korean taxation on capital gains recognized from the sale of our shares, unless you have owned, together with certain related parties 25% or more of our total issued and outstanding shares of common stock at any time during the year of sale and the five calendar years before the year of sale. As for the American depositary shares, the Korean taxation authorities have issued a tax ruling confirming that capital gains earned by a non-Korean holder from the transfer of American depositary shares outside of Korea are exempt from Korean taxation.

If you are subject to tax on capital gains with respect to the sale of American depositary shares, or of shares of common stock which you acquired as a result of a withdrawal, your gain will be calculated based on your cost of acquiring the American depositary shares representing the shares of common stock although there are no specific Korean tax provisions or rulings on this issue. In the absence of the application of a tax treaty which exempts or reduces the rate of tax on capital gains, the amount of Korean tax imposed on your capital gains will be the lesser of 27.5% of the net capital gains or 11.0% of the gross realization proceeds for transactions.

If you sell your shares of common stock or American depositary shares, the purchaser or, in the case of the sale of shares of common stock on the Korea Stock Exchange or through a licensed securities company in Korea, the licensed securities company, is required to withhold Korean tax from the sales price in an amount equal to 11.0% of the gross realization proceeds and to make payment of these amount to the Korean tax authority, unless you establish your entitlement to an exemption or lower rate of taxation under an applicable tax treaty or produce satisfactory evidence of your acquisition cost for the American depositary shares. To obtain the benefit of an exemption or reduced rate of tax pursuant to a tax treaty, you must submit to the purchaser or the securities company, or through the depositary bank, as the case may be, prior to or at the time of payment, such evidence of your tax residence as the Korean tax authorities may require in support of your claim for treaty protection. Excess taxes withheld may not be recoverable even if you subsequently produce evidence that you were entitled to have taxes withheld at a lower rate.

Inheritance Tax and Gift Tax

If you die while holding an American depositary share or donate an American depositary share, if is unclear whether, for Korean inheritance and gift tax purposes, you will be treated as the owner of the shares of common stock underlying the American depositary shares. If you are treated as the owner of the shares of common stock, your heir or the donee (or in certain circumstances, you as the donor) will be subject to Korean inheritance or gift tax presently at the rate of 10.0% to 50.0%; provided that the value of the American depositary shares is greater than a specified amount.

If you die while holding a share of common stock or donate a share of common stock, your heir or donee (or in certain circumstances, you as the donor) will be subject to Korean inheritance or gift tax at the same rate as indicated above.

Securities Transaction Tax

You will not pay a securities transaction tax on your transfer of American depositary shares. If you transfer shares of common stock, you will be subject to a securities transaction tax at the rate of 0.15% and an agriculture and fishery special tax at the rate of 0.15% of the sale price of the shares of common stock when traded on the Korea Stock Exchange. If your transfer is not made on the Korea Stock Exchange, subject to certain exceptions, you will be subject to a securities transaction tax at the rate of 0.5% and will not be subject to an agriculture and fishery special tax.

Item 8. SELECTED FINANCIAL DATA

Selected Consolidated Financial and Operating Data Under US GAAP

The selected consolidated financial and operating data set forth below for the years ended December 31, 1998 and 1999 and as of December 31, 1998 and 1999 have been derived from our consolidated financial statements which have been prepared in accordance with US GAAP. Our consolidated US GAAP financial statements have been audited by PricewaterhouseCoopers LLP, independent accountants.

You should read the following data with the more detailed information contained in ''Management's Discussion and Analysis of Financial Condition and Results of Operations'' and our consolidated financial statements, included herein. Historical results do not necessarily predict the future.

Consolidated income statement data

	Year ended December 31,		
	1998	1999	1999(1)
	(in ₩ billion, except per common share data)		(in US$ million, except per common share data)
Interest and dividend income	4,580	4,257	3,747
Interest expense	(3,200)	(2,817)	(2,480)
Net interest income	1,380	1,440	1,267
Provision for loan losses, guarantees and acceptances	(396)	(298)	(262)
Non-interest income	531	728	641
Non-interest expense	(1,283)	(1,062)	(935)
Income tax expense	(102)	(267)	(235)
Minority interest	(2)	—	—
Net income	128	541	476
Per common share data:			
Net income—basic (in ₩/US$)(2)	1,425	5,289	4.66
Net income—diluted (in ₩/US$)(3)(4)	1,416	3,338	2.97
Weighted average common shares outstanding—basic (in thousands of common shares)	89,793	102,220	—
Weighted average common shares outstanding—diluted (in thousands of common shares) (in thousands of common shares)	90,303	161,969	—
Cash dividend declared per common share (₩/US$)(5)	500	—	—

(1) Won amounts are expressed in US dollars at the rate of ₩1,136/US$, the noon buying rate in effect on December 31, 1999.

(2) Basic earnings per share is calculated by dividing the net income applicable to common shares outstanding by the weighted average number of common shares outstanding for the period.

(3) Diluted earnings per share is computed using the same method as basic earnings per share, but reflects the potential dilution that could occur if convertible securities or other contracts to issue common stock were converted or exercised into common stocks. Also, for purposes of diluted earnings per share, net income available for common stock is adjusted, if applicable, for any convertible preferred stock dividends, convertible debt interest or any other changes in income that could result from the assumed conversion of securities and other contracts. We have two categories of dilutive potential common shares: shares issuable upon exercise of share options granted to employees and shares issuable upon conversion of convertible preferred shares.

(4) In the diluted earnings per share calculation, the convertible preferred shares are assumed to have been converted into common shares and the net profit is adjusted to eliminate the applicable dividend. For the share options, a calculation is done to determine the number of shares that could have been acquired at market price (determined as the average annual share price of the out shares) based on the monetary value of the subscription rights attached to outstanding share options. This calculation serves to determine the ‘‘unpurchased’’ shares to be added to the common shares outstanding for the purpose of computing the dilution; for the share options calculation, no adjustment is made to net profit.

(5) US GAAP requires that dividends are recorded in the period in which they are declared rather than the period to which they relate unless these are the same.

Consolidated balance sheet data

	As of December 31,		
	1998	1999	1999(1)
	(in ₩ billion)		(in US$ million)
Cash and deposits	1,871	1,599	1,408
Restricted deposits	663	931	820
Call loans and securities purchased under resale agreements	467	76	67
Trading assets	1,184	2,371	2,087
Securities available for sale	7,768	4,360	3,838
Held-to-maturity securities	225	2,660	2,341
Loans, net	25,110	30,869	27,174
Premises and equipment, net	677	745	655
Other assets	2,372	1,666	1,467
Total assets	40,337	45,277	39,857
Deposits	27,544	33,379	29,383
Short-term borrowings	3,058	2,379	2,094
Secured borrowings	—	84	74
Long-term debt	4,759	4,071	3,584
Other liabilities	3,867	3,608	3,176
Total liabilities	39,228	43,521	38,311
Minority interest	6	—	—
Stockholders' equity	1,103	1,756	1,546
Total liabilities, minority interest and stockholders' equity	40,337	45,277	39,857

(1) Won amounts are expressed in US dollars at the rate of ₩1,136/US$, the noon buying rate in effect on December 31, 1999.

Profitability ratios

	As of December 31,	
	1998	1999
	(percentages)	
Net income as a percentage of:		
Average total assets(1)	0.34	1.29
Average stockholders' equity(1)	14.98	34.61
Dividend payout ratio(2)	25.11	—
Net interest spread(3)	3.28	3.15
Net interest margin(4)	3.88	3.62
Cost-to-income ratio(5)	67.16	48.97
Cost-to average assets ratio(6)	3.41	2.53

(1) Average balances are based upon quarterly balances.
(2) Represents the ratio of total dividends paid on common stock as a percentage of net income. The stock dividend was paid in 2000 and therefore is excluded from the 1999 ratio calculation.
(3) Represents the difference between the yield on average interest earning assets and cost of average interest bearing liabilities.
(4) Represents the ratio of net interest income to average interest earning assets.
(5) Represents the ratio of non-interest expense to the sum of net interest income and non-interest income.
(6) Represents the ratio of non-interest expense to average total assets.

Capital ratios

	As of December 31, 1998	As of December 31, 1999
	(percentages)	
Total capital adequacy (BIS) ratio for H&CB[(1)]	10.79	11.74
Tier 1 capital adequacy ratio	5.64	6.93
Tier 2 capital adequacy ratio	5.15	4.81
Average stockholders' equity as a percentage of average total assets	2.27	3.72

(1) Our capital adequacy ratios are computed in accordance with the guidelines issued by the FSC. The computation is based on our consolidated financial statements prepared in accordance with Korean GAAP. See ''Item 9. Management's Discussion and Analysis of Financial Condition and Results of Operations—Financial Condition—Capital''.

Asset quality ratios

	As of December 31, 1998	As of December 31, 1999
	(percentages)	
Non-performing loans as a percentage of total loans[(1)]	9.97	7.59
Non-performing loans as a percentage of total assets[(1)]	6.47	5.35
Allowance for loan losses as a percentage of non-performing loans	47.91	52.75
Allowance for loan losses as a percentage of total loans	4.78	4.01

(1) Non-performing loans are defined as those loans which are past due more than 90 days.

Selected Statistical Information

Average Balance Sheet and Related Interest

The following table shows our average balances and interest rates for the past two years.

	Year ended December 31, 1998			1999		
	Average Balance[(1)]	Interest Income[(2)(3)(5)]	Average Yield	Average Balance[(1)]	Interest Income[(2)(3)(5)]	Average Yield
	(in ₩ billion, except percentages)					
Assets						
Cash and interest-bearing deposits in other banks	1,420	122	8.59%	1,327	104	7.84%
Call loans and securities purchased under resale agreements	981	160	16.31	416	25	6.01
Trading securities[(6)]	214	12	5.61	1,501	130	8.66
Investment securities[(4)(6)]	5,953	766	12.63	7,585	676	9.20
Loans						
Credit Cards	811	138	17.02	947	165	17.42
Construction loans	1,848	259	14.02	1,776	212	11.94
Households—residential mortgages	16,125	2,103	13.04	16,093	1,938	12.04
Households—other consumer loans	2,074	320	15.43	4,338	513	11.83
Corporate—other	5,742	652	11.35	5,421	463	8.54
Other interest-earning assets	379	48	12.66	374	31	8.29
Total average interest-earning assets	35,547	4,580	12.88	39,778	4,257	10.70
Cash and due from banks	1,025			1,169		
FX contracts and derivatives	99			94		
Premises and equipment	676			731		
Due from customers on acceptance	403			265		
Loan loss allowance	(761)			(1,285)		
Other non-interest earning assets	623			1,219		
Total average non-interest earning assets	2,065			2,193		
Total average assets	37,612	4,580	12.18	41,971	4,257	10.14

	Year ended December 31,					
	1998			1999		
	Average Balance(1)	Interest Income(5)	Average Yield	Average Balance	Interest Income(5)	Average Yield
	(in ₩ billion, except percentages)					
Liabilities						
Interest bearing Liabilities						
Deposits						
Demand deposits	4,571	155	3.39%	6,370	169	2.65%
Certificate of deposits	704	108	15.34	63	4	6.35
Time deposits	13,580	1,474	10.85	18,159	1,599	8.81
Savings deposits	473	28	5.92	777	31	3.99
Mutual installment deposits	5,645	550	9.74	4,957	474	9.56
Call money	665	67	10.08	383	19	4.96
Borrowings from BOK	1,403	158	11.26	485	16	3.30
Other short-term borrowings	1,874	212	11.31	1,436	121	8.43
Long-term debt	4,417	448	10.14	4,646	384	8.27
Total average interest-bearing liabilities	33,332	3,200	9.60	37,276	2,817	7.56
Non Interest bearing liabilities						
Demand deposits	92			124		
FX contracts and derivatives	105			11		
Acceptances to customers	403			265		
Other non-interest bearing liabilities	2,826			2,733		
Total average non-interest bearing liabilities	3,426			3,133		
Total average liabilities	36,758	3,200	8.71	40,409	2,817	6.97
Stockholders' equity	854			1,562		
Total Liabilities and equity	37,612	3,200	8.51	41,971	2,817	6.71

(1) Average balances are based upon quarterly balances.
(2) The amount of loan fees included in the interest income computation are ₩699 million for the year ended December 31, 1999, and ₩268 million for the year ended December 31, 1998.
(3) Interest income figures include interest income on non-accruing loans.
(4) Average yield information about investments available for sale has been computed using amortized cost balances, and therefore does not give effect to changes in fair value that are reflected as a component of stockholders' equity.
(5) Interest income and expense have been stated after allocation of interest on instruments entered into for hedging purposes.
(6) We do not invest in tax-exempt securities.

The following table presents the net interest spread, net interest margin, and asset liability ratio.

	Year ended December 31,	
	1998	1999
Net interest spread(1)	3.28%	3.15%
Net interest margin(2)	3.88%	3.62%
Asset liability ratio(3)	106.65%	106.71%

(1) The difference between the rate of interest earned on average interest-earning assets and the rate of interest paid on average interest-bearing liabilities.
(2) The ratio of net interest income to average interest-earning assets.
(3) The ratio of average interest-earning assets to interest-bearing liabilities.

Analysis of Changes in Net Interest Income—Volume and Rate Analysis

The following table provides an analysis of changes in interest income, interest expense and net interest income between changes in volume and changes in rates for 1999 compared to 1998. Volume and rate variances have been calculated on the movement in average balances and the change in the interest rates on average interest-earning assets and average interest-bearing liabilities in proportion to absolute volume and rate change.

The variance caused by the change in both volume and rate has been allocated in proportion to the absolute volume and rate change.

	Fiscal 1999 vs. Fiscal 1998		
	Increase / (decrease) due to changes in		
	Volume	Rate	Total
		(in ₩ billion)	
Interest-earning assets			
Cash and interest-earning deposits	(10)	(8)	(18)
Call loans and securities purchased under resale agreements	(64)	(71)	(135)
Trading securities	108	10	118
Investment securities	144	(234)	(90)
Loans			
Credit cards	24	3	27
Construction loans	(10)	(37)	(47)
Households—residential mortgages	(4)	(161)	(165)
Households—other consumer loans	282	(89)	193
Commercial and industrial	(35)	(154)	(189)
Other interest earning assets	(1)	(16)	(17)
Total interest income	434	(757)	(323)
Interest-bearing liabilities			
Deposits			
Demand deposits	52	(38)	14
Certificate of deposits	(63)	(41)	(104)
Other time deposits	437	(312)	125
Savings deposits	14	(11)	3
Mutual installment deposits	(66)	(10)	(76)
Call money and securities sold under repurchase agreements	(22)	(26)	(48)
Borrowings from BOK	(68)	(74)	(142)
Other short-term borrowings	(44)	(47)	(91)
Long-term debt	25	(89)	(64)
Total interest expense	265	(648)	(383)
Total net interest income	169	(109)	60

Exchange Rates

The following table sets forth, for the periods indicated, certain information concerning the exchange rate for Won based on the noon buying rate in New York City for cable transfers in Won as certified for customs purposes by the Federal Reserve Bank of New York, expressed in Won per US dollars.

Year ended December 31,	At end of period	Average rate[1]	High	Low
		(₩ per US$1.00)		
1995	776	771	798	759
1996	848	808	849	776
1997	1,695	988	1,960	846
1998	1,206	1,405	1,812	1,196
1999	1,136	1,189	1,243	1,123

(1) The average of the noon buying rates on the last business day of each month during the relevant period (or portion thereof).

We have translated certain Won amounts which appear in this document into dollars for convenience. This does not mean that the Won amounts referred to could have been, or could be, converted into dollars at any particular rate, the rates stated above, or at all. Except in the section on ''The Korean Banking Industry'', which is based on publicly available data, all translations from Won to dollars are based on the noon buying rate in effect on December 31, 1999, which was ₩1,136 to US$1.00. The noon buying rate on September 28, 2000 was 1,115.90 per US$1.00. The exchange rates used for convenience translations differ from the actual rates used in the preparation of our consolidated financial statements.

Dividends

Dividends must be approved by the shareholders at the annual general meeting of shareholders which is held within three months of the end of the fiscal year. Cash dividends may be paid out of retained earnings that have not been appropriated to statutory reserves. See ''Item 14. Description of the Securities to be Registered—Description of Capital Stock—Dividends''.

The table below sets forth, for the periods indicated, the dividend per share of common stock and the total amount of dividends payable in Won and US dollars, using the noon buying rate in effect on the date the dividends were approved. The dividends set out for each of the years below were paid in the immediately following year.

Fiscal year	Dividends per share to government	Dividends per share to public	Average dividend per share	Total amount of cash dividends declared	
				(in ₩ billion)	(in US$million)
1995	₩250(US$0.32)	₩250(US$0.32)	₩250(US$0.32)	6	7
1996	₩500(US$0.57)	₩600(US$0.68)	₩550(US$0.63)	17	19
1997	₩500(US$0.30)	₩500(US$0.30)	₩500(US$0.30)	32	19
1998	₩0(US$0)	₩0(US$0)	₩0(US$0)	0	0
1999	₩150(US$0.13), plus 10% in share dividends	₩150(US$0.13), plus 10% in share dividends	₩150(US$0.13), plus 10% in share dividends	15	13

Future dividends will depend upon our revenues, cash flow, financial condition and other factors. As an owner of American depositary shares, you will be entitled to receive dividends payable in respect of the shares of common stock represented by such American depositary shares. See ''Item 14. Description of Securities to be Registered—Description of the American Depositary Shares'' for a description of the payment and distribution of dividends.

For a description of the tax consequences of dividends paid to our shareholders, see ''Item 7. Taxation—United States—Taxation of Dividends'' and ''Item 7. Taxation—Korea—Dividends on Shares of Common Stock or American Depositary Shares''.

Item 9. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations together with our consolidated financial statements included in this document. The following discussion is based on our consolidated financial statements, which have been prepared in accordance with US GAAP.

Overview

The Korean Economy

Our financial position and recent results of operations have been and continue to be significantly impacted by financial and economic conditions in Korea. In 1997 and 1998, Korea experienced a severe financial and economic downturn from which it has yet to fully recover. The downturn was characterized by, among other things, significant corporate failures, instability in the financial sector, credit and liquidity concerns and volatility in the domestic financial and currency markets. In response, the International Monetary Fund provided a financial aid package to Korea and in late 1997, the government initiated a comprehensive program to address some of the structural weaknesses in the Korean economy. As part of that program, there have been certain significant changes in regulations specifically affecting financial institutions, including changes in loan classification and loss provisioning guidelines, Korean GAAP, securities valuation methods and liquidity requirements.

As a result of the downturn, in 1998 there was a general increase in interest rates in Korea and we experienced a decrease in the demand for loans and other products. In addition, our general level of non-performing loans increased. During 1999, financial and economic conditions began to improve in Korea. The general level of interest rates decreased, demand for financial products increased, and our overall level of non-performing loans decreased.

The Acquisition of DongNam Bank

In 1998, in response to the deteriorating condition of the Korean financial services industry as a result of the severe economic downturn in Korea, the government ordered 12 commercial banks that did not meet the minimum capital adequacy ratio requirements as of December 31, 1997, to submit to the FSC a detailed plan for improving their capital adequacy ratio to 8% within two years. After reviewing these plans, the FSC determined that five of the 12 banks were no longer commercially viable. The FSC issued a directive requiring that these banks be liquidated and ordered that some of the assets and liabilities of these banks be acquired by five stronger Korean banks, which included us. The directive was subject to the consent of the five banks selected by the FSC to acquire the assets and liabilities of the failed banks.

We consented to the directive and on June 29, 1998, we acquired the majority of the then performing assets and substantially all of the liabilities of DongNam Bank, one of the five commercial banks that the FSC had ordered to be liquidated. The assessed value of the assets we acquired amounted to ₩5,346 billion, while the assessed value of the liabilities we acquired amounted to ₩5,854 billion.

As compensation for the acquisition, we received:

- payment of ₩10 billion in cash from KAMCO and bonds issued by KAMCO in an aggregate principal amount of ₩117 billion which mature in 2003 and bear interest at a floating rate of between 10% and 15% per year based on the market yield rate for housing bonds issued by the government to promote low-income housing; and
- payment of ₩681 billion in cash from KDIC which we used to purchase bonds issued by KDIC in an aggregate principal amount of ₩681 billion due September 2003. These bonds bear interest at a rate based on the market yield rate for housing bonds.

In addition, to make up for the decrease in our capital ratio resulting from the acquisition of DongNam, in December 1998, the government, through KDIC, purchased (1) 59,300,000 shares of our convertible non-voting preferred stock for an aggregate purchase price of ₩297 billion and (2) ₩148 billion of our subordinated notes due March 2004, which bear interest at a floating rate. KDIC paid us cash for the shares of preferred stock which we used to purchase KDIC bonds in an aggregate principal amount of ₩297 billion, which mature in March 2004 and bear interest at 1.0% per year. As consideration for our subordinated debt we received government bonds in an aggregate principal amount of ₩148 billion, which mature between May 2003 and December 2006 and bear interest at 7.5% per year.

Right to repurchase preferred stock

Under the terms of the purchase agreement with KDIC, we have the right to repurchase the shares of preferred stock purchased by KDIC at the original purchase price. This right must be exercised prior to January 31, 2004. In January 2000, we repurchased 41,510,000 shares of preferred stock for ₩208 billion. Currently the KDIC owns 17,790,000 shares of our preferred stock. We pay dividends on this preferred stock at a rate of 1% per year.

Under the terms of the purchase agreement with KDIC, if we do not repurchase 8,895,000 shares of the outstanding 17,790,000 shares of preferred stock currently owned by KDIC by January 31, 2003, the dividend rate for those preferred shares will increase from 1% to a rate based on the average yield of bonds issued by KDIC. In addition, if we do not repurchase all the outstanding shares of preferred stock by January 31, 2004, they will convert into shares of common stock on a one-to-one basis on March 28, 2004. The common stock issued upon conversion of the preferred stock currently owned by the KDIC would represent 14.0% of our common stock on a fully diluted basis.

Our ability to repurchase the preferred shares is subject to us obtaining prior approval from the FSC. The aggregate amount of repurchases in any fiscal year may not exceed the total amount available for the distribution of dividends at the end of the preceding fiscal year, less the amount of dividends paid and reserves for such fiscal year.

Sale of certain loans and other assets to KAMCO

In connection with the acquisition of DongNam, we were granted the right to sell to KAMCO certain of the loans and other assets we purchased from DongNam on March 31, 1999 and September 30, 1999. Pursuant to this right we could sell to KAMCO loans and other assets purchased from DongNam which were classified as substandard or below as of March 31, 1999 and September 30, 1999 at the then current price and be compensated by KDIC the difference between that price and the value of the assets when we acquired them. Alternatively, we could request compensation from KAMCO for losses we realized on certain loans and assets since we acquired them. We exercised this right on both March 31, 1999 and September 30, 1999. On March 31, 1999 we sold ₩322 billion worth of loans and other assets to KAMCO and we also received ₩34 billion to compensate us for additional loss allowances on certain loans acquired from DongNam over and above those recognized on June 29, 1998. We no longer have any right to sell to KAMCO any loans or assets purchased from DongNam.

Sales of Substandard or Below Loans to KAMCO

In December 1997, in response to the financial difficulties faced by Korean financial institutions as a result of the severe economic downturn in Korea, the government required KAMCO to purchase certain assets which were classified as substandard or below from Korean financial institutions at discounted prices. We have sold an aggregate of ₩341 billion substandard or below loans to KAMCO in the following transactions, for a loss of ₩71 billion. The purchase price was paid in government bonds and cash.

- in December 1997, we sold an aggregate of ₩34 billion substandard or below loans to KAMCO, recording a loss of ₩8 billion;
- in September 1998, we sold an aggregate of ₩299 billion substandard or below loans to KAMCO, recording a loss of ₩61 billion; and
- in December 1999, we sold an aggregate of ₩8 billion substandard or below loans to KAMCO, recording a loss of ₩2 billion.

Pursuant to the purchase agreement with KAMCO, the purchase price of the substandard or below loans can be adjusted by KAMCO following the sale based on a valuation of any underlying collateral or, for substandard or below loans relating to borrowers in reorganization proceedings, based on the value of their payments on the loans under the final reorganization plan. Following our sale in September 1998, the purchase price for the substandard or below loans we sold was adjusted from ₩121 billion to ₩144 billion.

Pursuant to the terms of the sales, KAMCO can require us to repurchase any substandard or below loan we have sold to them in the event that:

- the loan cannot be properly transferred to KAMCO;
- the underlying documentation of the loan is incomplete;
- there is a flaw in the perfection of any security interest underlying the loan; and
- certain litigation regarding the loan is pending.

In addition, we may be required to repurchase any loan relating to a borrower that has applied to a court for reorganization or that is the subject of reorganization proceedings at the time of our sale to KAMCO if a court rejects the application for reorganization, disapproves the reorganization plan or fails to approve the reorganization plan within two years of the sale. We may also be required to repurchase a loan if it is determined by a court that the borrower cannot meet the terms of the repayment schedule developed in the reorganization proceeding. The ability of KAMCO to exercise its right to require us to repurchase loans sold is without limit. As of December 31, 1999, we had been required to repurchase loans in an aggregate amount of ₩52 billion from KAMCO (₩38 billion net of loan loss allowances). As of December 31, 1999 we had guaranteed ₩82 billion of loans against which we had recorded a recourse liability of ₩4 billion.

Restructuring and Competition in the Korean Financial Sector

The financial sector in Korea has undergone significant restructuring and rationalization, including a number of mergers and acquisitions in the industry over the last two years. We expect that this merger activity will continue. Some of the banks resulting from these mergers are larger and have more resources than us, and we can give no assurance that we will be able to compete successfully with these and other financial institutions that may emerge as the restructuring in the financial sector continues. Also, we cannot guarantee that we will not be involved in a merger with another financial institution as part of this restructuring. See ‘‘Risk Factors—Risks relating to our banking business—Our business is very competitive and our growth strategy depends on our ability to compete effectively’’, ‘‘Risk Factors—Risks relating to our banking business—The expected structural reforms of the Korean economy and the financial sector may have a substantial impact on our business’’ and ‘‘Item 1. Description of Business—Competition’’.

In addition, beginning in 1997, we face full competition in our core mortgage business. The increase in competition has led to loan price competition among mortgage lenders in Korea which has adversely affected our margins. We cannot guarantee that we will be able to maintain our market share or our margins at their current levels in the face of increased competition. Any decrease in our market share or in our margins may adversely affect our financial condition and results of operations. See ‘‘Risk Factors—We now face full competition in our core mortgage business, which may result in a further decrease of our market share and adversely affect our margins’’.

Exposure to Chaebols and KHGC

We have significant exposure to chaebols and to the KHGC. As a result of the unfavorable financial and economic conditions in Korea, a number of chaebols have experienced financial difficulties. In addition, due to the deterioration of the construction market in Korea, the KHGC is also experiencing substantial liquidity problems. If the quality of the credits extended to chaebols declines or if the KHGC fails to resolve its current financial problems, substantial additional allowances would be required, which would adversely affect our results of operations. See ‘‘Item 1. Description of Business—Assets and Liabilities—Loan Portfolio—Concentration of Total Exposure’’, ‘‘Risk Factors—Risks relating to our banking business—We have exposure to the largest Korean commercial conglomerates known as ‘‘chaebols,’’ which have recently experienced significant financial difficulties’’ and ‘‘—Our largest exposure is to the Korea Housing Guarantee Co., Ltd. (KHGC), and the KHGC is currently experiencing substantial financial difficulties’’.

Housing Finance Credit Guarantee Fund (HFCGF)

Prior to January 1, 1999, we managed the HFCGF which provides guarantees to mortgage lenders for defaults by borrowers if the borrower is unable to provide collateral required by a bank. As part of the government's restructuring plan to merge and dissolve various government funds, the management of the HFCGF was transferred to the Korea Credit Guarantee Fund. We received a management fee for managing the HFCGF until the end of 1998. The fee we received was equal to 1% per year of the average guarantee balance guaranteed by the HFCGF. The HFCGF received an annual guarantee fee equal to between 0.3% and 0.5% of the guaranteed amount depending on the size of the housing unit concerned. In the year ended December 31, 1998, the last year in which we managed the HFCGF, we earned fees of ₩9 billion. We continue to receive a fee from the HFCGF for underwriting mortgage loans which they guarantee. This fee is equal to 20% of the annual guarantee fees (net of fines and penalties) HFCGF receives on these loans. In the year ended December 31, 1999, these fees amounted to ₩4 billion.

Changes in Exchange Rates, Interest Rates and Securities Valuations

Exchange rates, interest rates and stock prices fluctuated significantly in Korea during 1998 and 1999.

The following table shows for the dates indicated, the stock price index of all equities listed on the Korea Stock Exchange as published in the Korea Composite Stock Price Index (KOSPI), the Won to US dollar exchange rates and benchmark Won borrowing interest rates for the periods indicated.

	Dec. 31, 1997	Mar. 31, 1998	June 30, 1998	Sep. 30, 1998	Dec. 31, 1998	Mar. 31, 1999	June 30, 1999	Sep. 30, 1999	Dec. 31, 1999
KOSPI	376.31	481.04	297.88	310.32	562.46	618.98	883.00	836.18	1,028.07
Won/US$ exchange rates(1)	1,695	1,386	1,376	1,393	1,206	1,228	1,157	1,217	1,136
Benchmark interest rates(2)	29.83%	20.28%	18.00%	11.90%	8.00%	8.10%	7.96%	9.95%	9.95%

(1) Noon-buying rate.
(2) Measured by the yield on three-year A rated corporate bonds, as rated by the Korean credit rating agencies.

Bond Market Stabilization Fund

On September 21, 1999, at the request of the government, forty Korean financial institutions established the Bond Stabilization Fund. The Bond Stabilization Fund is designed to stabilize the market prices of debt securities and interest rates in Korea through, among other means, open market purchases and sales of debt securities. We have contributed ₩872 billion to the Fund. In exchange for our contribution, we received an 8.1% equity interest in the Bond Stabilization Fund. On March 27, 2000, the Fund was dissolved and we received the portion of underlying securities held by the Fund corresponding to the our equity interest in the Fund. This amount exceeded the book value of the securities in our financial statements. These securities consist primarily of national and local government bonds, financial debentures, bonds issued by government-invested enterprises and corporate bonds with credit ratings of mostly A or higher (as rated by the Korean credit rating agencies). We classify our holding in the Bond Market Stabilization Fund within our held-to-maturity investment portfolio.

Government Regulation and Policy

Our operations are subject to various government regulations and policies, including those that relate to our core mortgage business, capital adequacy ratios and extensions of credit to particular borrowers such as small and medium sized enterprises. See ''Item 1. Description of Business—Supervision and Regulation''. The government regulations and policies applicable to us and other Korean financial institutions may differ in significant respects from those applicable to financial institutions in other countries. See ''Risk Factors—Risks relating to government regulation and policy''.

Results of Operations

1999 Compared to 1998

Net Interest Income

The following table shows, for the periods indicated, the principal components of our net interest income.

	Year Ended December 31,		
	1998	1999	% change
	(in ₩ billion, except percentages)		
Interest income and dividends			
Interest and fees on loans	3,472	3,291	(5.2)
Interest and dividends on investment securities	766	676	(11.7)
Interest and dividends on trading securities	12	130	983.3
Call loans and securities purchased under resale agreements	160	25	(84.4)
Interest from deposits in other banks	122	104	(14.8)
Other interest income	48	31	(35.4)
Total interest and dividend income	4,580	4,257	(7.1)
Interest expense			
Deposits	2,315	2,277	(1.6)
Call money	67	19	(71.6)
Other borrowed funds	370	137	(63.0)
Long-term debt	448	384	(14.3)
Total interest expense	3,200	2,817	(12.0)
Net interest income	1,380	1,440	4.3
Net interest margin (1)	3.88%	3.62%	(6.7)

(1) The ratio of net interest income to average interest earning assets. See "Item 8. Selected Financial Data—Selected Statistical Information—Average Balance Sheet and Related Interest".

Net interest income increased 4.3% from ₩1,380 billion in 1998 to ₩1,440 billion in 1999 as a result of a 12.0% decrease in interest expense which more than offset a 7.1% decrease in interest income.

Interest income. Interest income decreased 7.1% from ₩4,580 billion in 1998 to ₩4,257 billion in 1999 principally as a result of the following factors:

- a decline of 218 basis points in the gross yield on interest earning assets from 12.88% in 1998 to 10.70% in 1999, partially offset by

- a ₩4,231 billion increase in the average volume of interest earning assets from ₩35,547 billion in 1998 to ₩39,778 billion in 1999.

Interest and fees on loans decreased 5.2% from ₩3,472 billion in 1998 to ₩3,291 billion in 1999 as a result of a decline in the gross yield from 13.05% in 1998 to 11.52% in 1999. The gross yield decreased as a result of the decrease in the general levels of interest rates in Korea between 1999 and 1998 as economic conditions in Korea improved. The decrease in gross yield was offset by a 7.4% increase in average loan volume from ₩26,600 billion in 1998 to ₩28,575 billion in 1999. Our loan growth was principally due to an increase in the average volume of our credit card loans and other non-mortgage consumer loans. These loans increased from ₩2,885 billion in 1998 to ₩5,285 billion in 1999 due to increased loan demand as economic conditions, and therefore consumer demand, in Korea improved and our increased efforts to market our consumer loans.

Interest income on call loans and securities purchased under resale agreements decreased 84.4% from ₩160 billion in 1998 to ₩25 billion in 1999. The decrease was due to a decrease in both gross yields and average volumes. The gross yield decreased 63.2% from 16.31% in 1998 to 6.01% in 1999. The average volume decreased 57.6% from ₩981 billion in 1998 to ₩416 billion in 1999 as a result of falling yields on call loans and securities purchased under resale agreements, which made them relatively less attractive than our other available uses of funds.

Interest income on investment securities decreased 11.7% from ₩766 billion in 1998 to ₩676 billion in 1999. Our investment securities portfolio consists primarily of debt securities issued or guaranteed by the Korean government and the decrease in interest income in 1999 was primarily due to a decrease in gross yields on these securities. The gross yield on our investment securities decreased from 12.63% in 1998 to 9.20% in 1999. Gross yields decreased as a result of the general decline in interest rates in Korea. In addition, we received a substantial amount of securities as a result of our contribution to the Bond Market Stabilization Fund, which bear no interest. The impact of the decrease in gross yield was partially offset by an increase in average volume. The average volume of investment securities increased 27.4% from ₩5,953 billion in 1998 to ₩7,585 billion in 1999 as a result of the fact that our funding increased in 1999 due to an increase in deposits and we used a portion of the increase to invest in investment securities.

The decrease in interest income from loans, call loans and securities purchased under resale agreements and investment securities was partially offset by an increase in interest and dividend income on trading securities. Interest and dividend income on trading securities increased from ₩12 billion in 1998 to ₩130 billion in 1999 primarily as a result of an increase in average volume. The average volume of our trading securities increased from ₩214 billion in 1998 to ₩1,501 billion in 1999. This was due to the fact that we began to expand our trading securities operations in October 1998 and therefore 1999 was the first full year of expanded operations.

Interest Expense. Interest expense decreased 12.0% from ₩3,200 billion in 1998 to ₩2,817 billion in 1999, principally as a result of the following factors:

- a decline of 204 basis points in the cost of interest bearing liabilities from 9.60% in 1998 to 7.56% in 1999, offset by
- a ₩3,944 billion increase in the average volume of interest bearing liabilities from ₩33,332 billion in 1998 to ₩37,276 billion in 1999.

Interest expense on deposits decreased 1.6% from ₩2,315 billion in 1998 to ₩2,277 billion in 1999. The decrease was primarily the result of the impact of a decrease in interest payable on interest bearing deposits due to the improvement of economic conditions in Korea in 1999. The average interest rate paid on our time deposits other than certificates, which accounted for 48.7% of our average interest-bearing liabilities in 1999, decreased from 10.85% in 1998 to 8.81% in 1999. The average interest rate paid on our interest bearing demand deposits, which accounted for 17.1% of our average interest-bearing liabilities in 1999, decreased from 3.39% in 1998 to 2.65% in 1999.

The decrease in interest rates payable on deposits more than offset a 21.4% increase in the average volume of interest-bearing deposits from ₩24,973 billion in 1998 to ₩30,326 billion in 1999. The increase was primarily due to a 33.7% increase in the average volume of time deposits other than certificates from ₩13,580 billion in 1998 to ₩18,159 billion in 1999 and a 39.4% increase in the average volume of interest bearing demand deposits from ₩4,571 billion in 1998 to ₩6,370 billion in 1999. The increase in average deposits was primarily attributable to the recent difficulties in the Korean banking sector which has led many people to withdraw their deposits from banks they perceive as weaker and deposit them with banks they perceive as stronger, such as ourselves.

Interest expense on other borrowed funds, which consists primarily of borrowings from the BOK, foreign currency borrowings, and borrowing from our trust accounts, decreased 63.0% from ₩370 billion in

1998 to ₩137 billion in 1999. The decrease in interest expense on other borrowings was due to a decrease in both the volume of borrowing and the level of interest rates. Our average borrowings from the BOK decreased from ₩1,403 billion in 1998 to ₩485 billion in 1999. The level of borrowings from the BOK was higher in 1998 as a result of the fact that the BOK made low cost funding available on lending to the Korean merchant banking sector in an effort to prevent a liquidity crisis. As a result, we increased the level of our borrowing from the BOK in 1998. We repaid most of these loans in 1999. In addition, as a result of the falling interest rate environment in Korea, the interest rate we paid on our borrowings from the BOK decreased from 11.3% in 1998 to 3.3% in 1999.

Interest expense on long-term debt fell 14.3% from ₩448 billion in 1998 to ₩384 billion in 1999 as a result of decreases in volume and rate. As interest rates decreased, we replaced maturing long term debt with lower cost long term debt. Interest expense from call money decreased 71.6% from ₩67 billion in 1998 to ₩19 billion in 1999, in each case, as a result of decreases in volume and rate.

Net interest margin. As a result of falling interest rates in Korea and the increase in our time deposits, which are a relatively costly form of funding, our net interest margin decreased 6.7% from 3.88% in 1998 to 3.62% in 1999. The decrease was partially offset by an increase in our volumes of credit card and other non-mortgage consumer lending which earn relatively higher rates of interest.

Allowance for Loan Losses

Our provision for loan losses (excluding provisions for guarantees and acceptances) decreased from ₩433 billion in 1998 to ₩306 billion in 1999 as a result of the improvement in economic conditions in Korea. However, the level of provisioning was still substantial in 1999 due to the increases in the exposure to KHGC and increases in the volume of credit card lending and other consumer loans.

The following table shows, for the periods indicated, certain information regarding our non-performing loans.

	As of December 31,	
	1998	**1999**
	(in ₩ billion, except percentages)	
Total non-performing loans[(1)]	2,628	2,440
Non-performing loans as a percentage of total loans[(1)]	10.0	7.6
Non-performing loans as a percentage of total assets[(1)]	6.5	5.4
Allowance for loan losses as a percentage of non-performing loans[(1)]	47.9	52.7
Allowance for loan losses as a percentage of total loans	4.8	4.0

(1) Non-performing loans are defined as those loans which are past due more than 90 days.

The following table shows, for the periods indicated, our total loan loss allowance by category of borrower.

	As of December 31,	
	1998	**1999**
	(in ₩ billion)	
Commercial and industrial	844	871
Construction	301	237
Household		
Residential mortgages	17	19
Other consumer loans	45	92
Credit cards	52	68
Total	1,259	1,287

The following table shows, for the periods indicated, certain information regarding our impaired loans in the commercial and industrial sector, including the construction sector. Impaired loans are defined as loans with respect to which we believe that it is probable that we will not collect all amounts due according to the contractual terms of the loan. We use impaired loans to calculate our allowance for loan losses on the commercial and industrial sector.

	As of December 31,	
	1998	1999
Impaired loans to total loans	47.6%	38.9%
Allowance for loan losses to total loans	15.7%	15.4%
Allowance for loan losses to impaired loans	33.0%	39.6%

For further information on the volume of lending to these individualized loan categories see, ''Item 1. Description of Business—Assets and Liabilities—Loan Portfolio''.

During 1998 there was a significant increase in the level of our impaired loans as a result of the economic downturn in Korea. As a result of the unfavorable economic conditions in Korea, a number of chaebols experienced financial difficulties the most significant of which was the Daewoo Corporation. During 1998 we made additional provisions of ₩115 billion against our loans to Daewoo Corporation. See ''Item 1. Description of Business—Assets and Liabilities''. The economic downturn also affected the construction sector in Korea. The construction sector experienced very high levels of loan impairment in 1998. During 1998 we recorded loan loss allowances of approximately ₩86 billion against our largest loans to the construction sector. In addition, we made a provision of ₩35 billion against our exposure to the KHGC. See ''Item 1. Description of Business—Assets and Liabilities''. Our level of general loan loss reserves fell as a proportion of impaired loans in 1998 due to the fact that an increased number of loans became specifically identified as impaired.

During 1999, the ratio of impaired loans to total loans fell as the Korean economy stabilized. However, the credit quality of the construction sector remained poor and certain of the loans which had become delinquent in 1998 deteriorated in 1999 thereby necessitating further provisions. We made additional loan loss allowances against our exposure to the KHGC of ₩91 billion as well as additional reserves of ₩33 billion against our largest construction exposures.

In May 1999, in response to the increased level of impaired loans, we adopted new loan underwriting policies in order to move away from a ''collateral'' based lending practice and to implement a ''credit'' based lending practice. Thus, we implemented a corporate evaluation model into our corporate loan approval procedures. Previously, loan approvals depended on the adequacy of the collateral provided, except with respect to our best corporate borrowers. After the adoption of the corporate evaluation model, the extension of credit depended on the corporate applicant's credit rating, which represents the repayment capability of the corporate borrower.

In 1999, we further adjusted our loan underwriting practice. With the assistance of external consultants we developed a new credit processing system that includes a credit rating system for small and medium sized enterprises. In addition, we enhanced our credit approval practice by segregating commercial loans into three groups, namely, large corporations loans, small and medium sized enterprises loans and loans to other small companies, and by applying different credit evaluation methodologies for different groups of loans. Credit analysts perform individual credit analyses for large corporations using credit evaluation models. The new practice mandates the use of the new credit rating system for small and medium sized enterprises. Other small companies without financial statements, to which the credit rating system cannot give credit ratings, are manually evaluated based on simplified credit rating tables.

Additionally, the new underwriting practice establishes an environment which makes the person who approves a loan responsible for the decision. This is possible because we have implemented a system-based credit approval procedure in which transparency in loan approval procedures is increased and employees specialize in the credit approval procedures. In addition, we have started to assess interest rates commensurate with the risks associated with the credit applicants. We believe that these changes in the underwriting process resulted in tightened credit approval standards for marginal borrowers and will reduce the level of impaired loans in our corporate loan portfolio.

The following table shows, for the periods indicated, certain information regarding our non-performing loans to the consumer sector.

	As of December 31, 1998	As of December 31, 1999
Non-performing loans to total loans	9.8%	6.6%
Allowance for loan losses to total loans	0.6%	0.7%
Allowance for loan losses to non-performing loans	6.1%	10.8%

During 1998 the loan loss allowance on consumer loans increased due to the increase in non-performing loans resulting from the economic downturn in Korea. During 1999, the proportion of non-performing loans as a percentage of the portfolio decreased as a result of improving economic conditions. However, the proportion of the loan loss allowance to total non-performing loans increased from 6.1% in 1998 to 10.8% in 1999 due to the change in our lending mix towards credit cards and other non-mortgage consumer loans which have a higher loss rate than mortgage loans and the further deterioration of delinquent loans carried forward from 1998.

From 1998 to 1999 there has not been a significant increase in the level of loan loss allowances on mortgage loans, the largest portion of the consumer portfolio, because the loan to value ratio on these loans is low and the loans to low income households are guaranteed. From 1998 to 1999 the delinquency rates of other household loans decreased following a substantial increase in 1997; however, our loan loss allowances increased over the period due to the increase in lending volumes. In 1998 there was an increase in the delinquency rates on credit cards, which resulted in higher levels of allowances being established. The levels of allowances continued to rise during 1999; however, this was due primarily to losses incurred on the high volume of new lending in 1999 as opposed to the deteriorating credit quality of the portfolio.

Non-Interest Income

The following table sets forth for the periods indicated the components of our non-interest income.

	As of December 31,		
	1998	1999	% Change
	(in ₩ billion, except percentages)		
Trust fees	156	162	3.8
Commission received on management of the NHF and other funds	146	156	6.8
Other fees and commission income	103	142	37.9
Net trading revenue	81	157	93.8
Net gain on sales of securities available for sale	17	53	211.8
Other non-interest income	29	58	100.0
Total non-interest income	531	728	37.1

Our non-interest income increased 37.1% from ₩531 billion in 1998 to ₩728 billion in 1999.

Net trading revenue increased 93.8% from ₩81 billion in 1998 to ₩157 billion in 1999. Net trading revenue represents net realized and unrealized gains on securities and derivatives in our trading portfolio. The increase in revenue in 1999 was the result of a general increase in prices of securities in Korea in 1999 as economic conditions improved. The increase in the prices of securities also led to an increase in a net gain on sales of securities available for sale from ₩17 billion in 1998 to ₩53 billion in 1999. In 1999 we sold government securities to realize gains resulting from the increase in the prices of these securities.

Trust fees, which consist of fees we receive for managing trust account assets and penalty payments we receive when customers terminate their trust accounts prior to the end of the fixed term, increased 3.8% from

₩156 billion in 1998 to ₩162 billion in 1999. Trust account management fees, which are based on assets under management and the performance of the trusts, increased 62.7% from ₩83 billion in 1998 to ₩135 billion in 1999 as a result of the better performance of our trust accounts in 1999. This increase was partially offset by a significant decrease in termination payments from ₩73 billion in 1998 to ₩27 billion in 1999. In 1998, we introduced higher yielding trust products which led to a large number of customers terminating their existing accounts early and investing in the higher yielding accounts. See ''Item 1. Description of Business—Other Businesses—Trust Account Management Services''.

Other fees and commission income increased 37.9% from ₩103 billion in 1998 to ₩142 billion in 1999. The increase was primarily due to an increase in the merchant fees receivable through our credit card operations.

Commissions received on management of the NHF and other funds increased 6.8% from ₩146 billion in 1998 to ₩156 billion in 1999. These commissions consist primarily of the commissions we receive for managing the NHF. These commissions increased from ₩137 billion in 1998 to ₩152 billion in 1999 as a result of an increase in the assets of the NHF.

Non-Interest Expense

The following table shows, for the periods indicated, the components of our non-interest expense.

	Year Ended December 31,		
	1998	1999	% Change
	(in ₩ billion, except percentages)		
Salaries and employee benefits	610	518	(15.1)
Trust performance guarantees	206	—	(100.0)
Equity net loss of affiliates	6	20	233.3
Depreciation and amortization	71	92	29.6
Administrative expenses	126	159	26.2
Loss on sale of loans	61	1	(98.4)
Credit card fees	14	20	42.9
Other fees and commission expenses	87	109	25.3
Taxes and dues	31	33	6.5
Other non-interest expenses	71	111	56.3
Total non-interest expense	1,283	1,062	(17.2)

Non-interest expense decreased 17.2% from ₩1,283 billion in 1998 to ₩1,062 billion in 1999. The decrease was primarily due to a decrease in trust performance guarantees and loss on sale of loans. The decrease in these items was partially offset by an increase in expenses relating to other fees and commission expenses, depreciation and amortization and administrative expenses.

Non-interest expense from trust performance guarantees decreased from ₩206 billion in 1998 to nil in 1999. These expenses relate to our guarantee of the principal amount and, in some cases, a fixed rate of interest on an investment in certain of the trust accounts we manage. See ''Item 1. Description of Business—Other Businesses—Trust Account Management Services''. The expense in 1998 related to amounts we paid under these guarantees to reimburse investors for losses they experienced as a result of the impact of the general economic condition in Korea. In 1999, we made no guarantee payments as a result of the improved performance in our trust accounts as the Korean economy improved.

Salaries and employee benefits decreased 15.1% from ₩610 billion in 1998 to ₩518 billion in 1999. The rationalization program in 1998, which resulted in 3,500 of our employees accepting offers of early retirement, incurred special severance benefits for early retirement in the amount of ₩125 billion. The program helped us to control salary costs in 1999 and lead to the recognition of an additional pension cost in 1999 compared to 1998. The absence of special severance benefits in 1999 was offset in part, however, by pay increases and bonuses for our permanent employees and the recruitment of temporary contract staff. Expenses related to losses on sale of loans decreased 98.4% from ₩61 billion in 1998 to ₩1 billion in 1999. These expenses primarily relate to losses recognized on the sale of non-performing loans to KAMCO in accordance with the government's program to assist financial institutions in Korea. See " Overview Sales of Substandard or Below Loans to KAMCO". The decrease in 1999 results from the fact that we sold significantly fewer loans to KAMCO in 1999 as compared to 1998.

Administrative expenses, depreciation and amortization and other fees and commission expenses increased during 1999. Administrative expenses, which include consulting fees, marketing expenses and data processing costs, increased 26.2% from ₩126 billion in 1998 to ₩159 billion in 1999 due to our acquisition of additional consulting services, our increased marketing activities and the upgrade of our information technology. Other fees and commission expenses, which consist primarily of fees paid to KDIC for deposit insurance and related fees, increased 25.3% from ₩87 billion in 1998 to ₩109 billion in 1999 due to the higher volume of customer deposits taken by us in 1999. Depreciation and amortization increased 29.6% from ₩71 billion in 1998 to ₩92 billion in 1999 as a result of acquisitions of furniture, equipment and leasehold improvements.

Other non-interest expenses increased 56.3% from ₩71 billion in 1998 to ₩111 billion in 1999. Expenses of our investment trust management subsidiary increased because it compensated its customers for losses incurred as a result of trust investments in debt securities issued by the Daewoo Group.

Income Tax Expense

Income tax expense increased from ₩102 billion in 1998 to ₩268 billion in 1999 as a result of our increased income. The statutory tax rate was 30.8% in each of 1998 and 1999.

Our effective rate of income tax decreased from 44.1% in 1998 to 33.1% in 1999. The principal reason for this decrease was the fact that the amounts of tax losses carried forward for which a valuation allowance was provided was higher as a proportion of the total tax charge for the year in 1998 as compared to 1999. Such valuation allowance was required because we are unable to offset the losses of our loss making subsidiaries against our profitable entities for tax purposes. In addition, the level of tax deductible items was higher in 1999 than in 1998.

As a result of the above, our net income was ₩541 billion in 1999 as compared to ₩128 billion in 1998.

Results by Principal Business Segment

We are organized into three major business segments: Retail Banking, Corporate Banking and Treasury and Investment Management. The following discussion is based upon our non-consolidated Korean GAAP financial information, which we use to manage our business. For a summary of our results by segment see our US GAAP financial statements.

Retail Banking

	Year ended December 31,		
	1998	1999	% change
	(In ₩ billion, except percentages)		
Interest income	2,450	2,461	0.5
Interest expense	(1,317)	(1,377)	4.6
Provision for loan losses	(74)	(31)	(58.1)
Non-interest income	46	63	37.0
Non-interest expense including depreciation	(797)	(687)	(13.8)
Segment result	308	429	39.3

Our Retail Banking segment products include consumer loans and mortgages, deposits, credit cards and other savings and investment products. Our overall segment result increased 39.3% from ₩308 billion in 1998 to ₩429 billion in 1999.

Interest income from retail banking activities increased 0.5% from ₩2,450 billion in 1998 to ₩2,461 billion in 1999. We have carried out aggressive consumer loan sales activities, that were facilitated by improvements in our credit-rating systems for loans and automatic appraisal of collateral. These marketing efforts led to a significant increase in consumer loans during the year, although the impact of this increase on interest income was largely offset by lower lending rates in the domestic market as market conditions stabilized after the economic crisis of 1997 and 1998.

Interest expense increased 4.6% from ₩1,317 billion in 1998 to ₩1,377 billion in 1999. The volume of deposit and savings products has increased significantly as customers have withdrawn their deposits from banks they perceive to be weaker, and opened accounts with banks they perceive to be stronger, such as us. However, this was largely offset by the lower interest rates paid on these products as the economy improved and the general level of interest rates fell.

Non-interest income increased 37.0% from ₩46 billion in 1998 to ₩63 billion in 1999. This was primarily due to increased commissions from increased ATM and fund transfer services we provide to customers.

Non-interest expense, which includes depreciation, decreased 13.8% from ₩797 billion in 1998 to ₩687 billion in 1999. This was primarily due to lower loan loss provisions booked as a result of improvements in the Korean economy. We also had lower severance benefit liabilities in 1999 following the fall in headcount at the end of 1998.

Corporate Banking

	Year ended December 31,		
	1998	**1999**	**% change**
	(In ₩ billion, except percentages)		
Interest income	968	655	(32.3)
Interest expense	(663)	(410)	(38.2)
Provision for loan losses	(749)	(302)	(59.7)
Non-interest income	664	359	(46.0)
Non-interest expense including depreciation	(429)	(236)	(45.0)
Segment result	(209)	66	(131.6)

Our Corporate Banking segment handles our transactions with private and public enterprises. Activities within the segment include direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, and foreign currency activities. Our overall segment result improved from a loss of ₩209 billion in 1998 to a profit of ₩66 billion in 1999.

The segmental loss in 1998 was due to the provision for losses against our commercial loans, guarantees and acceptances. This was not repeated in 1999 as the credit quality of our portfolios improved.

Interest income decreased 32.3% from ₩968 billion in 1998 to ₩655 billion in 1999 due to lower interest rates and lower volumes on our corporate lending. Interest expense decreased 38.2% from ₩663 billion in 1998 to ₩410 billion in 1999 due to lower borrowings and lower funding costs due to the reduction in the overall level of interest rates.

Non-interest income decreased 46.0% from ₩664 billion in 1998 to ₩359 billion in 1999 due primarily to lower exchange gains on our foreign currency liabilities as the appreciation of the Won against the US dollar was less significant in 1999 compared to 1998.

Non-interest expense, which includes depreciation, decreased 45.0% from ₩429 billion in 1998 to ₩236 billion in 1999 due to lower exchange losses on our foreign currency assets as the appreciation of the Won against the US dollar was less significant in 1999 compared to 1998.

Treasury and Investment Management

	Year ended December 31,		
	1998	1999	% change
	(In ₩ billion, except percentages)		
Interest income	904	872	(3.5)
Interest expense	(823)	(897)	9.0
Provision for loan losses	—	—	—
Non-interest income	160	217	35.6
Non-interest expense including depreciation	(388)	(268)	(30.9)
Segment result	(147)	(76)	48.3

Our Treasury and Investment Management segment handles our treasury activities and dealing of trading and investment securities. Our overall segment result improved from a loss of ₩147 billion in 1998 to a loss of ₩76 billion in 1999.

Interest income decreased 3.5% from ₩904 billion in 1998 to ₩872 billion in 1999. Our investments in interest-bearing securities increased as a result of increased funding available from our deposit base. However, this was more than offset by lower yields as a result of declining interest rates in Korea. Interest income on call loans and other short-term money market investments also fell due to lower volumes and lower yields.

Interest expense increased 9.0% from ₩823 billion to ₩897 billion. The increase due to higher funding levels was partially offset by the reduction in funding costs due to the reduction in the overall level of interest rates.

Non-interest income increased 35.6% from ₩160 billion in 1998 to ₩217 billion in 1999 due to increased gains on our securities portfolios. Non-interest expense, which includes depreciation, decreased 30.9% from ₩388 billion in 1998 to ₩268 billion in 1999 due to lower losses on our trading activities in 1999 as a result of improving market conditions in 1999.

Financial Condition

Assets

The following table sets forth, for the periods indicated, the principal components of our assets.

	Year ended December 31,		
	1998	1999	% change
	(in ₩ billion, except percentages)		
Cash and due from banks and other financial institutions	1,665	1,281	(23.1)
Restricted deposits	663	931	40.4
Interest-bearing deposits in other banks	206	318	54.4
Call loans and securities purchased under resale agreements	467	76	(83.7)
Trading assets	1,184	2,371	100.3
Securities available for sale	7,768	4,360	(43.9)
Held-to-maturity securities	225	2,660	1,082.2
Loans(1)	26,354	32,134	21.9
Premises and equipment, net	677	744	9.9
Due from customers on acceptances	382	265	(30.6)
Accrued interest and dividend receivable	485	378	(22.1)
Security deposits	566	511	(9.7)
Other assets	939	512	(45.5)
Total assets	41,581	46,541	11.9

(1) Before adjustment for deferred origination costs and allowance for loan losses.

Our assets increased 11.9% from ₩41,581 billion in 1998 to ₩46,541 billion in 1999 principally due to increased lending. Our loans increased 21.9% from ₩26,354 billion in 1998 to ₩32,134 billion in 1999. This increase was due largely to an increase in consumer lending. Consumer lending increased 30.8% from ₩19,061 billion in 1998 to ₩24,938 billion in 1999. Residential mortgage lending increased 8.5% from ₩15,890 billion in 1998 to ₩17,246 billion in 1999 and installment loans to individuals increased from ₩302 billion in 1998 to ₩2,266 billion in 1999. Commercial lending decreased 1.3% from ₩7,292 billion in 1998 to ₩7,196 billion in 1999. The increase in lending was due mainly to the increase in consumer spending as a result of the recovering domestic economy, growing demands for consumer loans and new business development.

Our held-to-maturity securities increased 1,082.2% from ₩225 billion in 1998 to ₩2,660 billion in 1999, as a result of our use of the funds available due to the increase in our deposit base. Our trading assets increased 100.3% from ₩1,184 billion in 1998 to ₩2,371 billion in 1999 due to the fact that 1999 was the first full year of our expanded securities trading activities.

The growth in these assets was offset, in part, by a 43.9% decrease in securities available for sale from ₩7,768 billion in 1998 to ₩4,360 billion in 1999. The decrease was due to sales of government securities in 1999 to realize gains resulting from the increase in prices of securities in 1999. The growth in these assets was also offset, in part, by a 23.1% decrease in cash and due from banks and other financial institutions from ₩1,665 billion in 1998 to ₩1,281 billion in 1999.

For further information on our assets, see ‘‘Item 1. Description of Business—Assets and Liabilities—Loan Portfolio’’ and ‘‘Investment—Portfolio’’.

Liabilities

The following table sets forth, for the periods indicated, the principal components of our liabilities.

	Year ended December 31,		
	1998	1999	% change
	(in ₩ billion, except percentages)		
Due to depositors			
Non-interest bearing	177	109	(38.4)
Interest bearing	27,367	33,270	21.6
Call money	179	758	323.5
Trading liabilities	19	4	(78.9)
Other borrowed funds	2,879	1,621	(43.7)
Acceptances outstanding	382	265	(30.6)
Accrued interest and dividends payable	2,334	2,523	8.1
Other liabilities	1,133	816	(28.0)
Secured borrowings	—	84	—
Long-term debt	4,759	4,071	(14.5)
Total liabilities	39,228	43,521	10.9
Minority interest	6	—	(100.0)
Total stockholders’ equity	1,103	1,756	43.6
Total liabilities, minority interest, and stockholders’ equity	40,337	45,277	12.2

Our total liabilities increased 10.9% from ₩39,228 billion in 1998 to ₩43,521 billion in 1999. The increase was primarily due to an increase in interest bearing deposits and, to a lesser extent, call money which was partially offset by a decrease in other borrowed funds and decreased long term debt.

Our interest bearing deposits increased 21.6% from ₩27,367 billion in 1998 to ₩33,270 billion in 1999 primarily due to the recent difficulties in the Korean banking sector which led many people to withdraw their deposits from banks they perceive as weaker and deposit them with banks they perceive as stronger, such as ourselves.

Call money increased 323.5% from ₩179 billion in 1998 to ₩758 billion in 1999 to temporarily take advantage of the liquid money market situation at the end of 1999.

Other borrowed funds decreased 43.7% from ₩2,879 billion in 1998 to ₩1,621 billion in 1999. This was primarily due to a decrease in borrowing from the BOK. In 1998, we increased our level of borrowing from the BOK due to the availability of low cost funding in connection with the government's efforts to prevent a liquidity crisis in the Korean merchant banking industry. By the end of 1999 we had repaid most of these borrowings.

Our long term debt decreased 14.5% from ₩4,759 billion in 1998 to ₩4,071 billion in 1999. This was due to the maturing of domestic and foreign currency debt in 1999 and the weakening of the Won against the remainder of our foreign currency portfolio.

Our total stockholders' equity as of December 31, 1998 and 1999 included 59,300,000 shares of preferred stock issued to the KDIC in connection with the acquisition of DongNam Bank. However, our investment in KDIC bonds offsets the preferred stock since both instruments are related to the same transaction. In January 2000, we purchased 41,510,000 shares of preferred stock from KDIC and we have the right to repurchase the remainder prior to January 31, 2004. See ''—Overview—Acquisition of DongNam Bank-Right to Repurchase Preferred Stock''.

For further information on our sources of funding, see ''Item 1. Description of Business—Funding''.

Capital

The following discussion and the figures included therein are based upon the Korean GAAP statistics prepared by us for the purposes of local regulatory reporting. We are subject to the capital adequacy requirements of the FSS, which have been formulated based on the capital adequacy accord reached by the Basle Committee of Banking Supervision, Bank for International Settlements in 1988. We are required to maintain a minimum ratio of total capital to risk weighted assets, as determined by a specified formula, of 8.0%.

Capital adequacy is measured by calculating our Tier I and Tier II capital as a percentage of our risk-weighted assets. Tier I capital is our core capital and consists of paid-in capital, capital surplus, retained earnings, minority interest in consolidated subsidiaries and unpaid dividends minus deductions. Tier II capital is our supplementary capital and includes allowances for loan losses for credits classified as normal or precautionary up to 1.25% of risk-weighted assets, subordinated debt with a maturity of at least five years and revaluation surplus. The amount of our risk weighted assets is determined by adding (1) the risk weighted assets on our balance sheet and (2) our off balance sheet risk weighted assets multiplied by a rate determined by the FSC.

The following table sets forth for the periods indicated, our risk-based capital, risk weighted assets and risk-based capital adequacy ratios computed in accordance with the applicable FSS and BIS guidelines.

	Year Ended December 31,		
	1998	1999	% change
	(in ₩ billion, except percentages)		
Tier 1 capital	1,113	1,794	61.2
Tier 2 capital	1,014	1,244	22.7
Total capital	2,127	3,037	42.8
On-balance sheet risk weighted assets	18,563	24,927	34.3
Off-balance sheet risk weighted assets	1,141	944	(17.3)
Total risk weighted assets	19,704	25,871	31.3
Tier I capital adequacy ratio	5.64	6.93	
Tier II capital adequacy ratio	5.15	4.81	
Total capital adequacy ratio	10.79	11.74	

We plan to repurchase all of the remaining 17,790,000 shares of preferred stock for ₩89 billion issued to KDIC in connection with our acquisition of DongNam Bank, prior to the applicable deadlines for such repurchases. If we do so, it will reduce our capital base and our capital adequacy ratios. In addition, our capital base and our capital adequacy ratios have decreased since the year end due to the continued increase in our deposit base.

Liquidity

Starting from January 1, 1999, the FSC requires each Korean bank to maintain specific Won and foreign currency liquidity ratios. These ratios require us to keep the ratio of liquid assets to liquid liabilities above certain minimum levels.

For a description of these requirements, see ‘‘Item 1. Description of Business—Supervision and Regulation—Principal Regulations Applicable to Banks in Korea’’.

We are exposed to liquidity risk arising from the funding of our lending, trading and investment activities and in the management of trading positions. The goal of liquidity management is for us to be able, even under adverse conditions, to meet all of our liability repayments on time and fund all investment opportunities. For an explanation of how we manage our liquidity risk, see ‘‘Item 1. Description of Business—Risk Management—Liquidity Risk’’.

Our primary source of funding as a retail bank has historically been and continues to be customer deposits. Deposits amounted to ₩22,462 billion, ₩27,543 billion and ₩33,379 billion in 1997, 1998 and 1999, which represented approximately 73%, 78% and 84% of our total funding, respectively. Deposits represent a high percentage of our total funding because many people have withdrawn their deposits from banks they perceive to be weaker, and opened accounts with banks they perceive as stronger, such as ourselves. We have been able to use these changes in the Korean banking sector to finance our operations through a reduction in other funding sources, which we have traditionally used for our daily operations. Secondary funding sources include call money, borrowings from the Bank of Korea and other short-term borrowings which amounted to ₩2,563 billion, ₩3,059 billion and ₩2,379 billion for 1997, 1998, and 1999 and represented 8%, 9% and 6% of our total funding, respectively. The decreased use of these instruments since 1997 has been due to the additional deposits available to us on a daily basis. These types of borrowings have maturities of less than one year. Other sources of funding daily operations have been through Housing Debentures, which were issued under special government regulations to provide loans to low income households. In 1997 the issuance of these debentures was discontinued and replaced by HCB Finance

Debentures, which are not restricted in their use. These borrowings amounted to ₩2,282 billion, ₩2,228 billion and ₩1,998 billion for 1997, 1998, and 1999 and represented 41%, 47% and 49% of our total long term debt or 7%, 6%, and 5% of our total funding, respectively.

Selected Financial Information Under Korean GAAP

The selected consolidated financial and other data shown below have been derived from our consolidated financial statements, prepared in accordance with Korean GAAP.

Under Korean GAAP, consolidated financial statements include the accounts of fully or majority owned subsidiaries and substantially controlled affiliates that have assets in excess of ₩7 billion. Substantial control is deemed to exist when the investor is the largest shareholder and owns more than 30% of the investee's voting shares. Korean GAAP does not require the consolidation of subsidiaries, or substantially controlled affiliates, where activities are dissimilar from ours.

Under Korean GAAP effective since 1995, financial statements of our trust accounts, on which we guarantee a fixed rate of return and/or the repayment of principal, are consolidated, whereby assets and liabilities of third parties held by such trusts are reflected as assets and liabilities, and revenues and expenses generated from such third party assets are reflected in the statement of operations. Activities between us and trusts are eliminated. Non-guaranteed trusts were consolidated in 1995.

Until December 31, 1998, our financial statements were prepared in accordance with the financial accounting standards generally accepted in the Republic of Korea issued by the Financial Supervisory Commission, as modified by the accounting and reporting guidelines prescribed by the Office of Banking Supervision. Beginning January 1, 1999, the financial statements are prepared in accordance with financial accounting standards generally accepted for banking institutions issued by the Korean Securities and Futures Commission.

Capital adequacy ratios have been calculated from the consolidated financial statements prepared in accordance with Korean GAAP and using the guidelines issued by the FSC.

Because of significant changes in Korean GAAP which were applied by us in 1998 and 1999, the financial information included herein for those years is not directly comparable with previous periods. We have included narrative disclosure in the footnotes to more clearly identify where significant accounting policy changes have taken place, which line items would be affected and how the balances would be affected. The areas where such significant changes have occurred are as follows:

- Trading and investment securities;
- Deferred taxation;
- Guarantees and acceptances (including allowances for losses); and
- Provision for loan loss allowances.

Consolidated income statement data:

	Year ended December 31,					
	1995	1996	1997	1998	1999	1999(1)
	(in ₩ billion, except per common share data)					(in US$million, except per common share data)
Interest income	2,570	2,600	3,204	4,664	4,265	3,754
Interest expense	(2,082)	(2,061)	(2,412)	(3,481)	(3,030)	(2,667)
Net interest income	488	539	792	1,183	1,235	1,087
Provision for possible loan losses(2)	—	(79)	(229)	(1,115)	(393)	(346)
Net interest income after provision for possible loan losses	488	460	563	68	842	741
Non-interest revenue(3)	321	490	1,552	1,560	1,274	1,121
Non-interest expense(4)	(696)	(837)	(1,978)	(1,870)	(1,396)	(1,228)
Operating income	113	113	137	(242)	720	634
Non-operating loss, net	(26)	4	22	(178)	(79)	(70)
Income before income tax expense	87	117	159	(420)	641	564
Income tax expense(5)	(3)	(26)	(57)	(9)	(219)	(193)
Minority interest in earnings of consolidated subsidiaries, net	(1)	—	4	12	30	26
Other(6)	1	2	2	3	3	3
Net income	84	93	108	(414)	455	400
Per common share data:						
Earnings per share-basic (₩/US$)	3,755	2,095	2,141	5,073	4,862	4.28
Earnings per share-diluted(7) (₩/US$)	—	—	—	—	4,862	4.28
Cash dividends per common share(8)						
To the public (₩/US$)	250	600	500	—	150	0.13
To the government (₩/US$)	250	500	500	—	150	0.13

(1) Won amounts are expressed in US dollars at the rate of ₩1,136/US$, the noon buying rate in effect on December 31, 1999.

(2) The provision for possible loan losses was included in non-interest expense in 1995. The amount of the provision at that date was ₩42 billion. The methodology we use to calculate the provision for loan losses was revised in 1998, which resulted in the recognition of a significantly higher provision. The revised guidelines require the application of a higher provision against loans classified as special attention loans. The effect of adopting the change was to increase the net loss in 1998 by ₩381 billion.

(3) Non-interest revenue includes fees & commission income, dividends on securities, gains on security valuations and disposals, gains on foreign currency transaction and gains from derivative transactions.

(4) Non-interest expense is composed of fees & commissions paid or payable, general & administrative expenses, losses on security valuations and disposals, losses on foreign currency transactions and losses from derivative transactions.

(5) Prior to 1999, there was no requirement to use a deferred method of accounting for income taxes. The cumulative effect of adopting the revised standards as of January 1, 1999 was to credit opening retained earnings by ₩16 billion, which reflected the deferred tax asset that would have been recognized as of December 31, 1998. We did not restate prior periods. The effect of adopting the revised standards for the year ended December 31, 1999 was to increase net income by ₩104 billion and to recognize a deferred tax asset of ₩120 billion as of December 31, 1999.

(6) Other includes equity in unconsolidated subsidiaries and related goodwill amortization.

(7) A diluted earnings per share measure was only required to be disclosed from 1999. Prior to this, only a basic earnings per share amount was required to be disclosed.

(8) Under Korean GAAP beginning in 1997, dividends declared after the year end are recorded in the period to which they relate. Prior to 1997, dividends were recorded in the period in which they were declared. The above ratios represent the periods to which the dividends relate.

Consolidated balance sheet data:

	As of December 31,					
	1995	1996	1997	1998	1999	1999(1)
			(in₩ billion)			(in US$ million)
Cash and due from banks	2,205	2,277	3,339	2,601	2,748	2,419
Foreign exchange(2)	157	231	911	565	—	—
Loans(3)	18,433	19,674	23,299	25,309	32,957	29,012
Less: allowance for doubtful accounts(4)	—	—	—	—	(1,740)	(1,531)
Call Loans(5)	223	560	673	841	—	—
Trading securities(6)	—	—	—	9,980	2,695	2,372
Investment securities(6)	5,235	4,086	5,486	884	8,174	7,195
Customers' liabilities on guarantees(7)	183	229	1,251	936	—	—
Credit card accounts(8)	581	662	725	812	—	—
Premises and equipment(9)	960	1,574	1,696	1,680	967	851
Other assets(10))	1,643	1,281	2,029	3,703	2,873	2,529
Total assets	29,620	30,574	39,409	47,311	48,674	42,847
Deposits	22,063	21,289	23,830	29,822	34,358	30,245
Borrowings(11)	698	1,101	2,514	4,269	4,142	3,646
Call money(12)	672	310	1,571	179	—	—
Guarantees outstanding(7)	183	229	1,251	936	—	—
Provisions(13)	657	899	1,442	2,468	—	—
Bonds payable	2,286	2,732	3,528	2,978	2,434	2,143
Other liabilities(14)	2,358	2,955	3,972	5,327	5,586	4,917
Total liabilities	28,917	29,515	38,108	45,979	46,520	40,951
Minority interests in consolidated subsidiaries(15)	19	23	26	8	—	—
Shareholders' equity	684	1,036	1,275	1,324	2,154	1,896
Total liabilities, minority interest and shareholders' equity	29,620	30,574	39,409	47,311	48,674	42,847

(1) Won amounts are expressed in US dollars at the rate of ₩1,136/US$, the noon buying rate in effect on December 31, 1999.

(2) Foreign exchange represents holdings of foreign currency and bills bought in foreign currencies. In 1999, holdings of foreign currency and bills bought in foreign currencies are included in cash and due from banks and loans, respectively. The amount of foreign currency and bills bought in foreign currencies as at December 31, 1999 was ₩34 billion and ₩380 billion, respectively.

(3) Loans represent the gross amount of loans, before adjustment for the allowance for loan losses. Accrued interest income is included within other assets.

(4) The amount of allowance for doubtful accounts as at December 31, 1995, 1996, 1997 and 1998 was ₩140 billion, ₩182 billion, ₩371 billion and ₩1,652 billion, respectively. The allowance was disclosed within provisions until 1999. The allowance for loan losses prior to December 31, 1998 was provided based on credit risk classifications of the loan portfolio in accordance with guidelines issued by the FSS. Estimated loan losses were determined by applying certain percentages to each credit risk classification. Under revised Korean GAAP, effective as at December 31, 1999, (although it was also applied by us in 1998), the FSS requires allowances to fully reflect a borrower's future capacity to repay using forward looking criteria, rather than solely past performance, by applying the internal credit grading system developed by the reporting bank. The forward looking criteria are applied only to our corporate loans. Other loans with homogeneous characteristics, such as household loans, are classified and provided for based on past payment history and delinquency status. Pursuant to the FSS regulations, loans are classified as normal, special attention, substandard, doubtful or loss, and the allowance for loan losses is determined by applying a percentage within a certain range to those classifications. The revised guidelines require a higher provision rate to be applied against loans classified as special attention loans. The effect of adopting the change was to increase net loss by ₩381 billion in 1998.

(5) Call loans are included in loans as of December 31, 1999. The amount of call loans at that date was ₩97 billion.

(6) Prior to 1998, there was no requirement to separately account for trading and investment securities. Securities are all included in investment securities in the above table for those years. Under Korean GAAP effective until the end of 1997, equity securities denominated in Won were stated at the lower of costs or market value (or the investor's share of the investee's net book value for non-listed companies). The resulting allowance was included in provisions within liabilities. The amounts of provisions for 1995, 1996 and 1997 were ₩47 billion, ₩121 billion and ₩239 billion, respectively. Debt securities denominated in Won were stated at acquisition cost. Under Korean GAAP effective in 1998 and until the following revision, debt securities denominated in Won were stated at acquisition cost. We accounted for all other debt and marketable equity securities on a basis similar to US GAAP. The effect of changing the valuation method for equity securities from the lower of cost or market value to market value was to decrease the net

loss in 1998 by ₩28 billion and to increase shareholders' equity by ₩11 billion. Under Korean GAAP effective for periods beginning after December 12, 1998, all debt securities and marketable debt securities are accounted for on a similar basis to U.S. GAAP. However, adjustments for impairment can be reversed up to the original cost of the investment.

(7) Guarantees and acceptances, for which the amounts were determined had been recorded as customers' liabilities on guarantees and guarantees outstanding on the balance sheets until 1998. From 1999, such amounts do not appear on the balance sheet but are recorded as an off-balance item in the notes to our financial statements. The amount of guarantees and acceptances at December 31, 1999, was ₩531 billion.

(8) Credit card accounts were included in loans as of December 31, 1999. The amount of credit card loans at that date was ₩1,237 billion.

(9) Leasehold deposits were recorded as other assets on the balance sheets until 1995. From 1996 to 1998 such amounts were recorded as premises and equipment. From 1999, such amounts are recorded as other assets on the balance sheet. Accumulated depreciation was recorded within provisions until 1998; but from 1999 such amounts are recorded as a deduction from premises and equipment. The amounts of accumulated depreciation for 1995, 1996, 1997 and 1998 were ₩172 billion, ₩222 billion, ₩270 billion and ₩312 billion, respectively.

(10) Other assets include leasehold deposits, accounts receivables, accrued interest income, prepaid expenses and unsettled debit of domestic exchange (which represents outstanding balances due from other banks generated in the process of fund settlements of domestic exchange, such as checks, bills, drafts, remittance exchange, ATM use and credit card network).

(11) Borrowings consist mainly of borrowings from Bank of Korea, the Korean government and the National Housing Fund.

(12) Call money is included in borrowings at December 31, 1999. The balance of call money at that date was ₩758 billion.

(13) Allowance for possible loan losses and accumulated depreciation were recorded as provisions until 1998 but from 1999, such amounts are recorded as deductions from the loans and premises and equipment balances, respectively. Unrealized losses on securities were also included as provisions until 1997. From 1998, such amounts are recorded as deductions from the carrying amounts of securities.

(14) Under Korean GAAP, effective as of December 31, 1999, (although we adopted the method in 1998) contingent losses with respect to guarantees and acceptances are recognized by applying the same classification methods and provision percentages used in determining the allowance for loan losses. Provisions are only applied to acceptances and guarantees classified as substandard, doubtful and estimated loss. The amounts of provisions as of December 31, 1998 and 1999 were ₩104 billion and ₩30 billion, respectively. These amounts are included in the provisions in 1998 and other liabilities in 1999.

(15) The minority interests in consolidated subsidiaries were nil in 1999 as operations of subsidiaries were not profitable in that year.

Profitability ratios

	As of December 31,				
	1995	**1996**	**1997**	**1998**	**1999**
	(percentages)				
Net income as a percentage of:					
Average total assets	0.33	0.33	0.34	(0.95)	0.91
Average stockholders' equity	15.92	10.87	9.38	(31.86)	26.15
Dividend payout ratio[(1)]	4.99	26.28	29.62	—	14.26
Net interest spread[(2)]	2.47	2.33	2.73	3.33	2.97
Net interest margin[(3)]	2.21	2.20	2.86	3.35	3.12
Cost-to-income ratio[(4)]	85.97	81.34	84.37	68.17	55.62
Cost-to average assets ratio[(5)]	2.72	2.95	6.27	4.29	2.81

(1) The dividend payout ratio represents the ratio of total dividends paid on common stock as a percentage of net income attributable to common stock. There was no dividend paid in 1998.

(2) Net interest spread represents the difference between the yield on average interest earning assets and cost of average interest bearing liabilities.

(3) Net interest margin represents the ratio of net interest income to average interest earning assets.

(4) Cost-to-income ratio represents the ratio of non-interest expense to the sum of net interest income, dividends and non-interest income.

(5) Cost-to-average-assets ratio represents the ratio of non-interest expense to average total assets.

Capital ratios

	As of December 31,				
	1995	1996	1997	1998	1999
	(in percentages)				
Total capital adequacy (BIS) ratio(1)	6.74	8.27	10.29	10.79	11.74
Tier I	3.89	5.59	5.45	5.64	6.93
Tier II	2.84	2.68	4.84	5.15	4.81
Average stockholders' equity as a percentage of average total assets	2.07	3.03	3.66	2.98	3.50

(1) The capital adequacy ratios are computed in accordance with the guidelines issued by the FSC. The computation is prepared on a consolidated Korean GAAP basis.

Asset quality ratios

	As of December 31,				
	1995	1996	1997	1998	1999
	(in ₩ billion, except percentages)				
Non-performing loans(1)	213	326	497	2,973	2,512
Non-performing loans as a percentage of total loans	1.22	1.64	2.05	10.42	7.34
Non-performing loans as a percentage of total assets	0.55	0.82	0.74	3.66	2.02
Allowance for loan losses as a percentage of non-performing loans	24.19	24.63	44.50	45.40	59.19
Allowance for loan losses as a percentage of total loans	0.81	0.92	1.53	5.42	4.97

(1) Non-performing loans are defined in accordance with regulatory guidance in Korea. Until 1997 we classified credit quality into the following five categories according to standards defined by the Office of Bank Supervision—normal, special mention, substandard, doubtful and loss. Non-performing loans were defined as loans classified as substandard, doubtful and loss. In 1998 as well as classifying credit quality into the five categories in accordance with standards defined by the FSS, we also took into account the repayment capability of borrowers. Since 1999, the FSS has changed the definition of non-performing loans based on new classification criteria for the soundness of a bank's assets. Non-performing loans are still defined as substandard, doubtful and loss but certain adjustments are now made to substandard credits. The portion of special mention loans of work-out companies, which are in default on interest payments are included but the portion of losses and doubtful credits that are paying interest are excluded. See ''Item 1. Description of Business—Supervision and Regulation—Principal Regulations Applicable to Banks in Korea—Asset Classification''.

Reconciliation with Korean Generally Accepted Accounting Principles

Our consolidated financial statements are prepared in accordance with accounting principles and policies as summarized in note 1 to the consolidated financial statements. These principles and policies differ in some respect from generally accepted accounting principles applicable in Korea. The following are reconciliations of net income and shareholders' equity of the consolidated financial statements with Korean GAAP.

		1999
		(in ₩ million)
Income statement		
Net income as reported		540,665
Adjustments:		
Item No.		
1.	Provision for loan losses, guarantees and acceptances	67,458
2.	Loan sale accounting	(73,346)
3.	Deferred loan costs	(7,402)
4.	Valuation of investment securities and hedging derivatives accounting	(113,237)
5.	Depreciation of fixed assets	(585)
6.	Leasing company consolidation	(15,401)
9.	Other	9,340
		(133,173)
	Tax effect of adjustments	47,268
Adjusted net income according to Korean GAAP		454,760
Adjusted net income per share (in ₩)		
	Basic	4,861.82
	Fully diluted	4,861.82
Weighted average number of shares (in millions)		92,027
Shareholders' equity as reported		1,755,624
Adjustments:		
Item No.		
1.	Provision for loan losses	(55,701)
2.	Loan sale accounting	(184,141)
3.	Deferred loan costs	(22,044)
4.	Valuation of investment securities and hedging derivatives accounting	40,217
5.	Revaluation of fixed assets	211,693
6.	Leasing company consolidation	(2,429)
7.	Reversal of dividend	(17,837)
8.	KDIC bonds purchased in connection with preferred shares	296,500
9.	Other	12,198
		278,456
	Tax effect of adjustments	119,635
Adjusted shareholders' equity according to Korean GAAP		2,153,715

The following is a summary of the significant adjustments made to consolidated net income and shareholders' equity to reconcile the US GAAP results with Korean GAAP. The numbered paragraphs below refer to the corresponding item numbers set forth above.

1. We have established the US GAAP loan loss allowance for impaired nonhomogeneous loans based on the present value of expected future cash flows discounted at the loan's effective interest rate, or based on the fair value of the collateral if the loan is collateral dependent. For small homogeneous loan portfolios, we have established the allowance for loan losses based on evaluation of the historical performance of the loan portfolios.

   Under Korean GAAP, the allowance for loan losses is generally established based on FSS guidelines, which require that the minimum allowance be established based on the classification of the loan. We used these guidelines in establishing the minimum reserves. Starting in 1998, we also established voluntary additional reserves on individual credits to be more in line with international banking practice. Our reserve is established based on the following percentages as of December 31, 1999:

	1999
	(Percentages)
Normal	0.5
Special Mention	2 to 19
Substandard	20 to 49
Doubtful	50 to 99
Loss	100

2. Under US GAAP, the transfer of loans is recorded as a sale if specific criteria are met relating to the relinquishment of control. If these criteria are not met, the transfer is treated as a secured borrowing. Under Korean GAAP, the transfer of loans is not subject to as severe of criteria and, therefore, certain loan transactions resulted in a sale and accordingly, in the recognition of a gain or loss.

3. Under US GAAP loan origination fees and the related costs are deferred and amortized over the life of the loan as an adjustment to the yield of the loan. Korean GAAP requires origination fees to be recognized in income when received or paid and does not provide for the deferral of related costs.

4. In order for a derivative to be considered a hedge under US GAAP, it must be effective in reducing the risk associated with the exposure being hedged, be designated as a hedge at the beginning of the contract and be highly correlated with the underlying hedged item for the life of the contract. Certain of our hedging contracts do not meet these criteria. Under Korean GAAP such direct linkage is not required and as a result, certain derivatives utilized by us as hedging instruments are accounted for as hedges and afforded accrual accounting.

   Under US GAAP, investment securities which experience an ‘‘other than temporary impairment’’ are required to be written down to their impaired amount. Korean GAAP does not have a specific requirement; however, management does periodically adjust the carrying value of its investment securities when it deems them permanently impaired.

   Also, under US GAAP, investments are accounted for under the provisions of SFAS No. 115, which requires investments to be categorized as ‘‘trading’’, ‘‘available for sale’’ or ‘‘held to maturity’’. Under Korean GAAP, the accounting and categorization of investments were different until 1999, when similar provisions were adopted as for US GAAP. The cumulative effect of the change in accounting for Korean GAAP purposes was recognized as an adjustment to equity.

5. In 1995, we revalued certain of its fixed assets in accordance with Korean GAAP with the revaluation increment credited to capital surplus. As a result of this revaluation, depreciation expense on these assets was adjusted. Under US GAAP such a revaluation is not permitted and depreciation expense is based on historical cost.

6. Under US GAAP, subsidiaries in which the parent company has legal control are consolidated. Under Korean GAAP, subsidiaries are consolidated when the parent company is deemed to have substantial control, which occurs when the parent company is the largest shareholder and holds 30% or more of the investee’s voting shares.

7. Dividends payable are recognized in the period in which they are declared and approved for US GAAP. Under Korean GAAP, they are recognized in the period in which they are announced.

8. Under US GAAP, we disclose that the KDIC bonds purchased in connection with preferred shares issued net against the corresponding preferred shares balance in stockholders’ equity. We must net the investment against the preferred shares because certain criteria that would allow us to show the KDIC bonds gross were not met. Under Korean GAAP, the respective KDIC bonds are included within securities available for sale.

9. Other represents various items, including such items as stock options, amortization of intangibles, foreign currency transactions and stock issue costs, where Korean GAAP differs from US GAAP. These items have been aggregated as they are individually insignificant in both their nature and amount.

The interim financial information provided in Appendix B is presented on a non-consolidated basis, whereas the differences summarized above are a reconciliation of our consolidated US GAAP financial statements and consolidated Korean GAAP financial statements. As a result, all differences may not be applicable to the non-consolidated semi-annual financial statements.

During the six months ended June 30, 2000, we sold loans with a net book value of ₩48 billion to a special purpose entity, which issued ₩90 billion of notes. Under Korean GAAP, this transaction was accounted for as a sale and consequently, net loans were reduced by ₩48 billion and a ₩13 billion gain, net of tax, was recognized on the sale. Under US GAAP, this transaction would be recorded as a secured borrowing and no gain would be recognized.

Recent Accounting Pronouncements

In June of 1998, the Financial Accounting Standards Board issued SFAS No. 133, ‘‘Accounting for Derivative Instruments and Hedging Activities’’. SFAS 133 establishes accounting and reporting standards for derivative instruments and hedging activities, and requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value.

In June of 1999, the FASB issued SFAS 137 ‘‘Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of FASB Statement No. 133’’. SFAS 137 defers the effective date of SFAS 133 to all fiscal quarters of fiscal years beginning after June 15, 2000. In June 2000, the FASB issued SFAS 138 ‘‘Accounting for Certain Derivative Instruments and Hedging Activities—an Amendment of SFAS No. 133’’. SFAS 138 addresses a limited number of issues causing implementation difficulties for the numerous entities that are required to apply SFAS 133. Initial application of SFAS 133 should be as of the beginning of an entity’s fiscal quarter: on that date, hedging relationships must be designated anew and documented pursuant to the provisions of SFAS 133. We have not yet adopted SFAS 133 or determined the potential impact on our financial position, results of operations or cash flows from implementing SFAS 133. However, had we designated our derivatives held for other than trading as trading derivatives as of December 31, 1999, we would have recognized an additional trading loss of ₩31 million.

Year 2000 Compliance

We have successfully completed our year 2000 readiness activities. We continue to operate normally across all products and geographies and, to date, have not experienced any material or significant adverse effect due to the year 2000 date conversion. We are not currently aware of any year 2000 readiness impact on third parties with whom we do business. It is possible that year 2000 date conversion problems may still occur in our systems. Accordingly, we will continue to monitor our operations even though we do not expect any such problem to be material or to result in a material adverse effect on us.

Item 9A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information required by this Item is contained in ‘‘Item 1. Description of Business—Risk Management —Market Risk’’.

Item 10. DIRECTORS AND OFFICERS OF REGISTRANT

Board of Directors

Our board of directors, which consists of three executive directors and 12 non-executive directors, has the ultimate responsibility for the management of our affairs. Our three executive directors consist of the chairman, president and CEO, one director and executive vice president and one auditor and executive director.

Our articles of incorporation provide for no more than 20 directors and the number of executive directors must be less than 40% of the total number of directors.

Each executive director is elected for a three year term of office and each non-executive director is elected to a one year term. Terms are renewable and are subject to the Commercial Code of Korea, the Bank Act and related regulations. Our board of directors meets on a regular basis, on average once every three months, to discuss and resolve material corporate matters. Additional extraordinary meetings can also be convened at the request of the chairman or one-third or more of the directors.

Currently, we have five management committees serving under the board: the Steering Committee of the Board of Directors, the Managerial Strategy Committee, the Risk-Management Committee, the Audit Committee and the Compensation Committee. Each committee member is appointed and organized by the board of directors.

The names and positions of our directors are set forth below. The business address of all of the directors is our registered office at 36-3, Yoido-dong, Youngdeungpo-gu, Seoul, 150-758 Korea.

Executive Directors

Our current executive directors are as follows:

Name	Age	Position
Jung-Tae Kim(1)	52	Chairman, President & CEO
Choul-Ju Lee(2)	60	Auditor and Executive Director
Jan Op de Beeck(3)	47	Executive Director & Executive Vice President

(1) Member of Steering Committee of the Board of Directors.
(2) Member of Audit Committee.
(3) Appointed by ING. As long as ING owns 9.99% of our shares of common stock, it will be entitled to nominate one executive director for appointment to our board of directors, subject to shareholder approval.

None of the executive directors have any significant activities outside H&CB.

Jung-Tae Kim, Chairman, President and CEO, joined H&CB in 1998. He was elected as a Director in 1998 and became Chairman, President and CEO in 1998. Mr. Kim received a BA in Business Administration as well as an MBA from Seoul National University. Prior to joining H&CB, he was an executive director for Daeshin Securities Co., Ltd. and the CEO for Dongwon Securities Co., Ltd.

Choul-Ju Lee, Auditor and Executive Director, joined H&CB in 1999 and became Statutory Auditor in 1999 and automatically became a Director and executive Audit Committee member in 2000 without an election process when we amended our articles of incorporation to replace the office of the statutory auditor with the audit committee. Mr. Lee received a BA in Business Administration from Seoul National University. Prior to joining H&CB, he was a director and executive vice president for Hanil Bank.

Jan Op de Beeck, Executive Director and Executive Vice President, joined H&CB in 1999 and was elected as a Director in 1999. He received an MA in Economics from Ghent University. Prior to becoming a director, he was the head of the domestic banking department of Bank Brussels Lambert in Belgium.

Non-Executive Directors

Our non-executive directors are selected based on the candidates' talents and skills in diverse areas, such as law, finance, economy, management and accounting. Currently, 12 non-executive directors are in office. Of our 12 non-executive directors, eight directors were nominated by shareholder representatives and the remaining four directors were nominated by our board of directors.

Our current non-executive directors are as follows:

Name	Age	Position
Woon-Youl Choi[1][3]	50	Non-Executive Director
Joon Park[4][5]	45	Non-Executive Director
Kuk-Ju Kwon[1][2]	55	Non-Executive Director
Ju-Hyun Yoon[2][3]	46	Non-Executive Director
Sun-Jin Kim[1][2][5]	58	Non-Executive Director
Seung-Woo Nam[1][2][4]	48	Non-Executive Director
Kyung-Hee Yoon[3][5][6]	53	Non-Executive Director
Sung-Hee Jwa[3][4]	53	Non-Executive Director
Bruce G. Willison[1][2]	51	Non-Executive Director
In-Joon Kang[3][5]	63	Non-Executive Director
Moon-Soul Chung[2][4]	62	Non-Executive Director
Heung-Soon Chang[2][4]	39	Non-Executive Director

(1) Member of Steering Committee of the Board of Directors.
(2) Member of Managerial Strategy Committee.
(3) Member of Risk-Management Committee.
(4) Member of Compensation Committee.
(5) Member of Audit Committee.
(6) Appointed by ING. As long as ING owns 9.99% of our shares of common stock, it will be entitled to nominate one non-executive director for appointment to our board of directors, subject to shareholder approval.

Substantially all of the non-executive directors hold positions with companies or organizations other than ours.

Woon-Youl Choi has been a Non-Executive Director since 1999, when he joined H&CB. Mr. Choi is currently a professor at Seokang University. He received a BA in Business Administration from Seoul National University and an MA and Ph.D. in Business Administration from the University of Georgia. Mr. Choi has also served as chairman for the KOSDAQ Committee as well as president of the Korea Securities Research Institute.

Joon Park has been a Non-Executive Director since 1999, when he joined H&CB. He is currently working as an attorney at the firm of Kim & Chang, and he received a BA in Law from Seoul National University and an LLM from Harvard Law School. Mr. Park has worked in the past as an attorney at the New York law firm of Sullivan & Cromwell.

Kuk-Ju Kwon has been a Non-Executive Director since 1999 when he joined H&CB. Mr. Kwon is currently the president and CEO of Nong Sim Ga Co., Ltd. He received a BA in Business Administration from Yonsei University, and in the past has served as CEO of Shinsegae Department Store Co.

Ju-Hyun Yoon has been a Non-Executive Director since 1999, when she joined H&CB. Ms. Yoon is currently a research fellow at the Korea Research Institute for Human Settlements. Her educational background consists of a BA in Applied Statistics, received from Yonsei University, an MS received from KAIST, Korea Advanced Institute of Science and Technology and a PhD in Economics, received from University of Southern California. Ms. Yoon has also served as a senior researcher for the Korea Development Institute and a non-executive director of Korea Electric Power Corporation.

Sun-Jin Kim has been a Non-Executive Director since 1999 when he joined H&CB. Mr. Kim currently serves as the CEO of Yuhan Co. He received an MBA from Korea University, and prior to becoming CEO of Yuhan Co., Mr. Kim served as vice president of that company.

Seung-Woo Nam has been a Non-Executive Director since 1999 when he joined H&CB. Mr. Nam is currently the CEO of Pulmuone Co., Ltd. He received a BA in Law from Seoul National University and a PhD in Bionics from Yonsei University. Prior to becoming CEO of Pulmuone Co., Ltd., Mr. Nam served as President of Exo Fresh Co., Ltd. as well as president for the Korea Health Food and Special Nutritive Food Association.

Kyung-Hee Yoon has been a Non-Executive Director since 1999, when he joined H&CB. He is currently working as Country Manager and Managing Director of ING Barings, Limited, Korea. He received a BA in Law from Seoul National University. Mr. Yoon has worked in the past as a director and branch manager of ING Barings Limited.

Sung-Hee Jwa has been a Non-Executive Director since 1998, when he joined H&CB. Mr. Jwa is currently the president of the Korea Economic Research Institute. He received both a BA and an MA in Economics from Seoul National University as well as a PhD in Economics from UCLA. Mr. Jwa has also been a team leader for the KDI Globalization Team and a member of the Presidential Advisory Committee.

Bruce G. Willison has been a Non-Executive Director since 1999, when he joined H&CB. Mr. Willison currently serves as the Dean of Anderson Business School. His educational background consists of a BA in Economics, which he received from UCLA, and an MA in Economics, which he received from USC. Mr. Willison has served as chairman and CEO of First Interstate Bank of California, and he was also the president and CEO of Home Savings of America.

In-Joon Kang has been a Non-Executive Director since 2000, when he joined H&CB. Mr. Kang served previously as the auditor of the National Pension Management Co., Ltd. He received a BA in Economics from Yonsei University as well as an MS in Political Science from Seoul National University.

Moon-Soul Chung has been a Non-Executive Director since 2000, when he joined H&CB. He is currently the president of Mirae Corporation. He received a BA in Religion and Philosophy from Won Kwang University.

Heung-Soon Chang has been a Non-Executive Director since 2000, when he joined H&CB. Mr. Chang is currently the president of Turbo Tek Co. Ltd. He received a BA in Electrical & Electronic Engineering from Seokang University and both an MS and a Ph.D. from KAIST.

In addition to the executive directors who are also our executive officers, we currently have the following executive officers:

Name	Age	Position
Ho-Gie Baeck	55	Executive Vice President
Seung-Dong Kim	55	Executive Vice President
Hong-Shik Chung	54	Executive Vice President
Suk-Il Cho	54	Executive Vice President
Young-Jo Joo	53	Executive Vice President
Je-Hyung Jo	52	Executive Vice President
Bong-Hwan Cho	50	Executive Vice President
Woo-Jung Lee	50	Executive Vice President
Sung-Chul Kim	48	Executive Vice President
Young-Il Kim	47	Executive Vice President

None of the executive officers have any significant activities outside H&CB.

Ho-Gie Baeck, Executive Vice President, joined H&CB in 1967 and was appointed as an Executive Director in 1998, and Executive Vice President in 1999. Mr. Baeck received a BA in Business Administration from Jungang University as well as an MBA from Korea University. Prior to becoming an executive officer, he served as the General Manager of a regional headquarter and managing director.

Seung-Dong Kim, Executive Vice President, joined H&CB in 1971 and was appointed as an Executive Director in 1998 and Executive Vice President in 2000. Mr. Kim received a BA in Business Administration from Sung Kyun Kwan University and an MA in Economics at Nihon University. Prior to becoming an executive officer, Mr. Kim served as a general manager in the planning department of H&CB.

Hong-Shik Chung, Executive Vice President, joined H&CB in 1972 and was appointed as an Executive Director in 1998 and Executive Vice President in 1999. He received a BA in Business Administration from Yonsei University. Prior to becoming an executive officer, Mr. Chung served as a general manager of a regional headquarter.

Suk-Il Cho, Executive Vice President, joined H&CB in 1972 and was appointed as an Executive Director in 1998 and Executive Vice President in 1999. Mr. Cho received a BA in Business Administration from Myongji University. Prior to becoming an executive officer, he served as a general manager in the loan planning department of H&CB.

Young-Jo Joo, Executive Vice President, joined H&CB in 1975 and was appointed as an Executive Director in 1998 and Executive Vice President in 2000. He received a BA in German Literature from Korea University. Prior to becoming an executive officer, Mr. Joo was the general manager of the trust banking department of H&CB.

Je-Hyung Jo, Executive Vice President, joined H&CB in 1973 and was appointed as an Executive Vice President in 1999. He received a BA in Economics from Kun Kuk University. Prior to becoming an executive officer, Mr. Jo was the general manager of the personnel department of H&CB.

Bong-Hwan Cho, Executive Vice President, joined H&CB in 1975 and was appointed as an Executive Vice President in 1999. Mr. Cho received a BA in Science of Agriculture from Seoul National University and an MA in Literature at Seoul National University. He also received an MS in Business Administration from Sogang University. Prior to becoming an executive officer, Mr. Cho served as a general manager in the planning department of H&CB.

Woo-Jung Lee, Executive Vice President, joined H&CB in 2000 and was appointed as an Executive Vice President in 2000. Mr. Lee received a BA in Social Science from Seoul National University as well as an MS in Economics from Vanderbilt University. Prior to becoming an executive officer, he served as a director general in the Government Properties Division in the Ministry of Finance and Economy.

Sung-Chul Kim, Executive Vice President, joined H&CB in 1972 and was appointed as an Executive Vice President in 2000. He graduated from Mockpo commercial high school. Prior to becoming an executive officer, Mr. Kim was the general manager of the corporate banking department of H&CB.

Young-Il Kim, Executive Vice President, joined H&CB in 1981 and was appointed as an Executive Vice President in 2000. Mr. Kim received a BA in Science Education from Seoul National University. Prior to becoming an executive office, Mr. Kim served as a general manager of both the Strategic Planning Team and the Risk Management Team of H&CB.

Corporate Governance

Steering Committee of the Board of Directors

Consisting of five non-executive directors and our President, the Steering Committee of the Board of Directors is responsible for ensuring the efficient operations of the board and the facilitation of the board's functions. The committee is responsible for both recommending and reviewing candidates for directors and recommending candidates for the committee. The committee also reviews and assesses the director compensation programs and retainer arrangements to attract qualified directors. The committee's responsibilities also include reviewing and assessing the board's structure and the effectiveness of that structure in fulfilling the board's fiduciary responsibilities. The committee's regular meeting is held every quarter.

Managerial Strategy Committee

Consisting of seven non-executive directors, the Managerial Strategy Committee oversees our long term strategy formulation and it reviews the management's proposals of new strategic businesses. The committee also reviews any other strategy and performance related matters which the committee deems necessary. The committee's regular meeting is held every quarter.

Risk Management Committee

Consisting of five non-executive directors, the Risk Management Committee's function is to discuss, decide and supervise all issues necessary for comprehensive risk management. In order to ensure our stable financial condition and to maximize our profits, this committee monitors our overall risk exposure and review or compliance with risk policies and risk limits. In addition, the committee reviews risk and control strategies and policies, evaluates whether each risk is at an adequate level, establishes or abolishes risk management divisions, reviews risk-based capital allocations, and reviews the plans and evaluation of internal control. The Committee's regular meeting is held every quarter.

Audit Committee

The Bank Act as amended in January 2000 requires banks to replace their statutory auditors with an audit committee on or prior to the annual shareholders' meeting to be held in 2000. Under the amended Bank Act, at least 2/3 of the members of an audit committee must be non-executive directors. Consisting of four non-executive directors and one executive director, our Audit Committee oversees our financial reporting and interacts with statutory auditors, compliance officers, management personnel and other committee advisors. The committee also reviews our financial information, auditor's examinations, key financial statement issues and the administration of our affairs by the board of directors and examines the agenda for, and financial statements and other reports to be submitted by the board of directors to the general meeting of shareholders. The committee's regular meeting is held every quarter.

Compensation Committee

Consisting of five non-executive directors, the Compensation Committee's function is to oversee our overall compensation strategy and ensure that our executives are compensated in a manner consistent with the strategy and requirements of the appropriate regulatory bodies. The committee is also responsible for reviewing and approving the executives' compensation criteria and levels as well as the fringe benefit plans and overseeing the overall succession planning for executives. The committee's regular meeting is held every six months.

Item 11. COMPENSATION OF DIRECTORS AND OFFICERS

The aggregate of the remuneration paid and benefits-in-kind paid by us and our subsidiaries to the President and CEO, our other executive directors, our non-executive directors and our executive officers for the year ended December 31, 1999, was ₩2,015 million. This amount is stated on an accrual basis and includes bonus payments and retirement benefits.

In addition, we have granted stock options to our Chairman, President and CEO and other directors and officers as described in ''Item 12. Options to Purchase Securities from Registrant of Subsidiaries''. In 1999, we recognized ₩3,892 million as compensation expense for the stock options granted.

Item 12. OPTIONS TO PURCHASE SECURITIES FROM REGISTRANT OR SUBSIDIARIES

Our Chairman, President and CEO has an option to purchase a total of 300,000 shares at an exercise price of ₩5,000 per share. He will also have the option to purchase an additional 100,000 shares at an exercise price of ₩5,000 per share if the average closing price of our stock between August 1, 2001 and October 31, 2001 (or during the three months prior to his resignation if he resigns before August 2001) is higher than the stock prices of any other bank listed on the Korea Stock Exchange.

Each of our two other executive directors has an option to purchase 30,000 shares, one at an exercise price of ₩13,900 per share and the other at an exercise price of ₩27,600 per share. Each of our executive officers has the option to purchase 30,000 shares, and the exercise price is ₩13,900 per share for seven of them and ₩27,600 per share for two of them, and one former executive officer has the option to purchase 10,000 shares at the exercise price of ₩13,900 per share.

Each of the non-executive directors has an option to purchase 7,000 shares at an exercise price of ₩27,600 per share, except for Mr. Bruce G. Willison, who has an option to purchase 10,000 shares at an exercise price of ₩13,900 per share.

Each of our ten general managers for regional headquarters has an option to purchase 10,000 shares at an exercise price of ₩27,600 per share.

All the stock options are exercisable at any time during a three-year period starting from the third anniversary of the option grant date. The options to purchase shares at an exercise price of ₩13,900 per share were granted on February 27, 1999 and the options to purchase shares at an exercise price of ₩27,600 were granted on February 28, 2000.

Item 13. INTERESTS OF MANAGEMENT IN CERTAIN TRANSACTIONS

We have entered into a number of transactions with entities affiliated with the government, which owns 14.50% of our common shares. For a description of such transactions, see ''Item 1. Description of Business—Other Business—Management of the National Housing Fund'', and ''—Assets and Liabilities—Loan Portfolio'', and ''Item 9. Management's' Discussion and Analysis of Financial Condition and Results of Operations—The Acquisition of DongNam Bank'', ''—Sales of Substandard Loans to KAMCO'' and ''—Housing Finance Credit Guarantee Fund (HFCGF)''.

As of December 31, 1999 we had an aggregate of ₩118.4 million in loans outstanding to our officers and directors.

In 1998 and 1999 there were no other loans outstanding from us or our subsidiaries or to the directors. Neither we nor our subsidiaries provide guarantees for the benefit of any of our directors or senior management. None of our directors or officers have or had any interest in any transaction effected by us which are or were unusual in their nature or conditions or significant to our business which were effected during the current or immediately preceding year or were effected during an earlier year and remain in any respect outstanding or unperformed.

PART II

Item 14. DESCRIPTION OF SECURITIES TO BE REGISTERED

Description of Capital Stock

This section provides information relating to our capital stock, including brief summaries of material provisions of our articles of incorporation, the Korean Commercial Code of 1962, as amended (the ''Commercial Code''), the Securities and Exchange Act of 1976, as amended (the ''Securities and Exchange Act'') and certain related laws of Korea, all as currently in effect. The following summaries are subject to the articles of incorporation and the applicable provisions of the Securities and Exchange Act, the Commercial Code, and certain other related laws of Korea.

General

As of March 31, 2000, our authorized share capital is 1,000,000,000 shares. Our articles of incorporation provide that we are authorized to issue shares of preferred stock up to one-half of all of the issued and outstanding shares of common stock. Furthermore, through an amendment of the articles of incorporation, we may create new classes of shares, in addition to the common shares and the preferred shares. See ''—Voting Rights''.

As of March 31, 2000, 109,062,554 shares of common stock and 17,790,000 shares of preferred stock were issued and outstanding. All of the issued and outstanding shares are fully-paid and non-assessable, and are in registered form. Our authorized but unissued share capital consists of 831,637,446 shares. We may issue the unissued shares without further shareholder approval but subject to a board resolution as provided in the articles of incorporation. See ''—Preemptive Rights and Issuance of Additional Shares'' and ''—Distribution of Free Shares''.

On December 29, 1998, we issued 59,300,000 convertible preferred shares to KDIC. The preferred shares are non-voting, have a non-cumulative and non-participating dividend and are comprised of five series which have different conversion dates. In January, 2000, we repurchased 41,510,000 preferred shares from KDIC and we currently hold such shares as treasury stock. For a description of the terms of the preferred shares, the circumstances of their issuance and the circumstances under which they can be converted into common shares, see ''Item 9. Management's Discussion and Analysis of Financial Condition and Results of Operation—Acquisition of DongNam Bank''.

Share certificates are issued in denominations of one, five, ten, 50, 100, 500, 1,000 and 10,000 shares.

Dividends

Dividends are distributed to shareholders in proportion to the number of shares of the relevant class of capital stock owned by each shareholder following approval by the shareholders at an annual general meeting of shareholders. We pay full annual dividends on newly issued shares (such as the shares representing the American depositary shares) for the year in which the new shares are issued.

We declare our dividend annually at the annual general meeting of shareholders which is held within three months after the end of the fiscal year. The annual dividend must be paid to the shareholders of record as of the end of the preceding fiscal year within one month after the annual general meeting. Annual dividends may be distributed either in cash or in shares provided that shares must be distributed at par value and, if the market price of the shares is less than their par value, dividends in shares may not exceed one-half of the annual dividend.

Under the Commercial Code we do not have an obligation to pay any annual dividend unclaimed for five years from the payment date.

The Bank Act and the regulations thereunder provide that a bank shall not pay an annual dividend unless it has set aside in its legal reserve an amount equal to at least one-tenth of its net income after tax and shall set aside such amount in its legal reserve until its legal reserve reaches at least the aggregate amount of its stated capital. Under the Bank Act and the regulations thereunder, we shall set aside allowances for loan losses and reserves for retirement allowances in addition to the above legal reserve.

For information regarding Korean taxes on dividends, see ‘‘Item 7. Taxation—Korea’’.

Distribution of Free Shares

In addition to permitting dividends in the form of shares to be paid out of retained or current earnings, the Commercial Code permits a company to distribute to its shareholders, in the form of free shares, an amount transferred from the capital surplus or legal reserve to stated capital. These free shares must be distributed to all of the shareholders pro rata. Our articles of incorporation provide that the types of shares to be distributed to the holders of preferred shares will be determined by the board of directors. For information regarding the treatment under Korean tax laws of free share distributions, see ‘‘Item 7. Taxation—Korea’’. Holders of American depositary receipts will be able to participate in distributions of free shares to the extent described in ‘‘Terms and Conditions of the American Depositary Receipts—Distributions of Shares’’.

Preemptive Rights and Issuance of Additional Shares

Unless otherwise provided in the Commercial Code, a company may issue authorized but unissued shares at such times and upon such terms as the board of directors of the company may determine. The company must offer the new shares on uniform terms to all shareholders who have preemptive rights and who are listed on the shareholders' register as of the record date. Our shareholders are entitled to subscribe for any newly issued shares in proportion to their existing shareholdings. However, as provided in the articles of incorporation, new shares that are (1) publicly offered pursuant to the Securities and Exchange Act, (2) issued to our employee stock ownership association as described in the following paragraph, (3) represented by depositary receipts, (4) issued to certain foreign or domestic investors satisfying the requirement under the Bank Act and other relevant laws and regulations, (5) issued upon exercise of stock options pursuant to the Securities and Exchange Act or (6) issued to the Government or KDIC may be issued to persons other than existing shareholders pursuant to a resolution of the board of directors.

Under the Commercial Code, a company may vary, without shareholders' approval, the terms of such preemptive rights for different classes of shares. Public notice of the preemptive rights to new shares and the transferability thereof must be given not less than two weeks (excluding the period during which the shareholders' register is closed) prior to the record date. We will notify the shareholders who are entitled to subscribe for newly issued shares of the deadline for subscription at least two weeks prior to the deadline. If a shareholder fails to subscribe on or before such deadline, the shareholder's preemptive rights will lapse. Our board of directors may determine how to distribute shares in respect of which preemptive rights have not been exercised or where fractions of shares occur.

Under the Securities and Exchange Act, members of our employee stock ownership association, whether or not they are shareholders, have a preemptive right, subject to certain exceptions, to subscribe for up to 20% of the shares publicly offered pursuant to the Securities and Exchange Act. Furthermore, this right is exercisable only to the extent that the total number of shares so acquired and held by such members does not exceed 20% of the total number of shares then outstanding. As of December 31, 1999, 3.6% of the outstanding common shares were held by such members.

General Meeting of Shareholders

There are two types of general meetings of shareholders: annual general meetings and extraordinary general meetings. We are required to convene our annual general meeting within three months after the end of each fiscal year. Subject to a board resolution or court approval, an extraordinary general meeting of shareholders may be held when necessary or at the request of the holders of an aggregate of 3% or more of our outstanding common shares or the holders of an aggregate of 0.75% or more of our outstanding shares with voting rights, who have held those shares at least for six months. Under the Commercial Code, an extraordinary general meeting of shareholders may also be convened at the request of our audit committee, subject to a board resolution or court approval. Holders of non-voting shares may be entitled to request a general meeting of shareholders only to the extent the non-voting shares have become enfranchised as described under ''Voting Rights'' below (hereinafter referred to as ''enfranchised non-voting shares''). Meeting agendas are determined by the board of directors or proposed by holders of an aggregate of 3% or more of the outstanding shares with voting rights or by holders of an aggregate of 0.25% or more of such shares for at least six months by way of a written proposal to the board of directors at least six weeks prior to the meeting. Written notices stating the date, place and agenda of the meeting must be given to the shareholders at least two weeks prior to the date of the general meeting of shareholders; provided, that, notice may be given to holders of one per cent or less of the total number of issued and outstanding shares which are entitled to vote, by placing at least two public notices at least two weeks in advance of the meeting in at least two daily newspapers. Currently, we use The Korea Daily News and The Naeway Economic Daily for the publication of such notices. Shareholders who are not on the shareholders' register as of the record date are not entitled to receive notice of the general meeting of shareholders, and they are not entitled to attend or vote at such meeting. Holders of enfranchised non-voting shares who are on the shareholders' register as of the record date are entitled to receive notice of the general meeting of shareholders and they are entitled to attend and vote at such meeting. Otherwise, holders of non-voting shares are not entitled to receive notice of or vote at general meetings of shareholders.

The general meeting of shareholders is held at our head office (which is our registered head office) or, if necessary, may be held anywhere in the vicinity of our head office.

Voting Rights

Holders of common shares are entitled to one vote for each share. However, voting rights with respect to common shares that we hold and common shares that are held by a corporate shareholder, where more than one-tenth of the outstanding capital stock is directly or indirectly owned by us, may not be exercised. Unless stated otherwise in a company's articles of incorporation, the Commercial Code permits holders of an aggregate of 3% or more of the outstanding shares with voting rights to request cumulative voting when electing two or more directors. Our articles of incorporation currently prohibit cumulative voting. The Commercial Code and the articles of incorporation provide that an ordinary resolution may be adopted if approval is obtained from the holders of at least a majority of those common shares present or represented at such meeting and such majority also represents at least one-fourth of the total of our issued and outstanding common shares. Holders of non-voting shares (other than enfranchised non-voting shares) are not entitled to vote on any resolution or to receive notice of any general meeting of shareholders unless the agenda of the meeting includes consideration of a resolution on which such holders are entitled to vote. If our general shareholders' meeting resolves not to pay to holders of preferred shares the annual dividend as determined by the board of directors at the time of issuance of such shares, the holders of preferred shares will be entitled to exercise voting rights from the general shareholders' meeting following the meeting adopting such resolution to the end of a meeting to declare to pay such dividend with respect to the preferred shares. Holders of enfranchised preferred shares have the same rights as holders of common shares to request, receive notice of, attend and vote at a general meeting of shareholders.

The Commercial Code provides that to amend the articles of incorporation (which is also required for any change to the authorized share capital of the company) and in certain other instances, including removal of a director of a company, dissolution, merger or consolidation of a company, transfer of the whole or a significant part of the business of a company, acquisition of all of the business of any other company or issuance of new shares at a price lower than their par value, a special resolution must be adopted by the approval of the holders of at least two-thirds of those shares present or represented at such meeting and such special majority also represents at least one-third of the total issued and outstanding shares with voting rights of the company.

In addition, in the case of amendments to the articles of incorporation or any merger or consolidation of a company or in certain other cases which affect the rights or interest of the shareholders of the preferred shares, a resolution must be adopted by a separate meeting of shareholders of the preferred shares. Such a resolution may be adopted if the approval is obtained from shareholders of at least two-thirds of the preferred shares present or represented at such meeting and such preferred shares also represent at least one-third of the total issued and outstanding preferred shares of the company.

A shareholder may exercise his voting rights by proxy given to another shareholder. The proxy must present the power of attorney prior to the start of the general meeting of shareholders.

Rights of Dissenting Shareholders

Pursuant to the Securities and Exchange Act, in certain limited circumstances (including, without limitation, if we transfer all or any significant part of our business or if we merge or consolidate with another company), dissenting holders of shares have the right to require us to purchase their shares. To exercise such a right, shareholders must submit to us a written notice of their intention to dissent prior to the general meeting of shareholders. Within 20 days after the date on which the relevant resolution is passed at such meeting, such dissenting shareholders must request in writing that we purchase their shares. We are obligated to purchase the shares of dissenting shareholders within one month after the end of such request period at a price to be determined by negotiation between the shareholder and us. If we cannot agree on a price with the shareholder through such negotiations, the purchase price will be the arithmetic mean of (1) the weighted average of the daily share prices on the Korea Stock Exchange for the 60 day period prior to the date of the adoption of the relevant board of directors' resolution, (2) the weighted average of the daily share prices on the Korea Stock Exchange for one month prior to the date of the adoption of the relevant board of directors' resolution and (3) the weighted average of the daily share prices on the Korea Stock Exchange for one week prior to the date of the adoption of the relevant board of directors' resolution. However, the FSC may adjust such price if we or at least 30% of the dissenting shareholders do not accept such purchase price.

Register of Shareholders and Record Dates

We maintain the register of our shareholders at our office in Seoul, Korea. We register transfers of shares on the register of shareholders upon presentation of the share certificates.

The record date for annual dividends is December 31. For the purpose of determining the holders of shares entitled to annual dividends, the register of shareholders may be closed for the period following December 31 and ending on January 31. Further, the Commercial Code and the articles of incorporation permit us upon at least two weeks' public notice to set a record date and/or close the register of shareholders for not more than three months for the purpose of determining the shareholders entitled to certain rights pertaining to the shares. The trading of shares and the delivery of certificates in respect thereof may continue while the register of shareholders is closed.

Annual Report

At least one week before the annual general meeting of shareholders, we must make our annual report and audited non-consolidated financial statements available for inspection at our principal office and at all of our branch offices. Copies of annual reports, the audited non-consolidated financial statements and any resolutions adopted at the general meeting of shareholders will be available to our shareholders.

Under the Securities and Exchange Act, we must file with the FSC and the Korea Stock Exchange an annual report within 90 days after the end of our fiscal year, a half-year report within 45 days after the end of the first six months of our fiscal year and quarterly reports within 45 days after the end of the first three months and nine months of our fiscal year, respectively. Copies of such reports are available for public inspection at the FSC and the Korea Stock Exchange.

Transfer of Shares

Under the Commercial Code, the transfer of shares is effected by the delivery of share certificates. In order to assert shareholders' rights against us, the transferee must have his name and address registered on the register of shareholders. For this purpose, shareholders are required to file with us their name, address and seal. Non-resident shareholders must notify us of the name of their proxy in Korea to which our notice can be sent.

Under the FSC regulations, non-resident shareholders may appoint a standing proxy and may not allow any person other than the standing proxy to exercise rights regarding the acquired share or perform any task related thereto on his behalf, subject to certain exceptions. Under current Korean regulations, certain qualified securities companies and banks in Korea (including licensed branches of non-Korean securities companies and banks) and the Korea Securities Depository are authorized to act as agents and provide related services. Certain foreign exchange controls and securities regulations apply to the transfer of shares by non-residents or non-Koreans. See ''Item 6. Exchange Controls and Other Limitations Affecting Security Holders''. Except as provided in the Bank Act, the ceiling on the aggregate shareholdings of a single shareholder and persons who stand in a special relationship with such shareholder is four per cent of each class of our issued and outstanding shares. See ''Item 1. Description of Business Banking Regulation and Supervision—Principal Regulations Relating to Banks''.

Acquisition of our Shares

We generally may not acquire our own shares except in certain limited circumstances, including, without limitation, a reduction in capital.

Notwithstanding the foregoing restrictions, pursuant to the Securities and Exchange Act and regulations under the Bank Act, we may purchase our own shares on the Korea Stock Exchange or through a tender offer, subject to the restrictions that (1) the aggregate purchase price of such shares may not exceed the total amount available for distribution of dividends at the end of the preceding fiscal year less the amounts of dividends and reserves for such fiscal year, and (2) the purchase of such shares shall meet the risk-adjusted capital ratio under BIS standards, and subject to the FSC's approval.

In general, subsidiaries of which we own 40% or more are not permitted to acquire our shares.

Liquidation Rights

In the event we are liquidated, the assets remaining after the payment of all debts, liquidation expenses and taxes will be distributed to shareholders in proportion to the number of shares held. Holders of preferred shares have no preferences in liquidation.

Description of American Depositary Receipts

American Depositary Receipts

The Bank of New York, as depositary for the American depositary receipt program, will execute and deliver the American depositary receipts. Each American depositary receipt is a certificate evidencing a specific number of American depositary shares. Each American depositary share will represent ownership interests in one-half of one share (or the right to receive one-half of one share) deposited with Korea Securities Depository, as agent of the depositary, also referred to as the custodian. Each American depositary share will also represent any other securities, cash or other property which may be held by the depositary under the deposit agreement. The deposited shares, together with any other securities, other property or cash held by the depositary under the deposit agreement, are referred to as deposited securities. Our application to have the American Depositary Shares approved for listing on the New York Stock Exchange, Inc. under the symbol ''HCB'' has been approved. The depositary's office is located at 101 Barclay Street, New York, New York 10286. The custodian's office is located in Seoul, Korea.

You may hold American depositary shares either directly (by having an American depositary receipt registered in your name) or indirectly through your broker or other financial institution. If you hold American depositary shares directly, you are an American depositary receipt holder. This description assumes you hold your American depositary shares directly. If you hold the American depositary shares indirectly, you must rely on the procedures of your broker or other financial institution to assert the rights of American depositary receipt holders described in this section. You should consult with your broker or financial institution to find out what those procedures are.

As an American depositary receipt holder, we will not treat you as one of our shareholders and you will not have shareholder rights. Korean law governs shareholder rights. The depositary will be the holder of the shares underlying your American depositary shares. As a holder of American depositary receipts, you will have American depositary receipt holder rights. A deposit agreement among us, the depositary, you, as an American depositary receipt holder and the beneficial owners of American depositary receipts sets out American depositary receipt holder rights as well as the rights and obligations of the depositary. New York law governs the deposit agreement and the American depositary receipts.

The following is a summary of the material provisions of the deposit agreement. For more complete information, you should read the entire deposit agreement and the form of American depositary receipt.

Share Dividends and Other Distributions

How will you receive dividends and other distributions on the shares?

The depositary has agreed to pay to you the cash dividends or other distributions it or the custodian receives on shares or other deposited securities, after deducting its fees and expenses. You will receive these distributions in proportion to the number of shares your American depositary shares represent.

- *Cash*. The depositary will convert, as promptly as practicable, any cash dividend or other cash distribution we pay on the shares into U.S. dollars, if it can do so on a reasonable basis and can transfer the U.S. dollars to the United States. If that is not possible or if any approval from the Korean government is needed and cannot be obtained, the agreement allows the depositary to distribute the Won only to those American depositary receipt holders who have requested the distribution in writing. It will hold the Won it cannot convert for the account of the American depositary receipt holders who have not been paid. It will not invest the Won and it will not be liable for any interest.

  Before making a distribution, the depositary will deduct any withholding taxes that must be paid under Korean law. See ‘‘Item 7. Taxation—Korea—Dividend on Shares of Common Stock or American Depositary Shares’’. It will distribute only whole U.S. dollars and cents and will round fractional cents to the nearest whole cent. *If the exchange rates fluctuate during a time when the depositary cannot convert the Korean currency, you may lose some or all of the value of the distribution.*

- *Shares*. The depositary may distribute, as promptly as practicable, additional American depositary shares representing any shares we distribute as a dividend or free distribution. The depositary may require that we furnish it promptly with satisfactory evidence that it is legal to do so. The depositary will only distribute whole American depositary shares. It will sell shares which would require it to distribute a fractional American depositary share and distribute the net proceeds in the same way as it does with cash. If the depositary does not distribute additional American depositary shares, the outstanding American depositary shares will also represent the new shares.

- *Rights to purchase additional shares.* If we offer holders of our securities any rights to subscribe for additional shares or any other rights, the depositary may make these rights available to you. The depositary must first determine whether it is lawful and feasible to do so. If the depositary determines that it is not lawful or feasible to make these rights available to you, the depositary will use its best efforts that are reasonable to sell the rights and distribute the proceeds in the same way as it would do with cash. The depositary may allow rights that are not distributed or sold to lapse. *In that case, you will receive no value for them.*

If the depositary makes rights available to you, it will exercise the rights and purchase the shares on your behalf. The depositary will then deposit the shares and deliver American depositary shares to you. It will only exercise rights if you pay it the exercise price and any other charges the rights require you to pay.

If a registration statement under the Securities Act is required with respect to the securities to which any rights relate in order for us to offer the rights to you and to sell the securities represented by the rights, the depositary will not offer such rights to you unless and until such a registration statement is in effect, or unless the offering and sale of such securities and such rights to you are exempt from or not subject to the registration requirements of the Securities Act. If you request a distribution, notwithstanding that there has been no such registration under the Securities Act, the depositary shall not effect such distribution unless it has received an opinion from recognized counsel in the United States for us that such distribution to you is exempt from such registration. The depositary will not be responsible for any failure to determine that it may be lawful or feasible to make the rights available to you.

U.S. securities laws may restrict transfers and cancellation of the American depositary shares represented by shares purchased upon exercise of rights. For example, you may not be able to trade these American depositary shares freely in the United States. In this case, the depositary may deliver the American depositary shares under a separate restricted deposit agreement which will contain the same provisions as the deposit agreement, except for changes needed to put the necessary restrictions in place.

- *Other Distributions.* The depositary will send to you anything else we distribute on deposited securities by any means it thinks is legal, fair and practical. If it cannot make the distribution in that way, the depositary has a choice. It may decide to sell what we distributed and distribute the net proceeds, in the same way as it does with cash. Or, it may decide to hold what we distributed, in which case the American depositary shares will also represent the newly distributed property.

The depositary is not responsible if it decides that it is unlawful or impractical to make a distribution available to any American depositary receipt holders. We have no obligation to register American depositary shares, shares, rights or other securities under the Securities Act. We also have no obligation to take any other action to permit the distribution of American depositary receipts, shares, rights or anything else to American depositary receipt holders. *This means that you may not receive the distributions we make on our shares or any value for them if it is illegal or impractical for us to make them available to you.*

Deposit, Withdrawal and Cancellation

How are American depositary shares issued?

The depositary will deliver American depositary shares if you or your broker deposit shares or evidence of rights to receive shares with the custodian. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, subject to applicable laws and regulations of Korea and our articles of incorporation, the depositary will register the appropriate number of American depositary shares in the names you request and will deliver the American depositary receipts at its office to the persons you request.

Under the deposit agreement, the depositary is not allowed to accept shares for deposit unless:

- we give our consent or
- we notify the depositary that Korean law no longer requires our consent.

We have consented to the deposit of up to 23,400,000 shares. Therefore, you may deposit shares only to the extent that the number of shares held under the deposit agreement is less than 23,400,000.

How do American depositary share holders cancel an American depositary receipt and obtain shares?

You may turn in your American depositary receipts at the depositary's office. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, the depositary will deliver the deposited securities represented by your American depositary shares (1) to an account designated by you at Korea Securities Depository or (2) to your order at the custodian's office in Korea. Or, at your request, risk and expense, the depositary will deliver the deposited securities at its office, if it is permitted to do so by applicable law.

Voting Rights

How do you vote?

You may instruct the depositary to vote the shares underlying your American depositary shares. As soon as practicable, after it receives notice of a meeting from us, and upon our written request, the depositary will send a notice to you of the upcoming vote and arrange to deliver our voting materials to you. The materials will (1) describe the matters to be voted on, (2) contain a statement that the holders as of the close of business on a specified record date will be entitled to instruct the depositary as to how to exercise their voting rights for the number of shares of common stock or other deposited securities represented by their American depositary shares, subject to the provisions of applicable Korean law and our articles of incorporation, which provisions, if any, will be summarized in the notice to the extent that they are material and (3) explain how you may instruct the depositary to vote the shares or other deposited securities underlying your American depositary shares as you direct. For instructions to be valid, the depositary must receive them in writing on or before the date specified. The depositary will try, as far as practical, subject to Korean law and the provisions of our articles of incorporation, to vote or to have its agents vote the shares or other deposited securities as you instruct in writing. If you do not provide the depositary with your voting instructions, the depositary will vote your shares in the same manner and in the same proportion as all other shares, which are voted on the matter in question, are voted.

We can not assure you that you will receive the voting materials in time to ensure that you can instruct the depositary to vote your shares. In addition, the depositary and its agents are not responsible for failing to carry out voting instructions or for the manner of carrying out voting instructions. *This means that you may not be able to exercise your right to vote and there may be nothing you can do if your shares are not voted as you requested.*

You will not be entitled to instruct the depositary as to the exercise of voting rights with respect to any shares of common stock or other deposited securities represented by your American depositary shares which, when taken together with all other shares of common stock beneficially owned by you and certain of your affiliates, exceed 4% of the total number of shares of common stock at the time issued and outstanding, or any other limit under the articles of incorporation or applicable law of which we may from time to time notify the depositary.

Fees and Expenses

American depositary receipt holders must pay:	**For:**
$5.00 (or less) per 100 American depositary shares	• Each issuance of American depositary shares, including as a result of a distribution of shares or rights or other property • Each cancellation of American depositary shares for the purpose of withdrawal, including if the deposit agreement terminates
$.02 (or less) per American depositary share (to the extent permitted by the rules of any stock exchange on which American depositary shares are listed for trading)	• Any distribution of cash to you
A fee equivalent to the fee that would be payable upon deposit of shares for issuance of American depositary shares	• Distribution of securities distributed to holders of deposited securities which are distributed by the depositary to American depositary receipt holders
Registration or transfer fees	Transfer and registration of shares from your name to the name of the depositary or its agent when you deposit or from the depositary's name to your name when you withdraw
Expenses of the depositary	Conversion of Won to U.S. dollars
Expenses of the depositary	Cable, telex and facsimile transmission expenses (if expressly provided in the deposit agreement)
Taxes and other governmental charges the depositary or the custodian have to pay on any American depositary receipt or share underlying an American depositary receipt, for example, stock transfer taxes, stamp duty or withholding taxes	• As necessary
Any charges payable by the depositary or its agents in connection with servicing the deposited securities.	• As incurred

Payment of Taxes, Governmental Charges or Expenses

The depositary may deduct the amount of any taxes, governmental charges or expenses owed from any payments to you. It may also sell deposited securities, by public or private sale, to pay any taxes, governmental charges or expenses owed. You will remain liable if the proceeds of the sale are not enough to pay the taxes, governmental charges or expenses. If the depositary sells deposited securities, it will, if appropriate, reduce the number of American depositary shares to reflect the sale and pay to you any proceeds, or send to you any property, remaining after it has paid the taxes, governmental charges or expenses.

Reclassifications, Recapitalizations and Mergers

If we:	Then:
• Change the nominal or par value of our shares • Reclassify, split up or consolidate any of the deposited securities • Distribute securities on the shares that are not distributed to you • Recapitalize, reorganize, merge, liquidate, sell all or substantially all of our assets, or take any similar action	The cash, shares or other securities received by the depositary will become deposited securities. Each American depositary share will automatically represent its equal share of the new deposited securities. The depositary may, and will if we ask it to, distribute some or all of the cash, shares or other securities it received. It may also deliver new American depositary receipts or ask you to surrender your outstanding American depositary receipts in exchange for new American depositary receipts identifying the new deposited securities.

Disclosure of Beneficial Ownership of American Depositary Shares

We have a right to request you tell us who beneficially owns your American depositary shares and the capacity in which those American depositary shares are owned. The depositary has agreed to help us get this information.

Limitations on Ownership of Shares and American Depositary Shares

We have the right to block transfers of our shares to prevent violation of limitations on ownership that are set forth in our articles of incorporation and applicable law. We describe these limitations under ‘‘Item 1. Description of Business—Supervision and Regulation—Principal Regulations Applicable to Banks in Korea—Restrictions on Bank Ownership’’.

For purposes of the ownership limitations referred to above, we consider ownership of American depositary shares to be the same as ownership of the underlying shares. Under the deposit agreement, we have a right to block transfers of American depositary shares to prevent violation of the ownership limitations. We may direct the depositary to take actions to eliminate ownership in violation of applicable limitations, including canceling American depositary shares and selling the underlying shares. However, the depositary will only take these actions if they are permitted by applicable law.

Amendment and Termination

How may the deposit agreement be amended?

We may agree with the depositary to amend the deposit agreement and the American depositary receipts without your consent for any reason. If the deposit amendment adds or increases fees or charges, except for taxes and other governmental charges or certain expenses of the depositary, or prejudices a an important right of American depositary receipt holders, it will only become effective 30 days after the depositary notifies you of the amendment. *At the time an amendment becomes effective, you are considered, by continuing to hold your American depositary receipt, to agree to the amendment and to be bound by the American depositary receipts and the deposit agreement as amended.*

How may the deposit agreement be terminated?

The depositary will terminate the deposit agreement if we ask it to do so. The depositary may also terminate the deposit agreement if it has told us that it would like to resign and we have not appointed a new depositary bank within 90 days. In either case, the depositary must notify you at least 30 days before termination.

After termination, the depositary and its agents will do the following under the deposit agreement but nothing else:

- advise you that the deposit agreement is terminated,
- to sell rights as provided in the deposit agreement,
- collect distributions on the deposited securities and any other property represented by the outstanding American depositary receipts, and
- deliver shares and other deposited securities upon cancellation of American depositary receipts.

On and after the date of termination, you will be entitled to receive the amount of deposited securities underlying an American depositary receipt upon (1) surrender of the American depositary receipt at the corporate trust office of the depositary, (2) payment of the fees of the depositary for the surrender of the American depositary receipt and (3) payment of any applicable taxes or governmental charges.

One year after termination, the depositary may sell any remaining deposited securities by public or private sale. After that, the depositary will hold the money it received on the sale, as well as any other cash it is holding under the agreement for the *pro rata* benefit of the American depositary receipt holders that have not surrendered their American depositary receipts. It will not invest the money and has no liability for interest. The depositary's only obligations will be some indemnification obligations and to account for the money and other cash or property. After termination our only obligations will be to indemnify the depositary for losses and to pay the depositary's expenses.

Limitations on Obligations and Liability

Limits on our Obligations and the Obligations of the Depositary; Limits on Liability to Holders of American depositary receipts

The deposit agreement expressly limits our obligations and the obligations of the depositary. It also limits our liability and the liability of the depositary. We and the depositary:

- are only obligated to take the actions specifically set forth in the deposit agreement without negligence or bad faith;
- are not liable if either of us is prevented or delayed by law or circumstances beyond our control from performing our obligations under the deposit agreement;
- are not liable if either of us exercises discretion permitted under the deposit agreement;
- have no obligation to become involved in a lawsuit or other proceeding related to the American depositary receipts or the deposit agreement on your behalf or on behalf of any other party; and
- may rely upon any documents we believe in good faith to be genuine and to have been signed or presented by the proper party.

In the deposit agreement, we agree to indemnify the depositary for acting as depositary, except for losses caused by the depositary's own negligence or bad faith, and the depositary agrees to indemnify us for losses resulting from its negligence or bad faith.

Requirements for Depositary Actions

Before the depositary will deliver American depositary shares or register a transfer of an American depositary receipt, make a distribution on an American depositary receipt, or permit withdrawal of shares, the depositary may require:

- payment of stock transfer or other taxes or other governmental charges and transfer or registration fees charged by third parties for the transfer of any shares or other deposited securities;

- satisfactory proof of the identity and genuineness of any signature or other information it deems necessary or proper or as we may require; and
- compliance with regulations it may establish, from time to time, consistent with the deposit agreement, including presentation of transfer documents.

The depositary may refuse to deliver American depositary shares or register transfers of American depositary receipts generally when the transfer books of the depositary, our transfer books or the Korea Securities Depository are closed or at any time if the depositary or we think it necessary or advisable to do so.

Your Right to Receive the Shares Underlying your American Depositary Receipts

You have the right to cancel your American depositary receipts and withdraw the underlying shares at any time except:

- When temporary delays arise because:
  - — the depositary has closed its transfer books or we have closed our transfer books;
  - — the transfer of shares is blocked to permit voting at a shareholders' meeting; or
  - — we are paying a dividend on the shares.
- When you or other American depositary receipt holders seeking to withdraw shares owe money to pay fees, taxes and similar charges.
- When it is necessary to prohibit withdrawals in order to comply with any laws or governmental regulations that apply to American depositary receipts or to the withdrawal of shares or other deposited securities.

This right of withdrawal may not be limited by any other provision of the deposit agreement.

Pre-release of American Depositary Receipts

The depositary may deliver American depositary receipts before deposit of the underlying shares. This is called a pre-release of the American depositary receipt. The depositary may also deliver shares upon cancellation of pre-released American depositary receipts (even if the American depositary receipts are canceled before the pre-release transaction has been closed out). A pre-release is closed out as soon as the underlying shares are delivered to the depositary. The depositary may receive American depositary receipts instead of shares to close out a pre-release. The deposit agreement permits pre-release of American depositary receipts only under the following conditions:

- before or at the time of the pre-release, the person to whom the pre-release is being made must represent to the depositary in writing that it or its customer owns the shares or American depositary receipts to be deposited;
- the pre-release must be fully collateralized with cash, U.S. government securities or such other collateral as the depositary determines, in good faith, will provide similar liquidity and security;
- the depositary must be able to close out the pre-release on not more than five (5) business days' notice; and
- the pre-release is subject to further indemnities and credit regulations as the depositary deems appropriate.

In addition, the depositary will limit the number of American depositary shares that may be outstanding at any time as a result of pre-release, although the depositary may disregard the limit from time to time, if it thinks it is reasonably appropriate to do so.

PART III

Item 15. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

Item 16. CHANGES IN SECURITIES, CHANGES IN SECURITY FOR REGISTERED SECURITIES AND USE OF PROCEEDS

Not applicable.

PART IV

Item 17. FINANCIAL STATEMENTS

The registrant has responded to Item 18 in lieu of responding to this item.

Item 18. FINANCIAL STATEMENTS

Reference is made to Item 19(a) for a list of all financial statements filed as part of this registration statement.

Item 19. FINANCIAL STATEMENTS AND EXHIBITS

(a) List of Financial Statements:

(b) Exhibits

1.1 Articles of Incorporation (in English and Korean)

2.1 Form of Common Stock Certificate (in English and Korean)

2.2 Form of Deposit Agreement

3.1 Investment Agreement among H&CB, ING Insurance International B.V., ING and ING Verzekeringen N.V. dated July 15, 1999, as amended August 16, 1999.

5.1 List of All Subsidiaries of H&CB

9.1 Korean Banking Act (in English and Korean)

9.2 Korean Commercial Act (in English and Korean)

9.3 Korean Securities and Exchange Act (in English and Korean)

9.4 Korean Trust Business Act (in English and Korean)

Report of Independent Accountants

To the Board of Directors and Stockholders of H&CB:

We have audited the accompanying consolidated balance sheets of H&CB and its subsidiaries (the ''Bank'') as of December 31, 1999 and 1998, and the related consolidated statements of income, of changes in stockholders' equity, and of cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. 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.

As more fully discussed in Note 1 to the financial statements, the Bank has been significantly affected, and may continue to be affected for the foreseeable future, by the general adverse economic conditions in the Republic of Korea and in the Asia Pacific region.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Bank at December 31, 1999 and 1998, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

PricewaterhouseCoopers LLP

New York, New York
July 6, 2000

H & CB
Consolidated Balance Sheets

(All amounts expressed in millions of Won, except share data)

December 31,	Note	1999	1998
ASSETS			
Cash and due from banks and other financial institutions		1,280,960	1,664,663
Restricted deposits	5	930,967	663,063
Interest-bearing deposits in other banks		318,110	206,355
Call loans and securities purchased under resale agreements		75,621	466,549
Trading assets	6	2,371,009	1,184,349
Securities available for sale	7	4,359,742	7,767,645
Held-to-maturity securities (fair value of 2,659,216 in 1999 and 231,669 in 1998)	7	2,659,657	224,726
Loans (net allowance for loan losses of 1,286,552 in 1999 and 1,258,592 in 1998)	8	30,869,296	25,109,909
Premises and equipment, net	9	744,636	677,279
Due from customers on acceptances		264,966	382,099
Accrued interest and dividends receivable		378,076	485,161
Security deposits		511,076	566,219
Other assets		512,508	939,007
Total assets		45,276,624	40,337,024
LIABILITIES			
Due to depositors:			
Noninterest bearing	11	109,385	176,759
Interest bearing	11	33,269,948	27,366,707
Call money		758,000	179,137
Trading liabilities	6	3,950	19,126
Other borrowed funds	12	1,620,581	2,879,446
Acceptances outstanding		264,966	382,099
Accrued interest payable		2,523,475	2,333,514
Other liabilities		815,711	1,132,634
Secured borrowings	13	84,264	—
Long-term debt	14	4,070,720	4,758,573
Total liabilities		43,521,000	39,227,995
Commitments and contingencies (Notes 4, 25, 26, 27)		—	—
Minority interest		—	6,437
STOCKHOLDERS' EQUITY			
Preferred stock, (5,000 Won par value, authorized 1,000,000,000 shares; 59,300,000 shares issued and outstanding)	15	296,500	296,500
Less: KDIC bonds (at par value) purchased in connection with preferred shares issued		(296,500)	(296,500)
Common stock, (5,000 Won par value, authorized 1,000,000,000 shares; Issued and outstanding 109,062,555 shares in 1999 (adjusted for the 10% stock dividend approved February 28, 2000) and 89,233,000 shares in 1998)	16	545,313	446,165
Additional paid-in capital		838,153	284,147
Retained earnings	17	349,450	132,998
Accumulated other comprehensive income, net of taxes		22,708	239,282
Total stockholders' equity		1,755,624	1,102,592
Total liabilities, minority interest, and stockholders' equity		45,276,624	40,337,024

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

H&CB
Consolidated Statements of Income

(All amounts expressed in millions of Won, except per share data)

For the year ended December 31,	Note	1999	1998
Interest and dividend income			
Interest and fees on loans		3,291,355	3,471,755
Interest and dividends on investment securities:			
Interest		674,442	765,677
Dividends		1,543	368
Interest and dividends on trading securities:			
Interest		128,989	11,347
Dividends		1,042	911
Call loans and securities purchased under resale agreements		25,228	159,564
Interest from deposits in other banks		104,279	122,425
Other interest income		30,611	48,149
Total interest and dividend income		4,257,489	4,580,196
Interest expense			
Deposits		2,277,467	2,315,087
Call money		18,502	67,322
Other borrowed funds		137,418	370,206
Long-term debt		383,933	447,783
Total interest expense		2,817,320	3,200,398
Net interest income		1,440,169	1,379,798
Provision for loan losses	8	306,151	433,228
Provision for losses on guarantees and acceptances	8	(7,966)	(37,398)
Net interest income after provision for loan losses, guarantees and acceptances		1,141,984	983,968
Noninterest income			
Trust fees		161,507	155,699
Commission received on funds management		156,304	145,737
Other fees and commission income		141,586	102,858
Net trading revenue		156,961	80,501
Net gain on securities available for sale		53,333	16,688
Other noninterest income		58,261	29,451
Total noninterest income		727,952	530,934
Noninterest expense			
Salaries and employee benefits		517,746	609,331
Trust performance guarantees	31	—	206,427
Equity net loss of affiliates		19,714	6,311
Depreciation and amortization		91,816	70,614
Administrative expenses		158,869	126,303
Loss on sale of loans		1,046	61,155
Credit card fees		19,850	13,693
Other fees and commissions		108,729	87,290
Taxes and dues		33,091	31,211
Other noninterest expenses		110,914	70,901
Total noninterest expense		1,061,775	1,283,236
Income before income taxes and minority interest		808,161	231,666
Income tax expense	20	267,504	102,058
Income before minority interest		540,657	129,608
Less: Minority interest income (loss)		(8)	1,698
Net income		540,665	127,910
Net income applicable to common stockholders		540,665	127,910
Net income per common share:	21		
Basic:		5,289.23	1,424.50
Diluted:		3,338.08	1,416.45

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

H&CB
Consolidated Statements of Changes in Stockholders' Equity

(All amounts expressed in millions of Won)

December 31,	Note	1999	1998
Preferred Stock			
Balance, beginning of year		296,500	—
Issuance of stock		—	296,500
Balance, end of year		296,500	296,500
KDIC Bonds, at par value			
Balance, beginning of year		(296,500)	—
KDIC bonds purchased		—	(296,500)
Balance, end of year		(296,500)	(296,500)
Common Stock			
Balance, beginning of year		446,165	321,165
Issuance of stock		49,574	125,000
Stock dividend		49,574	—
Balance, end of year		545,313	446,165
Additional Paid-in Capital			
Balance, beginning of year		284,147	242,371
Issuance of stock		275,462	41,763
Stock dividend		274,639	—
Stock options issued		3,905	13
Balance, end of year		838,153	284,147
Retained Earnings			
Balance, beginning of year		132,998	37,205
Net income		540,665	127,910
Cash dividends declared:			
Common stock		—	(32,117)
Stock dividend		(324,213)	—
Balance, end of year		349,450	132,998
Accumulated Other Comprehensive Income, net of taxes			
Balance, beginning of year		239,282	(327,070)
Other comprehensive (loss) income	18	(216,574)	566,352
Balance, end of year		22,708	239,282
Total stockholders' equity		1,755,624	1,102,592
Comprehensive income			
Net income		540,665	127,910
Other comprehensive (loss) income, net of taxes		(216,574)	566,352
Comprehensive income		324,091	694,262

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

H&CB
Consolidated Statements of Cash Flows

(All amounts expressed in millions of Won)

For the year ended December 31,	1999	1998
Cash flows from operating activities:		
Net income	540,665	127,910
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses, guarantees and acceptances	298,185	395,830
Depreciation and amortization	91,816	70,614
Amortization of discounts borrowings	102,873	68,425
Net gain on sales of securities available for sale	(53,333)	(16,688)
Net loss on sales of loans	1,046	61,155
Net loss on disposal of property and equipment	2,023	76
Deferred income taxes	(45,426)	148,180
Unrealized foreign exchange gain	(88,592)	(311,749)
Stock options issued	3,905	13
Minority interest in net income of consolidated subsidiaries	(8)	1,698
Net change in		
Trading assets	(1,186,660)	(15,674)
Accrued interest and dividend receivable	107,085	(159,828)
Other assets	410,348	(149,794)
Trading liabilities	(15,176)	(255,148)
Accrued interest payable	189,961	(158,288)
Other liabilities	(175,757)	(822,153)
Net cash provided by (used in) operating activities	182,955	(1,015,421)
Cash flows from investing activities:		
Net change in interest-bearing deposits in other banks and financial institutions	(111,755)	1,144,907
Net change in restricted deposits	(267,904)	(60,075)
Net change in call loans and securities purchased under resale agreements	390,928	205,667
Net change in security deposits	55,143	2,060
Proceeds from sales of securities available for sale	2,707,230	761,920
Redemption and maturities of available for sale securities	9,271,636	17,395,253
Purchases of securities available for sale	(8,642,402)	(20,651,059)
Proceeds from maturities, prepayments, and calls of held-to-maturity securities	39,305	15,139
Purchases of held-to-maturity securities	(2,474,236)	(194,008)
Cash acquired as part of acquisition	—	484,120
Net proceeds on sale of loans	220,453	2,160
Net originations and repayments of loans	(6,465,169)	1,675,316
Additions to premises and equipment	(256,055)	(117,793)
Disposals of premises and equipment	110,717	11,949
Net cash (used in) provided by investing activities	(5,422,109)	675,556
Cash flows from financing activities:		
Net increase in deposits	5,835,867	1,968,900
Net increase in secured borrowings	84,264	—
Net increase (decrease) in call money	578,863	(1,622,786)
Net (decrease) increase in short-term borrowings	(1,258,865)	279,729
Proceeds from issuance of long-term debt	849,487	927,985
Repayment of long-term debt	(1,551,613)	(1,516,701)
Proceeds from preferred stock issuance	—	296,500
Proceeds from common stock issuance	325,036	166,763
Cash dividends paid on common stocks	—	(32,117)
Other	(6,429)	(5,373)
Net cash provided by financing activities	4,856,610	462,900
Effect of exchange rate changes on cash	(1,159)	(123)
Net increase (decrease) in cash and cash equivalents	(383,703)	122,912
Cash and cash equivalents, beginning of year	1,664,663	1,541,751
Cash and cash equivalents, end of year	1,280,960	1,664,663
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	2,627,394	3,357,005
Cash paid during the year for income taxes	47,350	106,295
Supplemental schedule of noncash investing and financing activities:		
Acquisitions		
Fair value of assets acquired	—	4,861,524
Less: liabilities assumed	—	5,854,236
Cash acquired	—	484,120
Acquisitions, net of cash acquired	—	(508,592)
KAMCO and KDIC Bonds received in connection with acquisition	—	540,100
Stock dividend approved February 28, 2000 and paid March 2000 (Note 16)	324,213	—
Subordinated bonds issued in exchange for KDIC bonds	—	148,000
Loans (repurchased) sold to KAMCO in exchange for bonds (Note 4)	(17,784)	128,473
Transfer of available for sale securities to the trading portfolio	—	979,746
Bonds and securities received in connection with loan restructuring (Note 8)	99,119	—

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

H&CB
Notes to Consolidated Financial Statements
All amounts are expressed in million of Korean Won ("Won") unless otherwise noted.

1. General information and summary of significant accounting policies

H&CB, formerly the Housing and Commercial Bank of Korea, was established in 1967 under the Korea Housing Bank Act to support the formation of funds for housing projects for low and moderate income households and to promote an efficient supply and management of housing funds. In 1997, the Commercial Code of the Republic of Korea was passed repealing the Korea Housing Bank Act and in August 1997, H&CB became a commercial bank governed by the Banking Act.

H&CB and its subsidiaries (the ''Bank'') operate through 537 local branches and three overseas branches as of December 31, 1999. The Bank is engaged in the commercial banking business under the Banking Act and in the trust business according to the Trust Business Act and other related laws.

At December 31, 1999, the Korean government and foreign investors owned 14.5% and 66.4%, respectively, of the outstanding common shares of the Bank.

Risk and Uncertainties

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

Although, economic conditions in the Republic of Korea have improved and some of the trends and conditions noted have reversed, the Bank may continue to be affected for the foreseeable future by the general adverse economic conditions in the Republic of Korea and in the Asia Pacific region.

Basis of presentation

The accounting and reporting policies of the Bank conform with accounting principles generally accepted in the United States (''GAAP''). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expense and disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

The policies, which are followed by the Bank to determine its financial position, results of operations and cash flows, are summarized below.

Principles of consolidation

The consolidated financial statements of the Bank include the accounts of H&CB and its wholly owned and majority-owned subsidiaries (Note 29). Equity investments of 20 to 50 percent ownership interests are accounted for using the equity method of accounting and are reported in Other assets. The Bank's proportional share of earnings and losses of these companies is included in Equity net loss of affiliates. All significant inter-company transactions and balances have been eliminated on consolidation including all interest on loans to equity investees where justified by the adverse financial condition of the equity investee.

Foreign currency translation

Foreign currency translation, which represents the effects of translating into Korean Won, at current exchange rates, financial results from entities outside Korea who have a functional currency other than the Korean Won, is recorded as a component of cumulative other comprehensive income within stockholders' equity, net of income tax effects. The effects of translating financial results of transactions denominated in foreign currencies by entities with the Korean Won as the functional currency are included in other income.

Foreign currency transactions in the domestic banking branches are accounted for at the exchange rates prevailing on the dates of the transactions; gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

Cash and cash equivalents

For the purpose of reporting cash flows, cash and cash equivalents are comprised of cash and amounts due from banks and other financial institutions with an original maturity of 90 days or less.

Resale and repurchase agreements

The Bank enters into short-term purchases of securities under agreements to resell (‘‘resale agreements’’) and sales of securities under agreements to repurchase (‘‘repurchase agreements’’) of substantially identical securities. Resale agreements and repurchase agreements are accounted for as secured lending and secured borrowing transactions, respectively, when certain criteria are met. If the criteria are not met, then the Bank accounts for its resale agreements as purchases of securities with related off-balance sheet forward commitments to resell and accounts for its repurchase agreements as sales of securities with related off-balance sheet forward commitments to repurchase. It is the Bank's policy to take possession or control of securities under agreements to resell. The Bank minimizes the credit risk associated with these transactions by monitoring its aggregate credit exposure to each counterparty and by monitoring collateral value and requiring the counterparty to deposit additional collateral with the Bank when deemed necessary.

The amount advanced under resale agreements accounted for as secured lending transactions and the amounts borrowed under repurchase agreements accounted for as secured borrowings transactions are carried on the balance sheet at the amount advanced or borrowed plus accrued interest. Interest earned on resale agreements and interest incurred on repurchase agreements is reported as interest income and interest expense, respectively.

Trading assets and liabilities

Trading assets include securities held in anticipation of short-term market movements. Trading liabilities include obligations to deliver securities not yet purchased. Trading positions are carried at fair value and recorded on a trade date basis. The Bank recognizes changes in the fair value of trading positions as they occur in net trading revenue. Trading assets and liabilities also include derivatives used for trading purposes, which the Bank carries at fair value. The Bank recognizes changes in the fair value of trading derivatives as they occur in net trading revenue. Trading securities and derivative financial instruments are valued using quoted market prices, including quotes from dealers in those securities or instruments, when available. If quoted market prices are not available, the fair value is estimated by using pricing models, quoted prices of instruments with similar characteristics or discounted cash flows.

Derivatives used for nontrading purposes

The Bank uses various derivatives, primarily interest rate and currency swaps, as an end-user to hedge interest rate and foreign currency exposures and to modify the interest rate characteristics of related balance sheet instruments. These derivatives are accounted for on an accrual basis and unrealized gains and losses are not recognized in income. Swaps used to manage the interest rate and foreign exchange risk of securities available for sale are carried at fair value with unrealized gains and losses, net of income taxes, recorded in accumulated other comprehensive income, a separate component of stockholders' equity.

Derivatives used as hedges must be effective at reducing the risk associated with the exposure being hedged. Each derivative must be designated as a hedge at the beginning of the contract and must be highly correlated with the underlying hedged item for the life of the contract. Derivative contracts that subsequently fail to meet the above criteria are redesignated as trading derivatives. Any gain or loss realized on the early termination of a hedging derivative are deferred and recognized over the life of the underlying item.

Securities available for sale

Securities are classified as available for sale when management intends to hold the securities for an indefinite period of time or when the securities may be utilized for tactical asset/liability purposes and may be sold from time to time to effectively manage interest rate exposure and resultant prepayment risk and liquidity needs. Premiums and discounts for foreign denominated securities are amortized or accreted, respectively, using the straight-line method. The amount of interest recognized using this method is not materially different than the interest that would have been recognized if the effective interest rate method were used. Premiums and discounts for domestic securities are amortized or accreted, respectively, using the effective interest rate method. Realized gains and losses on the sales of securities are determined using the specific identification method. Securities available for sale are reported at fair market value. Unrealized gains and losses on securities available for sale are excluded from earnings and reported as accumulated other comprehensive income, net of taxes. Declines in fair value of individual securities available for sale below their cost that are other than temporary result in write-downs of the individual securities to their fair value. The related write-downs are included in earnings as realized losses.

Held-to-maturity securities

Securities, which the Bank has the positive ability and intent to hold to maturity, are recorded at cost, adjusted for accretion/amortization of discounts and premiums. Premiums and discounts for foreign denominated securities are amortized or accreted, respectively, using the straight-line method. The amount of interest recognized using this method is not materially different than the interest that would have been recognized if the effective interest rate method were used. Premiums and discounts for domestic securities are amortized or accreted, respectively, using the effective interest rate method. Declines in fair value of individual held-to-maturity securities below their cost that are other than temporary result in write-downs of the individual securities to their fair value. The related write-downs are included in earnings as realized losses.

Loans

Loans are reported at the principal amount outstanding adjusted for charge-offs, the allowance for loan losses and any net loan origination costs. Interest on loans is accrued at the contractual rate and credited to income based on the principal amount outstanding.

It is the general policy of the Bank to cease the accrual of interest when principal or interest payments become one day past due. Any unpaid interest previously accrued on such loans is reversed from income, and thereafter interest is recognized only to the extent payments are received. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current. In applying payments on delinquent loans, payments are applied first to the delinquent interest, normal interest, and then to the loan balance until it is paid in full.

Securities received by the Bank involving loans that are restructured or settled are recorded at a cost basis equal to the fair market value of the security at the date of restructuring or settlement. Any difference between the security’s fair value and the net carrying amount of the loan is recorded as a charge-off or recovery on the loan through the allowance for loan losses.

Allowance for loan losses

The Bank’s allowance for loan losses is based upon management’s continuing review and evaluation of the loan portfolio and is management’s best estimate of probable losses which have been incurred as of the balance sheet date. The level of the allowance is based on an evaluation of the risk characteristics of the loan portfolio and considers factors such as past loss experience, the financial condition of the borrower, current economic conditions and other relevant factors. The allowance for loan losses is established by charges to income. Adjustments to the allowance due to changes in measurement of impaired loans are incorporated in the provision for loan losses. Loan losses, net of recoveries, are charged directly to the allowance.

A loan is considered impaired when, after consideration of current information and events, it is probable that the Bank will be unable to collect all amounts, including principal and interest, according to the contractual terms of the agreement. Once a loan is identified as impaired, management measures the loan based on the present value of expected future cash flows discounted at the loan’s effective interest rate or, as a practical expedient, at the loan’s observable market price or the fair value of the collateral if the loan is collateral dependent. If the resulting value is less than the book value of the loan, an allowance is established for the amount deemed uncollectible. Impairment criteria are applied to the loan portfolio, exclusive of smaller balance homogeneous loans such as residential mortgage, consumer loans and credit cards that are evaluated collectively for impairment.

The allowance for loan losses for commercial loans, which are not deemed to be impaired, is established for such loans on an aggregate pool basis based upon aggregate three year charge-off information as a percentage of average loans, adjusted for such qualitative factors as our concentration of a particular industry, the level of foreign currency exposure of lenders, economic conditions and the recourse available through collateral and guarantees.

The allowance for loan losses on consumer loans, both impaired and non-impaired, is established based on historical performance and charge-off information adjusted for qualitative factors such as changes in loan origination, monitoring and charge-off procedures and changes in the economic environment. More specifically, credit card loan reserves are based upon migration analyses, which are designed to predict loss rate for each delinquency aging category. Household mortgage loan reserves are based upon an aggregate rate of three-year charge offs to average loans. Other household loan reserves are also based upon an aggregate rate of three-year charge offs to average loans

Allowance for guarantees and acceptances

The Bank analyzes its off-balance sheet legally binding commitments for possible losses associated with such commitments. The Bank reviews the ability of the counterparty of the underlying credit commitment to perform under the proposed commitment. If it is determined that a loss is probable and estimable, the Bank will record a liability for other credit exposures in a similar manner as if a loan was granted under the terms of the commitment. The allowance for guarantees and acceptances is reflected in Other liabilities.

Loan deferred origination costs

The bank recognizes certain employee compensation and payroll-related benefit costs associated with originating loans as a yield adjustment over the life of the loan net of any related fees received. These expenses include direct loan origination costs and other costs directly related to specified activities performed by the Bank which includes evaluating the prospective borrower's financial condition, recording guarantees, collateral, and other security arrangements, negotiating loan terms, preparing and processing loan documents and closing the transaction. The Bank does not have any significant related fee income. All other lending-related costs, including costs related to activities performed by the Bank for advertising, soliciting potential borrowers, servicing existing loans, and other ancillary activities related to establishing and monitoring credit policies, supervision, and administration, are expensed as incurred.

Foreclosed land and buildings

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

Secured borrowings

Loans that are sold where the Bank retains the risks and rewards of ownership are retained on the balance sheet and treated as collateralized borrowings. The liability for funds received under the loan sale agreement are included within secured borrowings.

Property and equipment

Premises, equipment and leasehold improvements are stated at cost less accumulated depreciation and amortization. Depreciation of buildings is computed on a straight-line method over the estimated useful lives of the assets. Depreciation of equipment and vehicles is computed on a declining balance basis over the useful lives of the assets. Amortization of leasehold improvements is computed on a straight-line basis over the lives of the related leases, if shorter. Gains or losses on disposal of property and equipment are determined by reference to their carrying amount. Maintenance and repairs are charged to expense as incurred.

The estimated useful life of premises and equipment were as follows:

Buildings	5-40 years
Equipment and vehicles	5 years
Leasehold improvements	5 years

All leases entered into by the Bank as lessee qualify as operating leases. Payments made under operating leases are charged to income on a straight-line basis over the periods of the leases. Any payment made to the lessor by way of penalty for early termination of operating leases is recognized as an expense in the period in which termination takes place.

Interest expense

Interest expense is recognized on an accrual basis. For deposits where interest payments are linked to the return on exchange-traded securities, interest is recognized based on the price of the exchange-traded securities at the end of the period.

Employee Benefit Plan

The Bank recognizes a liability under their employee benefit plan for all employees covered by the plan for which it would be liable had the employee terminated their employment as of the end of the period.

Trust fees and compensation to the trust accounts

The Bank receives fees for its management of trust assets and operations, and is entitled to receive performance-based fees for certain trust accounts, in accordance with the relevant laws and regulations applicable to trust operations.

The Bank is liable to compensate trust account holders for losses incurred in certain trust accounts subject to minimum return and principal guarantees. Such losses are settled as of the end of each applicable year.

Income taxes

Deferred income tax is provided, by using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax.

Temporary differences arise from differences in the recognition of certain revenues and expenses between financial and tax reporting. Such differences include the recognition of losses on loans and investments, benefits under retirement plans, recognition of interest income, and valuation differences recognized for trading securities. Deferred tax assets, including the carry-forward of unused tax losses, are recognized to the extent that it is more likely than not that the deferred tax assets will be realized. To the extent that deferred tax assets are not realizable, a valuation allowance is recognized.

2. Recent Accounting Pronouncements

In June of 1998, the Financial Accounting Standards Board (''FASB'') issued Statement of Financial Accounting Standards (''SFAS'') No. 133, ''Accounting for Derivative Instruments and Hedging Activities.'' SFAS No. 133 establishes accounting and reporting standards for derivatives and hedging activities and supersedes and amends several existing standards. In June of 1999, the FASB issued SFAS No. 137, ''Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of FASB Statement No. 133.'' SFAS No. 137 defers the effective date of SFAS No. 133 to all fiscal quarters of fiscal years beginning after June 15, 2000. In June 2000, the FASB issued SFAS No. 138 ''Accounting for Certain Derivative Instruments and Hedging Activities—an Amendment of SFAS No. 133.'' SFAS 138 addresses a limited number of issues causing implementation difficulties for the numerous entities that are required to apply SFAS 133. Initial application of SFAS No. 133, as amended by SFAS 138, should be as of the beginning of an entity's fiscal quarter; on that date, hedging relationships must be designated anew and documented pursuant to the provisions of standard. The Bank has not yet adopted SFAS No. 133, as amended by SFAS 138, or determined the potential impact on its financial position, result of operations or cash flows from implementing SFAS No. 133, as amended by SFAS 138. However, had the Bank reclassified their derivatives held for other than trading purposes as trading derivatives as of December 31, 1999, the Bank would have recognized an additional trading loss of 31 million Won.

3. Acquisition of Dong Nam Bank

In accordance with the purchase and assumption arrangement effective June 29, 1998, the Bank purchased certain assets and assumed substantially all of the liabilities of Dong Nam Bank and its subsidiary, Dong Nam Finance

Limited (collectively, ''DNB''). In addition, the Bank retained the right to transfer any purchased assets which become non-performing within a year after the purchase date to the Korea Asset Management Corporation (''KAMCO'') on condition that the Bank is not found to be negligent in the management of those assets.

On the date of acquisition, the Bank acquired from DNB assets of 5,345,644 million Won and liabilities of 5,854,236 million Won including deposits of 3,111,878 million Won. This acquisition was accounted for as a purchase business combination and the results of operations have been included in the Bank's results of operations since June 29, 1998.

A summary of the unaudited pro forma combined financial information for the year ended December 31, 1998 as if the transaction had occurred on January 1, 1998 is presented below. The pro forma data gives effect to actual results of operations prior to acquisition. These pro forma amounts do not purport to be indicative of the results that would have actually been obtained if the acquisition had occurred as of the beginning of the period presented or that may be obtained in the future.

(all amounts expressed in millions of Won)	**1998**
Net interest income	1,367,919
Total income	5,492,775
Net loss	(290,882)
Net loss per common share:	
Basic:	(3,239.47)
Diluted:	(3,221.18)

At March 31, 1999, the Bank transferred to KAMCO 321,841 million Won of loans related to the DNB acquisition in accordance with the purchase and assumption agreement. At March 30, 1999, June 30, 1999 and September 30, 1999, the Bank also received compensation of 7,764 million Won, 2,136 million Won, and 24,368 million Won, respectively, in accordance with the purchase and assumption agreement reflecting the identification of requirements for additional loss allowances on certain loans acquired from Dong Nam over and above those recognized on June 29, 1998. This amount was recorded as an increase in the allowance for loan losses and restored the Bank to an overall neutral position on the transaction.

4. Other KAMCO loan sales

The Bank sold to KAMCO non-performing loans in the net aggregate principal amount (net of related allowances for loan losses) of 2 billion Won and 208 billion Won for a sales price of 142 million Won and 144 billion Won in 1999 and 1998, respectively. The sales price takes into account adjustments made to the purchase price of the Bank's loans after the initial payment by KAMCO, as governed by each sales contract. After considering the effect of loans repurchased by the Bank and recourse liabilities for certain loan guarantees, such sales resulted in losses of 1.6 billion Won and 61.2 billion Won for 1999 and 1998, respectively. Notwithstanding the sale and the elimination of these assets from the Bank's balance sheet, the Bank is obligated to repurchase the assets if KAMCO exercises a put option included in the original sales agreements. The Bank has recorded a liability of 2.8 billion Won and 28.9 billion Won at December 31, 1999 and 1998, respectively, representing the Bank's obligation to repurchase loans under the put option held by KAMCO. As of December 31, 1999 and 1998, loans subject to this put option had a net book value of 40,390 million Won and 173,726 million Won, respectively, for which the Bank had received proceeds of 27,034 million Won and 101,402 million Won. In addition, at December 31, 1999 the Bank has guaranteed the realization of the transfer price on loans of 81.9 billion Won (net of allowances) against which the Bank has provided 4.3 billion Won as a recourse liability.

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Notes to Consolidated Financial Statements—(Continued)
All amounts are expressed in millions of Korean Won ("Won") unless otherwise noted.

The Bank also pledged cash and bonds totaling 62.4 billion Won and 21.5 billion Won which were required by KAMCO for payment of recourse obligations expiring in 2000.

5. Restricted deposits

The following table presents restricted deposits as of December 31, 1999 and 1998.

(all amounts expressed in millions of Won)	**1999**	**1998**
Reserve deposits with the Bank of Korea	652,216	301,888
Sinking Funds deposited with the Bank of Korea	14,293	18,996
Deposits for severance payments	263,500	302,865
National Investment Fund	—	10,900
Other deposit	958	28,414
Total restricted deposits	930,967	663,063

Reserve deposits with the Bank of Korea represent amounts required under the Banking Act for payment of deposits. Deposits for severance payments are made under a group severance benefit plan, and their withdrawal currently is restricted to the actual payment of severance benefits.

6. Trading assets and liabilities

The following table presents trading assets and trading liabilities for December 31, 1999 and 1998.

(all amounts expressed in millions of Won)	**1999**	**1998**
Trading assets:		
Debt securities		
Korean Treasury and government agencies	2,025,304	878,426
Corporate debt securities	60,080	—
Debt securities issued by financial institutions	47,510	32,243
Other debt securities	10,807	75,476
Equity securities	122,335	83,413
Total debt and equity instruments	2,266,036	1,069,558
Derivative financial instruments:		
Cross currency contracts	101,134	108,228
Foreign exchange contracts	3,839	6,563
Total derivative financial instruments	104,973	114,791
Total trading assets	2,371,009	1,184,349
Trading liabilities:		
Derivative financial instruments:		
Interest rate contracts	972	838
Cross currency contracts	—	11,910
Foreign exchange contracts	2,978	6,378
Total trading liabilities	3,950	19,126

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Notes to Consolidated Financial Statements—(Continued)
All amounts are expressed in millions of Korean Won (“Won”) unless otherwise noted.

Average trading assets and liabilities were as follows for December 31, 1999 and 1998.

(all amounts expressed in millions of Won)	**1999**	**1998**
Total trading assets—debt and equity instruments	1,504,044	214,144
Total trading assets—derivative financial instruments	120,906	114,601
Total trading liabilities—derivative financial instruments	5,642	80,436

On October 31, 1998, the Bank restructured its securities investment group to include a trading department. As a result of the formation of the securities trading group, 979,746 million Won of available for sale securities were transferred into trading securities, which resulted in unrealized gains of 31,656 million Won being transferred from Other Comprehensive Income to the Income Statement.

7. Securities

At December 31, 1999, the amortized cost and estimated fair value of the Bank’s securities available for sale and held-to-maturity securities and the related unrealized gains and losses were as follows:

	December 31, 1999			
(all amounts expressed in millions of Won)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Securities available for sale:				
Debt securities				
Korean Treasury securities and government agencies	2,541,897	10,865	26,868	2,525,894
Corporate debt securities	431,769	6,571	2,422	435,918
Debt securities issued by financial institutions	485,951	15,507	9,477	491,981
Other debt securities	750,699	40,242	77	790,864
Equity securities	114,378	8,527	7,820	115,085
Total securities available for sale	4,324,694	81,712	46,664	4,359,742
Held-to-maturity securities:				
Korean Treasury securities and government agencies	1,235,159	3,353	12,940	1,225,572
Corporate debt securities	399,834	2,822	7,523	395,133
Debt securities issued by financial institutions	152,143	51	2,479	149,715
Debt securities issued by foreign governments	2,384	—	27	2,357
Bond Market Stabilization Fund (Note 32)	870,137	16,302	—	886,439
Total held-to-maturity securities	2,659,657	22,528	22,969	2,659,216

At December 31, 1999, the Bank recognized impairment losses on available for sale securities and held-to-maturity securities of 22,580 million Won and 1,899 million Won, respectively, where decreases in values were deemed to be other-than-temporary. As discussed in Note 1 and Note 8, Korean companies may continue to be adversely affected by adverse trends in the Korean economy which may result in additional decreases in the carrying amounts of other-than-government securities.

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Notes to Consolidated Financial Statements—(Continued)
All amounts are expressed in millions of Korean Won ("Won") unless otherwise noted.

At December 31, 1998, the amortized cost and estimated fair value of the Bank's securities available for sale and held-to-maturity securities and the related unrealized gains and losses were as follows:

	December 31, 1998			
(all amounts expressed in millions of Won)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale:				
Debt securities				
Korean Treasury securities and government agencies	5,902,753	294,509	23,851	6,173,411
Corporate debt securities	446,065	35,191	4,369	476,887
Debt securities issued by financial institutions	716,700	49,554	1,660	764,594
Other debt securities	325,413	15,168	194	340,387
Equity securities	29,130	84	16,848	12,366
Total securities available for sale	7,420,061	394,506	46,922	7,767,645
Held-to-maturity securities:				
Korean Treasury securities and government agencies	151,017	9,660	41	160,636
Corporate debt securities	55,254	2,911	5,741	52,424
Debt securities issued by financial institutions	16,994	2,968	2,702	17,260
Debt securities issued by foreign governments	1,461	—	112	1,349
Total held-to-maturity securities	224,726	15,539	8,596	231,669

During 1998, available for sale securities in the amount of 979,746 million Won were transferred into trading securities which resulted in unrealized gains of 31,656 million Won being transferred from Other Comprehensive Income to the Income Statement (Note 6).

Gross unrealized losses on swaps related to securities available for sale at December 31, 1999 and 1998 were 391 million Won and 2,055 million Won, respectively.

For the years ended December 31, 1999 and 1998, proceeds from sales of securities available for sale amounted to 2,707,230 million Won and 761,920 million Won, respectively. Gross realized gains amounted to 126,396 million Won and 47,792 million Won, respectively. Gross realized losses amounted to 73,063 million Won and 31,104 million Won, respectively.

The amortized cost and estimated fair value of the Bank's debt securities available for sale and held-to-maturity at December 31, 1999 by contractual maturity are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

At December 31, 1999	Securities available for sale		Held-to-maturity securities	
(all amounts expressed in millions of Won)	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	1,683,819	1,727,252	1,162,737	1,179,691
Due after one year through five years	2,309,864	2,299,332	1,466,920	1,451,203
Due after five years through ten years	216,633	218,073	30,000	28,322
Total	4,210,316	4,244,657	2,659,657	2,659,216

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Notes to Consolidated Financial Statements—(Continued)
All amounts are expressed in millions of Korean Won ("Won") unless otherwise noted.

8. Loans

The composition of the loan portfolio as of December 31, 1999 and 1998 was as follows:

(all amounts expressed in millions of Won)	**1999**	**1998**
Consumer:		
Residential mortgages	17,246,119	15,890,182
Installment loans to individuals	2,265,976	301,765
Credit cards	1,216,213	771,751
Other consumer(1)	4,209,623	2,097,716
Commercial:		
Commercial and industrial	3,944,406	3,680,721
Construction loans	1,601,338	2,041,427
Other commercial(2)	1,650,129	1,570,297
Gross loans	32,133,804	26,353,859
Deferred origination costs	22,044	14,642
Less: Allowance for loan losses	(1,286,552)	(1,258,592)
Total loans, net	30,869,296	25,109,909

(1) Other consumer loans include personal overdrafts, loans with principal due at maturity and loans for low-income housing leases.
(2) Other commercial loans include commercial bills discounted, overdrafts, and loans to public agencies.

During 1999, the Bank received convertible debt securities and non-marketable equity securities having a fair market value of 44,018 million Won and 55,101 million Won, respectively, through restructuring of 17 loans having an aggregate net book value of 125,583 million Won. The Bank recognized aggregate charge-offs of 109,651 million Won and recoveries of 4,887 million Won associated with these transactions.

Directors and executive officers of the Bank and their related interests were indebted to the Bank in the aggregate amounts of 47,380 million Won and 390,771 million Won at December 31, 1999 and 1998, respectively. From January 1, 1999, through December 31, 1999, directors and executive officers of the Bank and their related interests borrowed 12,707 million Won and repaid 356,098 million Won. In the opinion of management, these loans do not involve more than a normal risk of uncollectibility.

The following table sets forth information about the Bank's impaired loans as of December 31, 1999 and 1998. Impaired loans are those on which the Bank believes it is not probable that it will be able to collect all amounts due according to the contractual terms of the loan.

(all amounts expressed in millions of Won)	**1999**	**1998**
Impaired loans with an allowance	2,063,915	2,200,723
Impaired loans without an allowance	736,505	1,268,250
Total impaired loans	2,800,420	3,468,973
Allowance for impaired loans under SFAS 114	1,061,085	1,021,020
Average balance of impaired loans during the year	3,521,344	3,900,645
Interest income recognized on impaired loans during the year (1)	65,371	88,787

(1) Had the impaired loans performed in accordance with their original terms, additional interest income of 22,588 million Won and 33,028 million Won would have been recorded in 1999 and 1998, respectively.

As discussed in Note 1, adverse economic conditions in the Korean economy may continue to have an adverse effect on creditors of the Bank. The Bank owns investment securities of, and has loans outstanding to, a number Korean companies who have experienced financial difficulties. The ultimate collectiblity of these amounts is subject to a number of factors, including the successful performance of the debtors under various restructuring plans in place or in process of negotiation and their ability to perform on loan and debt obligations given the status of the Korean economy and the potential continuation of the adverse trends or other unfavorable developments. Consequently, it is reasonably possible that adjustments could be made to the reserves for impaired loans and to the carrying amount of investments in the near term in amounts that may be material to the Bank's financial statements.

The table below summarizes the changes in the allowance for loans, guarantees and acceptances:

	1999			**1998**		
(all amounts expressed in millions of Won)	**Loans**	**Guarantees & Acceptances**	**Total**	**Loans**	**Guarantees & Acceptances**	**Total**
Allowance at January 1,	1,258,592	39,904	1,298,496	789,101	77,302	866,403
Provision for loan losses, guarantees and acceptances	306,151	(7,966)	298,185	433,228	(37,398)	395,830
Allowance relating to loans sold to KAMCO	(5,744)	—	(5,744)	(90,291)	—	(90,291)
Allowance relating to loans sold to other companies	(17,071)	—	(17,071)	—	—	—
Allowance relating loans acquired —DongNam	—	—	—	202,365	—	202,365
Allowance relating to loans transferred to KAMCO in relation to DongNam	(61,466)	—	(61,466)	—	—	—
Other compensation received on DongNam loans	34,269	—	34,269	—	—	—
Charge-offs	(244,186)	—	(244,186)	(70,745)	—	(70,745)
Recoveries	16,420	—	16,420	4,934	—	4,934
Other	(413)	—	(413)	(10,000)	—	(10,000)
Allowance at December 31,	1,286,552	31,938	1,318,490	1,258,592	39,904	1,298,496

The allowance for guarantees and acceptances, which is included in 'Other liabilities,' was 31,938 million Won and 39,904 million Won at December 31, 1999 and 1998, respectively.

9. Premises and Equipment

Premises and equipment at December 31, 1999 and 1998 were as follows:

(all amounts expressed in millions of Won)	**1999**	**1998**
Land	187,453	188,065
Building and leasehold improvements	558,139	509,934
Equipment and furniture	338,722	292,214
Total	1,084,314	990,213
Less: Accumulated depreciation and amortization	(339,678)	(312,934)
Premises and equipment, net	744,636	677,279

The Bank incurred depreciation expense of 75,957 million Won and 60,559 million Won for the years ended December 31, 1999 and 1998, respectively.

10. Investments in affiliates

The equity method of accounting is used for the Bank’s investment in companies in which the Bank’s ownership interest is greater than twenty but less than fifty percent (‘‘Affiliates’’). Equity in net income or loss of Affiliates is presented separately in the consolidated statement of income.

At December 31, 1999, the Bank’s investments in Affiliates, accounted for under the equity method were:

	Country of incorporation	Percentage Ownership
Jooeun Leasing Co., Ltd.	Korea	50%
Jooeun Credit Information Co., Ltd.	Korea	50%

Jooeun Credit Information Co., Ltd. was established during 1999.

The net undistributed losses of these Affiliates were 164.3 billion Won and 124.7 billion Won as of December 31, 1999 and 1998, respectively. The Bank’s share of these losses was 82 billion Won and 62.3 billion Won as of December 31, 1999 and 1998, respectively. Investments in and loans to these Affiliates, included in ‘Other Assets,’ as of December 31, 1999 and 1998 were 109.9 billion Won and 166.3 billion Won, respectively, after recognition of the Bank’s share of Affiliates’ losses.

Summary financial information of Affiliates at December 31, 1999 and 1998 is presented below:

(all amounts expressed in millions of Won)	1999	1998
Balance sheet		
Assets	292,842	490,861
Liabilities	418,918	579,925
Shareholders’ deficit	(126,076)	(89,064)
Statement of Income		
Net interest income after provision for credit losses	(45,055)	(12,427)
Noninterest income	24,336	22,867
Noninterest expense	18,594	23,061
Loss before income tax	(39,313)	(12,621)
Income tax expense	115	—
Net loss	(39,428)	(12,621)

Subsequent to December 31, 1999, the Bank acquired majority ownership in Jooeun Leasing Co., Ltd. (Note 32).

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Notes to Consolidated Financial Statements—(Continued)
All amounts are expressed in millions of Korean Won ("Won") unless otherwise noted.

11. Deposits

Due to depositors as of December 31, 1999 and 1998, and the weighted average interest rates on deposits at December 31, 1999, were as follows:

(all amounts expressed in millions of Won)	1999	1998	Weighted Average Rate Paid for 1999
Interest-bearing deposits:			
Interest bearing demand deposits	7,394,239	5,269,427	2.65%
Savings deposits	920,111	524,595	3.99%
Certificate of deposit accounts	41,225	177,254	6.35%
Other time deposits	20,075,244	16,619,285	8.81%
Mutual installment deposits	4,839,129	4,776,146	9.56%
Total interest-bearing deposits	33,269,948	27,366,707	7.51%
Noninterest bearing deposits:			
Demand accounts	109,385	176,759	
Total due to depositors	33,379,333	27,543,466	

Mutual installment deposits are interest-bearing accounts offered by the Bank which enable customers to become eligible for mortgage and other consumer loans while maintaining an account with the Bank. The customer's account does not secure loan amounts once made. Prior to qualifying for a loan, a customer must make required monthly deposits to the mutual installment account for a contracted term of less than five years. A customer is not required to fulfill the deposit term prior to requesting a loan from the Bank, but loan amounts and terms are not as favorable as that associated with a loan request made after completing the deposit contract term.

Included in other time deposits at December 31, 1999 and 1998 are rental deposits in the amount of 5,672 million Won and 4,987 million Won, respectively, which represent balances received from lessees for the rental of residential apartments owned by the Bank. The Bank has pledged the residential apartments as collateral against such deposits.

The contractual schedule of maturities of certificate of deposits, other time deposits, and mutual installment deposits at December 31, 1999 was as follows:

(all amounts expressed in millions of Won)	1999
2000	18,739,599
2001	3,364,776
2002	1,904,733
2003	527,087
2004	247,871
Thereafter	171,532
Total deposits	24,955,598

Deposit insurance is provided by the KDIC under the Depositor Protection Act. Currently, deposits made on or before July 31, 1998 are insured for the entire amount plus an agreed interest rate, and deposits made after July 31, 1998 greater than 20 million Won are insured for their full amount but not interest. Starting January 1, 2001, the KDIC plans to insure only up to a total of 20 million Won per depositor in each bank, regardless of the timing or size of the deposits.

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Notes to Consolidated Financial Statements—(Continued)
All amounts are expressed in millions of Korean Won ("Won") unless otherwise noted.

12. Other borrowed funds

A summary of other borrowed funds at December 31, 1999 and 1998 is presented below:

	1999(1)		1998(1)	
(all amounts expressed in millions of Won, except interest rate data)	Outstanding Balance	Weighted Average Interest Rate	Outstanding Balance	Weighted Average Interest Rate
H&CB				
Borrowings from Bank of Korea	71,431	6.11%	1,146,058	4.97%
Borrowings in foreign currency	686,706	7.73%	760,201	9.03%
Short-term finance debentures in foreign currency	106,522	6.82%	60,390	9.13%
Other borrowings	454,627	5.80%	455,137	8.00%
Total H&CB other borrowed funds	1,319,286	6.90%	2,421,786	6.92%
Subsidiaries				
Borrowings from H&CB Trust Accounts	87,250	11.46%	290,900	12.36%
Borrowings from other financial institutions	214,045	9.22%	166,760	11.16%
Total subsidiaries other borrowed funds	301,295	9.87%	457,660	11.92%
Total other borrowed funds	1,620,581	7.45%	2,879,446	7.71%

(1) Original maturities of less than one year.

13. Secured borrowings

During 1999, the Bank sold certain non-performing loans to a special purpose entity, which in turn issued bonds in the amount of 128 billion Won collateralized by such loans. In accordance with SFAS No. 125, ''Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,'' this transaction has been accounted for as a secured borrowing. As a result, the 173 billion Won of loans collateralizing these borrowings are included in loans and bonds of 84 billion Won, which pay 9.7% to 10.5% and mature in 2000 and 2002, are included as liabilities of the Bank.

The Bank services the loans transferred and has received 86 million Won for these services in 1999.

H&CB
Notes to Consolidated Financial Statements—(Continued)
All amounts are expressed in millions of Korean Won ("Won") unless otherwise noted.

14. Long-term debt

The following table is a summary of long-term debt (net of unamortized original issue discount) at December 31, 1999 and 1998.

(all amounts expressed in millions of Won)	Maturity Date	1999 Total	1998 Total
Senior			
H&CB:			
Won currency:			
5.0%-6.5% Ministry of Finance and Economy notes	2009–2019	302,312	284,681
3.0% National Housing Fund notes	2000–2001	397,267	149,870
8.0% National Housing Fund notes	2000–2009	10,000	10,000
6.2%-8.55% Industrial Bank of Korea notes	2000–2007	192,725	203,238
9.09%-11.99% HCB Finance Debentures	2000–2002	329,000	25,000
5.5%-16.46% Housing Debentures	2000–2004	1,013,541	1,630,081
9.3% Floating rate Housing Debentures (2)	2000–2001	90,900	110,900
3.5%-10.5% Notes	2000–2009	154,984	260,646
Subtotal		2,490,729	2,674,416
Foreign currency:			
2.3% Finance Debentures	1999	—	210,694
6.5% Floating rate Finance Debentures (2)	2000	114,540	120,780
0.53%-8.8% Other floating rate notes (1) (2)	2000–2006	515,418	915,670
Subtotal		629,958	1,247,144
Subsidiaries:			
3.0%-9.0% National Housing Fund notes	2000–2028	43,202	23,923
3.0%-4.5% National Housing Fund notes	2000–2027	68,487	53,401
9.5% National Housing Fund notes	2000–2001	6,558	5,885
5.0%-13.2% Notes	2000–2004	1,164	19,515
Subtotal		119,411	102,724
Subordinated			
H&CB:			
Won currency:			
9.0% Handuk Life Insurance notes	2004	10,000	10,000
8.69% Daehan Life Insurance notes	2007	150,000	150,000
8.5% Kyobo Life Insurance notes	2007	100,000	100,000
15.02% HCB Finance Debentures	2003–2009	174,900	174,900
15.30% HCB Finance Debentures	2002	40,000	40,000
9.3%-10.3% Floating rate HCB Finance Debentures (2)	2003–2004	348,200	348,200
9.3%-10.3% Floating rate Housing Debentures (2)	2003–2004	79,000	79,000
Subtotal		902,100	902,100
Gross long-term debt		4,142,198	4,926,384
Less: Discount		(71,478)	(167,811)
Total long-term debt, net		4,070,720	4,758,573

(1) At December 31, 1999, 492,984 million Won of long-term debt was redeemable, through April 2000, at par at the option of the Bank. During 1999, the Bank redeemed 354,208 million Won of long-term debt. The terms of borrowings with call options require the Bank to maintain sinking funds. At December 31, 1999 and 1998, the balances of the sinking funds were 14,293 million Won and 18,996 million Won, respectively. At December 31, 1999 and 1998, the amounts are included as restricted deposits.

(2) Interest rates on floating rate debt are those rates in effect at December 31, 1999.

Long-term debt is predominately denominated in Won, U.S. dollars, or Japanese Yen with both fixed and floating interest rates. Floating rates are generally determined periodically by formulas based on certain money market rates tied to the six-month London Inter-bank Offered Rate (LIBOR) and the monthly Public Fund Prime Rate published by the Korean Government and are reset on a semi-annual and monthly basis, respectively.

Housing Debentures were issued under special government regulations to obtain funding to provide loans to low income households. The availability of this funding was discontinued in 1998. Prior to its discontinuance, this was a primary source of funding for the Bank.

Ministry of Finance and Economy Notes are borrowings from the Korean Government for the purpose of lending to small and medium size businesses or loans for the improvement of low-income housing.

National Housing Fund Notes are discounted borrowings from the National Housing Fund, a Korean Government Agency, for the purpose of making small-scale housing loans to low income households and to contractors for the construction of low-income housing projects.

The combined aggregate amount of contractual maturities of all long-term debt at December 31, 1999 was as follows:

(all amounts expressed in millions of Won)	**1999**
Due in 2000	1,813,047
Due in 2001	689,921
Due in 2002	198,746
Due in 2003	488,819
Due in 2004	220,388
Thereafter	731,277
Total long-term debt	4,142,198

15. Preferred stock:

The number of preferred shares outstanding at December 31, 1999 and 1998 were as follows:

(all amounts expressed in thousands)	**1999**	**1998**
Beginning balance	59,300	—
Issuance of shares	—	59,300
Ending balance	59,300	59,300

On December 28, 1998, in connection with the purchase and assumption arrangement related to DNB, the Bank issued 59.3 million non-cumulative and non-participating redeemable preferred shares with a par value of 5,000 Won per share to Korea Deposit Insurance Corporation. KDIC purchased the shares for 296.5 billion Won and in turn, the Bank purchased marketable, non-callable bonds having a face amount of 296.5 billion Won issued by KDIC.

The preferred shares were issued at par value and have scheduled redemption dates through 2004. Any shares that are not redeemed at the scheduled redemption dates will be converted into the Bank's common shares. The preferred shares have priority over the Bank's common shares in the event of liquidation.

The KDIC bonds are guaranteed by the Republic of Korea and have a maturity of January 31, 2004. Interest on the bonds is paid quarterly and principal is payable in full at maturity. The bonds are redeemable at the option of the Bank halfway through the scheduled maturity.

Both instruments bear interest of 1% per annum. Preferred shares that are not redeemed at the scheduled redemption date are subject to an increased interest rate equal to the current market rate of the KDIC bonds at such date.

At December 31, 1999 and 1998, the KDIC bonds were netted against the preferred shares in shareholders' equity since both instruments related to the same transaction.

At the Annual Shareholders Meeting in February 1999, it was determined that the holders of the preferred shares would not be paid a cash dividend. As a result, the preferred shares became entitled to voting rights equivalent to those of the holders of the same number of common shares, and will retain such rights until a year in which it is determined that the preferred shareholders will receive dividends.

As discussed in Note 32, the Bank repurchased 41.5 million preferred shares at par value from KDIC subsequent to December 31, 1999 for 207.5 billion Won. Subsequent to the redemption of the preferred shares, KDIC redeemed 207.5 billion Won of its corporate bonds.

16. Common stock:

The amount of common stock outstanding at December 31, 1999 and 1998 were as follows:

(all amounts expressed in thousands)	**1999**	**1998**
Beginning balance	89,233	64,233
Issuance of shares	9,915	25,000
Stock dividend approved by shareholders February 28, 2000	9,915	—
Ending balance	109,063	89,233

On July 15, 1999, ING Insurance International B.V., ING International Financial Holdings B.V., and ING Verzekeringen N.V. (collectively ''ING'') and the Bank entered into an investment agreement whereby ING purchased 9,914,777 newly issued common shares of the Bank at a price of 33,500 Won per share, representing approximately 10% of the total outstanding shares. Pursuant to the investment agreement, ING Insurance International B.V. acquired the common shares on August 17, 1999 and the Bank recorded 49,574 million Won and 275,713 million Won as share capital and additional paid-in capital, respectively. Under the agreement, ING is not permitted to dispose of its investment in the Bank during the five years following the acquisition of the shares.

This transaction allows ING to appoint one standing executive director and one non-standing executive director to the board of directors of the Bank. Under the share transfer and joint venture agreements entered into by ING Insurance International B.V. and the Bank on November 24, 1999, the Bank is obligated to purchase one million common shares of ING Life Insurance Company, Korea, Ltd. while ING Insurance International B.V. is obligated to purchase 1.2 million common shares of Jooeun Investment Trust Management Co., Ltd. (See Note 32).

17. Retained earnings:

Retained earnings consist of the following as of December 31, 1999 and 1998:

(all amounts expressed in millions of Won)	**1999**	**1998**
Appropriated retained earnings:		
Legal reserve	169,000	169,000
Reserve for business rationalization	62	62
Reserve for overseas investment losses	5,555	5,961
Other statutory reserves	23	24
Voluntary reserve	—	290,230
Unappropriated retained earnings (deficit)	174,810	(332,279)
Total	349,450	132,998

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

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

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

The Bank’s branch in Japan is required to appropriate, as a legal reserve, an amount equal to or less than 10% of annual income, until such reserve equals two billion Yen. This reserve is used only to reduce any accumulated deficit.

The voluntary reverse does not have any specified purpose and may be restored to unappropriated retained earnings through shareholders’ resolution.

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Notes to Consolidated Financial Statements—(Continued)
All amounts are expressed in millions of Korean Won ("Won") unless otherwise noted.

18. Components of Other Comprehensive Income (Loss)

Comprehensive income includes net income plus transactions and other occurrences, which are the result of non-owner changes in equity. For the years ended December 31, 1999 and 1998, the non-owner equity changes are composed of foreign currency translation adjustments and unrealized gains and losses on securities available for sale and related swaps. Below are the components of Other Comprehensive Income and the related tax effects allocated to each component:

(all amounts expressed in millions of Won)	**1999**	**1998**
Foreign currency translation adjustments	(1,675)	(177)
Tax benefit attributable to foreign currency translation adjustments	(516)	(54)
Net foreign currency translation adjustments	(1,159)	(123)
Unrealized holding gains (losses) arising on Equity investee securities available for sale during the year	(418)	431
Tax expense (benefit) attributable to unrealized holding gains (losses) arisen during the year	(126)	133
Net unrealized holding gains (losses)	(292)	298
Unrealized holding gains (losses) arising on Securities available for sale and related swaps during the year	(310,872)	818,175
Tax expense (benefit) attributable to unrealized holding gains (losses) arisen during the year	(95,749)	251,998
Net unrealized holding gains (losses)	(215,123)	566,177
Total components of other comprehensive income (loss)	(216,574)	566,352

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Notes to Consolidated Financial Statements—(Continued)
All amounts are expressed in millions of Korean Won (''Won'') unless otherwise noted.

19. Regulatory requirements

In conformity with the Financial Supervisory Services (''FSS'') and the Basle Committee on Banking Regulations and Supervisory Practices/Bank of International Settlements (''BIS'') guidelines, the Bank applied BIS risk-adjusted capital ratios to evaluate its capital adequacy. Banking organizations engaged in international banking are required to maintain a minimum 8 percent total risk-based capital ratio, the ratio of total risk-adjusted capital divided by total risk-weighted assets, including a Tier 1 capital ratio of at least 4 percent. The capital ratios are calculated based on banks' consolidated balance sheets. In the event the Bank does not maintain a consolidated BIS ratio of 8%, it is subject to corrective actions recommended by the FSC based on the actual financial position and capital ratio of the Bank. Continued non-compliance with these standards could potentially result in closure of the Bank.

The following capital ratios are calculated in accordance with the FSS and BIS guidelines and the Bank's consolidated financial statements prepared in accordance with generally accepted accounting principles in the Republic of Korea.

(all amounts expressed in billions of Won, except capital ratio)	**1999**	**1998**
Tier 1 Capital		
Total Tier 1 Capital	1,793.7	1,112.5
Tier 2 Capital		
Total Tier 2 Capital	1,243.5	1,014.2
Total Risk-Adjusted Capital	3,037.2	2,126.7
Total Risk-Weighted Assets		
On-balance sheet assets	24,927.3	18,563.1
Off-balance sheet assets	943.9	1,140.5
Total risk-weighted assets	25,871.2	19,703.6
Total Assets	46,651.3	40,615.4
Capital Adequacy Ratio(%)		
Tier 1 capital ratio(%)	6.93	5.64
Tier 2 capital ratio(%)	4.81	5.15
Capital adequacy ratio (%)	11.74	10.79

The Banking Act provides for a minimum paid-in capital of 100 billion Won for nationwide banks, such as H&CB, and 25 billion Won for regional banks.

All banks, including foreign bank branches, in Korea are required to maintain a prescribed solvency position in addition to the minimum capital requirements discussed above. Until March 31, 1999, a bank's outstanding liabilities arising from guarantees and other contingent liabilities (except those specifically excluded under the Banking Act) were not permitted to exceed 20 times its equity capital amounts. However, beginning on April 1, 1999, the limitation on guarantees and contingent liabilities was eliminated and, for regulatory purposes, guarantees provided by banks are counted as an extension of credit and are regulated accordingly.

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Notes to Consolidated Financial Statements—(Continued)
All amounts are expressed in millions of Korean Won ("Won") unless otherwise noted.

20. Income Taxes

The components of income tax expense for the years ended December 31, 1999 and 1998 were as follows:

	For the year ended December 31,	
(all amounts expressed in millions of Won)	**1999**	**1998**
Federal:		
Current	287,860	12,185
Deferred	(45,012)	75,185
Total federal income tax expense	242,848	87,370
Local:		
Current	28,786	1,218
Deferred	(4,130)	13,470
Total local income tax expense	24,656	14,688
Total income tax expense	267,504	102,058

The preceding table does not reflect the tax effects of unrealized gains and losses on available-for-sale securities. The tax effects of these items are recorded directly in stockholders' equity.

Taxes are calculated for each individual entity in the group. As a result, losses incurred by subsidiaries cannot be offset against profits earned by the parent company. The tax on the operating profit differs from the theoretical amount that would arise at the basic tax rate of the home country of the parent as follows:

(all amounts expressed in millions of Won)	**1999**	**1998**
Profit before tax for the year ended December 31	808,161	231,666
Prima facie tax calculated at a statutory tax rate	248,914	71,353
Income not assessable for tax	(5,293)	(547)
Expenses not deductible for tax purposes	6,954	4,715
Losses carried forward, not recognized	24,739	19,279
Adjustment for overseas tax rates	(12,049)	4,252
Equity net income of Affiliates	6,072	1,944
Other	(1,833)	1,062
Income tax expense	267,504	102,058

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Notes to Consolidated Financial Statements—(Continued)
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The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 1999 and 1998 are as follows. Certain items, including retirement benefits and valuation of available for sale securities are excluded from the calculation of deferred tax benefit (expense).

(all amounts expressed in millions of Won)	**1999**	**1998**
Deferred tax assets:		
Allowance for loan losses	99,613	107,246
Allowance for guarantees and acceptances	9,837	9,826
Impairment of investment securities	20,168	5,125
Foreign exchange adjustments	16,585	17,583
Other temporary differences	24,912	27,321
Net operating loss	7,427	23,609
Total gross deferred tax asset	178,542	190,710
Less: valuation allowance	(8,219)	(37,049)
	170,323	153,661
Deferred tax liabilities:		
Interest income accrual	46,533	77,952
Retirement benefits	75,482	15,141
Derivative valuation	19,275	18,803
Valuation of trading securities	6,367	17,408
Valuation of available for sale securities	430	93,112
Other temporary differences	17,605	8,451
Total gross deferred tax liabilities	165,692	230,867
Net deferred tax assets (liabilities)	4,631	(77,206)

Deferred income tax assets are recognized only to the extent that realization of the related tax benefit is more likely than not. At December 31, 1999, two subsidiaries have tax losses to carryforward against future taxable income; these tax losses will expire by 2004. A valuation allowance has been established for a portion of the deferred tax assets of these subsidiaries in order to reduce these assets to an amount which will more likely than not be realized. The valuation allowance is the result of the Bank's inability to offset the tax assets of these loss-making subsidiaries against profitable entities with the Bank for tax purposes. A valuation allowance was similarly established in 1998 for three loss-making subsidiaries.

21. Earnings Per Share

Basic earnings per share is calculated by dividing the net income applicable to common shares outstanding by the weighted average number of common shares outstanding for the period. Diluted earnings per share is computed using the same method as basic earnings per share, but reflects the potential dilution that could occur if convertible securities or other contracts to issue common stock were converted or exercised into common stocks. Also, for purposes of diluted earnings per share, net income available for common stock is adjusted, if applicable, for any convertible preferred stock dividends, convertible debt interest or any other changes in income that could result from the assumed conversion of securities and other contracts. The Bank has two categories of dilutive potential common shares: shares issuable on exercise of share options granted to employees and shares issuable on conversion of convertible preferred shares.

In the diluted EPS calculation, the convertible preferred shares are assumed to have been converted into common shares and the net profit is adjusted to eliminate the applicable dividend. For the share options, a calculation is done to determine the number of shares that could have been acquired at market price (determined as the average annual share price of the Bank's shares) based on the monetary value of the subscription rights attached to outstanding share options. This calculation serves to determine the ''unpurchased'' shares to be added to the common shares outstanding for the purpose of computing the dilution; for the share options calculation, no adjustment is made to net profit.

On February 28, 2000, the shareholders approved a 10% stock dividend to be distributed in March 2000. The stock dividend was recorded at fair value. All references to per common share amounts have been restated to reflect the effects of the stock dividend.

For the year ended December 31, (all amounts expressed in thousands of Won, except per share data)	**1999**	**1998**
Basic Earnings Per Share:		
Net income	540,665,000	127,910,000
Less: Preferred stock dividends	—	—
Net income applicable to common stockholders	540,665,000	127,910,000
Weighted average number of common shares in issue (thousands)	102,220	89,793
Net Income Per Share	5,289.23	1,424.50
Diluted Earnings Per Share:		
Net income applicable to common stockholders	540,665,000	127,910,000
Plus: Preferred stock dividends	—	—
	540,665,000	127,910,000
Weighted average number of common shares in issue (thousands)	102,220	89,793
Dilutive effect of convertible preferred shares (thousands)	59,300	488
Dilutive effect of share options (thousands)	449	22
Dilutive weighted average common shares outstanding (thousands)	161,969	90,303
Net Income Per Share	3,338.08	1,416.45

22. Employee benefit plan

Employees and directors with one or more years of service are entitled to receive a lump-sum payment upon termination of their employment with the Bank, based on their length of service and rate of pay at the time of termination. The Plan is funded in accordance with the National Pension Act with a certain portion of the benefits, which was contributed to the National Pension Fund.

Accrued employee benefit plan obligations as of December 31, 1999 and 1998 are as follows:

(all amounts expressed in millions of Won)	**1999**	**1998**
Balance at January 1,	348,795	441,329
Benefit plan expense	62,136	207,026
Plan payments, including special termination payments in 1998	(71,140)	(299,560)
Balance at December 31,	339,791	348,795

In addition to regular termination benefits, the Bank paid special termination benefits of 124,972 billion Won during 1998 to approximately 3,500 employees who accepted early retirement.

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Notes to Consolidated Financial Statements—(Continued)
All amounts are expressed in millions of Korean Won ("Won") unless otherwise noted.

23. Incentive Stock Option Plan

The Incentive Stock Option Plan (''Stock Option Plan'') became effective on October 31, 1998 after adoption by the Board of Directors and approval by shareholders. The Stock Option Plan provides for the grant of incentive stock options to certain directors and employees. The shares distributed under the Stock Option Plan may be shares held in treasury or authorized but unissued shares.

On October 31, 1998, the Bank granted 300,000 share options at a price of Won 5,000 per share, which expire on October 31, 2004. An additional 280,000 share options were granted on February 27, 1999 at a price of Won 13,900 per share and expire on February 27, 2005. If the stock price of H&CB is the highest among the stocks of banks listed on the Korea Stock Exchange on the basis of average price of daily closing prices announced for 3 months (August 1, 2001—October 31, 2001) prior to the launch of exercise period (in the case of premature retirement, prior to the date of retirement), the Bank will grant the President an additional 100,000 options to purchase common shares at an exercise price of 5,000 Won. The Bank may issue common shares or pay in cash the difference between the exercise and the market price at the date of exercise. The options granted are vested ratably over a three-year period and expire at the end of the sixth year.

The following table summarizes information about shares granted and expense recognized at award date:

	1999	1998
Shares granted	280,000	300,000
Market value at award date (Won)	18,950	5,430

For the years ended December 31, 1999 and 1998, the Bank recognized 3,892 million Won and 13 million Won, respectively, in compensation expense for the shares granted.

The following table summarizes information about stock options outstanding and exercisable at December 31, 1999. At December 31, 1999 and 1998, there were no exercisable options.

		Options Outstanding		
Exercise Prices *(Won)*	Shares	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Weighted Average Fair Value at Grant Date
5,000	300,000	3.8 Years	5,000	12,530
13,900	280,000	4.2 Years	13,900	27,195
5,000-13,900	580,000	4.0 Years	9,297	

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Notes to Consolidated Financial Statements—(Continued)
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As permitted by SFAS No. 123, ‘‘Accounting for Stock-Based Compensation,’’ the Bank has chosen to apply APB Opinion No. 25, ‘‘Accounting for Stock Issued to Employees’’ and related Interpretations in accounting for its Stock Option Plan. Had compensation cost for the Bank’s Stock Option Plan been determined in a manner prescribed by SFAS No. 123, using an option pricing model, intended to estimate the fair value of the awards at the grant date, compensation expense recorded for stock options, net income, earnings per share data, and the related increment in stockholders’ equity would have been as follows:

	1999		1998	
(all amounts expressed in millions of Won, except per share data)	**As Reported**	**Pro Forma**	**As Reported**	**Pro Forma**
Compensation expense related to stock options	3,892	6,523	13	485
Net income	540,665	538,844	127,910	127,583
Earnings per share:				
Basic	5,289.23	5,271.42	1,424.50	1,420.86
Diluted	3,338.08	3,326.84	1,416.45	1,412.84

Solely for purposes of providing the disclosures required by SFAS No. 123, the fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model. The weighted average assumptions used for grants made in 1999 and 1998 are as follows:

Year Ended December 31	1999 Grants	1998 Grants
Dividend yield	1.8%	0.0%
Expected volatility	75.38%	77.13%
Risk-free interest rate	10.05%	7.25%
Expected option life	5.0 years	5.0 years

24. Fair value of financial instruments

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced sale or liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Bank’s various financial instruments. As a result, the fair values presented are estimates derived using present value or other valuation techniques and may not be indicative of net realizable value. In addition, the calculation of estimated fair value is based on market conditions at a specific point in time and may not be reflective of future fair values. Certain financial instruments and all nonfinancial instruments are excluded from the scope of SFAS No. 107 ‘‘Disclosure about Fair Value of Financial Instruments.’’ Accordingly, the fair value disclosures required by SFAS No. 107 provide only a partial estimate of the fair value of the Bank.

Fair values among financial institutions are not comparable due to the wide range of permitted valuation techniques and numerous estimates that must be made. This lack of objective valuation standard introduces a great degree of subjectivity to these derived or estimated fair values. Therefore, readers are cautioned in using this information for purposes of evaluating the financial condition of the Bank in comparison with other financial institutions.

The following section summarizes the methods and assumptions used by the Bank, by financial instrument, in estimating fair value:

Assets and Liabilities for which fair value approximates carrying value: The fair values of certain financial assets and liabilities carried at cost, including cash and due from banks and other financial institutions, restricted deposits, accrued interest receivable and payable, dividends receivable and payable, call loans, call money, and other borrowed funds are considered to approximate to their fair values due to their short-term nature and negligible credit losses.

Interest-bearing deposits in other banks: The fair value of fixed interest-bearing deposits are estimated by discounting cash flows based on current rates for similar types of deposits. The fair values of variable rate interest-bearing deposits are considered to approximate to their carrying values.

Securities and trading liabilities: Fair values for trading assets, securities available for sale and trading liabilities (including trading derivative financial instruments), are the amounts recognized in the consolidated balance sheets, which are based on market prices, where available. Fair values of held to maturity securities are also based on market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments except in the case of certain swaps where pricing models are used.

Nonmarketable equity investments: Non-marketable investments, which are recorded in Other Assets, consist primarily of private equity investments. The fair values of these investments are based on the latest obtainable net asset value of the investee.

Loans receivable: Loans and advances are net of specific and general provisions for impairment. The fair value of fixed rate loans is estimated by discounting cash flows based on current rates at which similar loans would be made to borrowers for the same maturities. The fair value of variable rate loans that reprice frequently with no significant changes in credit risk are considered to approximate their carrying values in the consolidated balance sheet.

Deposit liabilities: The fair values of noninterest and variable rate interest bearing deposits approximate their carrying values in the consolidated balance sheets. Fair values for fixed-rate interest bearing deposits are estimated using a discounted cash flow calculation that applies interest rates currently being offered for deposits with similar maturities.

Long-term debt: The aggregate fair values are based on quoted market prices where available. For those notes where quoted market prices are not obtainable, a discounted cash flow model is used based on the current rates for issues with similar maturities.

Off-balance sheet instruments: Fair values for off-balance sheet derivative financial instruments held for other than trading purposes are based on quoted market prices or dealer quotes where available, otherwise pricing or valuation models are applied to current market information to estimate fair value.

Commitments to extend credit, letters of credit, and written financial guarantees: It was not practicable to estimate the fair values of commitments to extend credit, letters of credit, and financial guarantees as estimated fair values are not readily ascertainable. Commitments to extend credit had a contract value of 22,405 million Won and 54,358 million Won for 1999 and 1998, respectively. Letters of credit and financial guarantees had a combined contract value of 472,399 million Won and 687,490 million Won for 1999 and 1998, respectively. These financial instruments are transacted at the Bank's current pricing levels. Of these commitments at December 31, 1999, 91% mature within one year.

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Notes to Consolidated Financial Statements—(Continued)
All amounts are expressed in millions of Korean Won (“Won”) unless otherwise noted.

The estimated fair values of the Bank’s financial instruments at December 31, 1999 and 1998 were as follows:

(all amounts expressed in millions of Won)	1999 Carrying Amount	1999 Fair Value	1998 Carrying Amount	1998 Fair Value
Financial assets:				
Cash and due from banks	1,280,960	1,280,960	1,664,663	1,664,663
Restricted deposits	930,967	930,967	663,063	663,063
Interest-bearing deposits in other banks	318,110	312,702	206,355	223,171
Call loans and securities purchased under resale agreements	75,621	75,621	466,549	466,549
Trading account assets	2,371,009	2,371,009	1,184,349	1,184,349
Securities available for sale	4,359,742	4,359,742	7,767,645	7,767,645
Held-to-maturity securities	2,659,657	2,659,216	224,726	231,669
Loans and leases, net	30,869,296	30,867,235	25,109,909	25,065,335
Accrued interest receivable	378,076	378,076	485,161	485,161
Other assets	512,508	515,660	939,007	942,445
Financial liabilities:				
Noninterest-bearing deposits	109,385	109,385	176,759	176,759
Interest-bearing deposits	33,269,948	33,564,485	27,366,707	27,448,381
Call money	758,000	758,000	179,137	179,137
Trading account liabilities	3,950	3,950	19,126	19,126
Other borrowed funds	1,620,581	1,620,581	2,879,446	2,879,446
Accrued interest and dividends payable	2,523,475	2,523,475	2,333,514	2,333,514
Secured borrowings	84,264	84,264	—	—
Long-term debt	4,070,720	4,019,324	4,758,573	4,837,770

The fair values of guarantees, commercial letters of credit, standby letters of credit, and other lending commitments are immaterial to the financial statements. Fair values for derivative financial instruments are disclosed in Note 25.

25. Derivative and foreign exchange contracts

In the normal course of meeting the financing needs of its customers and managing its own trading and asset-liability management exposures to fluctuations in interest rates and foreign exchange rates, the Bank is a party to various financial instruments with off-balance-sheet risk. These instruments involve, to varying degrees, elements of credit and market risk in excess of the amounts recognized in the financial statements. The contract or notional amounts of these instruments, which are not included in the financial statements, are indicators of the Bank’s activities in particular classes of financial instruments, but are not indicative of the associated risk which is generally a smaller percentage of the notional amount. In addition, the measurement of market risk is meaningful only when all related and offsetting transactions are taken into consideration. The notional principal amounts of the Bank’s derivative and foreign exchange products greatly exceed the possible credit and market loss that could arise from such transactions.

Credit risk is the possibility that loss may occur from counterparty failure to perform according to the terms of the contract. Market risk arises due to market price, interest rate and foreign exchange rate fluctuations that may result in a decrease in the market value of a financial instrument and/or an increase in its funding cost. Exposure to market risk is managed through position limits and other controls and by entering into hedging transactions.

Credit risk is controlled through credit approvals, limits and monitoring procedures based on the same credit policies used for on-balance-sheet instruments. Unless otherwise noted below, collateral or other security is not required. The amount of collateral obtained, if any, is based on the nature of the financial instrument and management's credit evaluation of each counterparty.

Interest rate swaps are contracts in which a series of interest rate flows in a single currency are exchanged over a prescribed period. The notional amount on which the interest payments are based is not exchanged. Most interest rate swaps involve the exchange of fixed and floating interest payments based on a notional principal amount and agreed-upon fixed and floating rates.

The Bank uses interest rate derivatives principally to manage exposure to interest rate risk. Receive fixed interest rate swaps are used to convert variable rate assets, principally loans and securities, into synthetic fixed rate instruments and to convert fixed rate funding sources into synthetic variable rate funding instruments. Pay fixed interest rate swaps contracts are used to convert fixed rate loans and securities into synthetic variable rate instruments and to convert variable rate funding sources into synthetic fixed rate funding instruments. Cross-currency interest rate swaps are contracts that generally involve the exchange of both interest and principal amounts in two different currencies. Cross-currency swaps are used by the Bank to convert foreign currency denominated funding into floating rate US dollars. Certain of these hedging arrangements do not however meet the criteria for hedge accounting under US GAAP and are therefore shown within (a) Derivative Financial Instruments—Trading Activities below.

Foreign exchange contracts include spot, forward and option contracts and involve the exchange of two currencies at a rate agreeable to the contracting parties. Spot contracts require the exchange of currencies to occur within two business days of the contract date, while forward contracts settle three or more business days from the contract date.

(a) Derivative Financial Instruments—Trading Activities

Gross notional (or contractual) amounts of derivative financial instruments held, issued or classified under US GAAP as being held for trading purposes as of December 31, 1999 are noted below.

	1999				
(all amounts expressed in millions of Won)	**Notional Amount**	**Estimated Fair Value Assets**	**Estimated Fair Value Liabilities**	**Average Fair Value Assets**	**Average Fair Value Liabilities**
Interest rate swaps(1)	3,420	—	(972)	—	(972)
Cross-currency swaps(1)	325,600	101,134	—	117,046	—
Foreign-exchange contracts:					
Spot, forwards, and futures purchased	343,685	1,488	(1,865)	1,144	(3,067)
Spot, forwards, and futures sold	260,716	2,351	(1,113)	2,716	(1,603)

(1) Notional amounts in USD dollar were converted into Won at December 31, 1999 exchange rate of 1,140 Won.

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Notes to Consolidated Financial Statements—(Continued)
All amounts are expressed in millions of Korean Won ("Won") unless otherwise noted.

Gross notional (or contractual) amounts of derivative financial instruments held, issued or classified under US GAAP as being held for trading purposes as of December 31, 1998 are noted below.

	1998				
(all amounts expressed in millions of Won)	Notional Amount	Estimated Fair Value Assets	Estimated Fair Value Liabilities	Average Fair Value Assets	Average Fair Value Liabilities
Interest rate swaps(1)	3,624	—	(838)	—	(885)
Cross-currency swaps(1)	541,235	108,228	(11,910)	87,457	(46,292)
Foreign-exchange contracts:					
Spot, forwards, and futures purchased	64,779	6,338	(264)	26,171	(1,018)
Spot, forwards, and futures sold	27,702	225	(6,114)	973	(32,241)

(1) Notional amounts in USD dollar were converted into Won at December 31, 1998 exchange rate of 1,208 Won.

The results of the Bank's trading activities are summarized by category in the following table. Net trading gain (loss) on foreign exchange contracts and derivative financial instruments is included in net trading revenue in the Consolidated Statements of Income as part of noninterest income.

(all amounts expressed in millions of Won)	1999	1998
Interest rate and cross currency swaps	7,087	108,006
Foreign-exchange contracts	25,219	23,593
Net trading gain on foreign exchange contracts and derivative financial instruments	32,306	131,599

(b) Derivative Financial Instruments Held for Purposes Other than Trading

Gross notional (or contractual) amounts and fair values of derivative financial instruments held for purposes other than trading are noted below:

	1999			1998		
(all amounts expressed in millions of Won)	Notional Amount(1)	Unrealized Gains	Unrealized Losses	Notional Amount(1)	Unrealized Gains	Unrealized Losses
Interest rate swaps	32,519	883	(913)	29,626	982	(2,841)

(1) Notional amounts in USD dollar were converted into Won at December 31, 1999 and 1998 exchange rate of 1,140 and 1,208 Won, respectively.

26. Contingent liabilities and commitments

Legal proceedings

The Bank settled with Morgan Guaranty Trust Company of New York ("MGT") the legal claim brought against the Bank in relation to guarantees provided to SK Securities Co., Ltd. ("SKS") and to other investment funds. In accordance with the Settlement and Release Agreement (the "Settlement Agreement") between the Bank, MGT, SKS, and the other parties involved in the legal claim, the Bank purchased 14.7 million common shares of SKS in the amount of 72,349 million Won (US $60 million) on October 13, 1999. The Settlement Agreement generally prohibits the Bank from selling the investment for two years from the date of the purchase. However, the Bank is allowed to sell up to 30% of the investment after one year, or to sell 30% of the investment over the counter within a year from the purchase date. The investment in SKS was included in securities available for sale as of December 31, 1999.

All amounts are expressed in millions of Korean Won ("Won") unless otherwise noted.

Pursuant to the Settlement Agreement, the Bank entered into a Share Sales and Purchase Agreement on October 14, 1999 with MGT whereby the Bank is required to purchase 490,170 shares of common stock of SKS for US $2,130,759 (or 2,429 million Won at the December 31, 1999 exchange rate) on October 16, 2000. At December 31, 1999, the difference between the total purchase price and the market price of the share commitment was a gain of 100 million Won.

The Bank has also been named in a lawsuit by the former employees of DNB, seeking continued employment and monetary damages. The case has been decided in favor of the Bank by the District Court Southern Branch, however, that decision is being appealed. Based on advice from the Bank's legal counsel, management does not believe that liabilities arising from this matter, if any, will have a material adverse effect on the consolidated financial position, liquidity or results of operations of the Bank.

Capital commitments

Capital expenditures contracted for at December 31, 1999, but not recognized in the financial statements, related to the purchase of property and equipment totaled 4,908 million Won.

Purchase commitments

In connection with share transfer and joint venture agreements between the Bank and ING as of November 24, 1999, subject to certain conditions including regulatory approval, the Bank was committed to purchase a 20% interest in ING Insurance International B.V. and to sell a 20% interest in Jooeun Investment Trust Management Co., Ltd. to ING Insurance International B.V. (who is obligated to purchase). These transactions closed on January 11, 2000 (Note 32). The agreements additionally obligated the Bank to purchase certain amounts of ING Life Insurance Company, Korea, Ltd. common stock and, concurrently, sell Jooeun Investment Trust Management Co., Ltd. common stock to ING Insurance International B.V. (who is obligated to purchase) at fair value. The obligations to purchase and sell are:

Date	Additional Interest
March 31, 2000	5%
March 31, 2001	10%

In addition, if the insurance business of ING Life Insurance Company, Korea, Ltd. reaches certain levels, the Bank will be obligated to purchase up to 50% of ING Life Insurance Company, Korea, Ltd. and ING Insurance International B.V. will be obligated to buy up to 50% in Jooeun Investment Trust Management Co., Ltd.

Credit-related commitments

The Bank is a party to credit related financial instruments with off-balance sheet risk in the normal course of business. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Cash requirements under guarantees are considerably less than those under commitments because the Bank does not generally expect the third party to draw funds under the agreement.

Commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate and therefore have significantly less risk.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss, though difficult to quantify, is considerably less than the total unused commitments since most commitments to extend credit are contingent upon customers' maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

For credit related financial instruments, the contractual amount of the financial instrument represents the maximum potential credit risk if the counterparty does not perform according to the terms of the contracts. A large majority of these commitments expire without being drawn upon. As a result, total contractual amounts are not representative of the Bank's actual future credit exposure or liquidity requirements for these commitments.

Additionally, management computes specific and expected loss components for credit-related commitments. At December 31, 1999 and 1998, the allowance for credit losses on credit-related commitments was 31,938 million Won and 39,904 million Won, respectively, which is reported in Other Liabilities.

At December 31, 1999 and 1998, the following financial instruments were outstanding whose contract amounts represent credit risk to the Bank:

	Contract Amount	
(all amounts expressed in millions of Won)	**1999**	**1998**
Guarantees	278,512	602,276
Commercial letters of credit	193,887	125,318
Unused lines of credit:		
Commercial	1,556,496	956,639
Consumer	6,995,569	3,921,409
Commitments to extend credit:		
Original term to maturity of more than one year	22,405	54,358
Interest rate swaps (unrealized gain)	883	982

Lease commitments

Pursuant to the terms of noncancelable lease agreements in effect at December 31, 1999 and 1998, pertaining to office space, premises and equipment, future minimum rent commitments under various operating leases were as follows:

Year ended December 31, (all amounts expressed in millions of Won)	**1999**
2000	2,128
2001	1,747
2002	1,688
2003	1,685
2004	1,297
Thereafter	3,101
Total	11,646

Total rental expense for the years ended December 31, 1999 and 1998 was 4,424 million Won and 4,904 million Won, respectively.

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All amounts are expressed in millions of Korean Won (''Won'') unless otherwise noted.

27. Credit Risk Concentrations

Concentrations of credit risk arise when a number of customers are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet their contractual obligations to be similarly affected by changes in economic conditions.

The Bank regularly monitors various segments of its credit risk portfolio to assess potential concentration risks and to obtain collateral when deemed necessary.

The table below indicates major products including both on-balance sheet (principally loans) and off-balance sheet (principally unused credit lines) exposures:

	1999			1998		
(all amounts expressed in millions of Won)	**Credit Exposure**	**On-Balance Sheet**	**Off-balance Sheet**	**Credit Exposure**	**On-Balance Sheet**	**Off-balance Sheet**
Credit cards	7,232,431	1,216,213	6,016,218	4,525,237	771,751	3,753,486
Residential mortgages	17,246,119	17,246,119	—	15,890,182	15,890,182	—
Installment and other consumer	7,454,950	6,475,599	979,351	2,567,404	2,399,481	167,923
Corporate loans	7,173,436	5,594,535	1,578,901	6,262,015	5,251,018	1,010,997
Commercial Real Estate	1,601,338	1,601,338	—	2,041,427	2,041,427	—
Total	40,708,274	32,133,804	8,574,470	31,286,265	26,353,859	4,932,406

The Bank is exposed to a credit concentration with the Korea Housing Guarantee Co, Ltd. (''KHGC''). The KHGC guarantees certain loans to the Bank's construction company customers and has a liability to the Bank as a result of defaulted construction loans, which it guaranteed. This amount is included as a 333 billion Won loan to KHGC. In addition, KHGC has guarantees outstanding on 147 billion Won of the Bank's loans to construction companies, of which 97 billion Won are classified as impaired. The Bank has provided for loan losses directly associated with the KHGC of 126 billion Won at December 31, 1999. This calculation considers estimated future cash flows from KHGC under an expected loan workout plan. Should KHGC not perform under the loan workout plan, additional provisions may be necessary in the short-term that are material to the financial statements of the Bank. The Bank also holds 8.2 million shares of KHGC with no carrying value and a convertible bond carried at 15.9 billion Won as of December 31, 1999. These securities were received on conversion of 82.2 billion Won of KHGC's loans as part of the loan workout plan.

28. Related party transactions

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits, and foreign currency transactions. These transactions are carried out on commercial terms and conditions and at market rates.

National Housing Fund

The National Housing Fund (''NHF'') was established by the Korean Government to provide financial aid in the form of small-scale housing loans to low-income households and to construction companies that specialized in low-income housing projects. To manage the sources and uses of funds of the NHF, the Korean Government designated the Bank as sole agent (consignee). The primary role of the Bank is to manage the NHF fund in accordance with the mandate issued by the Korean Government. The Bank is mandated by the Korean Government to borrow money from the NHF. The Bank's borrowing rate from the NHF is 3% for the Low-

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Income Household loans and 8% for the Worker's Housing Loan. The Bank is compensated through management fees on a quarterly basis.

KDIC

On December 28, 1998, in connection with the purchase and assumption arrangement related to DNB, the Bank issued 59.3 million noncumulative and nonparticipating redeemable preferred shares to KDIC. In exchange, KDIC issued marketable, non-callable bonds (Note 15).

Housing Finance Credit Guarantee Fund (HFCGF)

Prior to January 1, 1999, the Bank managed the HFCGF, which provides guarantees to mortgage lenders for defaults by borrowers if the borrower is unable to provide collateral required by a bank. As part of the government's restructuring plan to merge and dissolve various government funds, the management of the HFCGF was transferred to the Korea Credit Guarantee Fund. The Bank received a management fee for managing the HFCGF until the end of 1998 equal to 1% per year of the average guarantee balance guaranteed by the HFCGF. The HFCGF received an annual guarantee fee equal to between 0.3% and 0.5% of the guaranteed amount depending on the size of the housing unit concerned. In the year ended December 31, 1998, the last year in which the Bank managed the HFCGF, the Bank earned fees of 9 billion Won. The Bank continues to receive a fee from the HFCGF for underwriting mortgage loans, which they guarantee. This fee is equal to 20% of the annual guarantee fees (net of fines and penalties) HFCGF receives on these loans. In the year ended December 31, 1999, these fees amounted to 4 billion Won.

The outstanding balances at December 31, 1999 and 1998 and the related expense and income for the year then ended for related party transactions were as follows:

	1999				1998			
(all amounts expressed in millions of Won)	**KDIC**	**Trust Accounts(1)**	**NHF**	**HFCGF**	**KDIC**	**Trust Accounts(1)**	**NHF**	**HFCGF**
Investment securities	2,129,518	—	—	—	1,314,454	—	—	—
Loans	190,000	—	—	—	190,000	—	—	—
Leasehold deposits	—	—	—	—	—	—	—	—
Receivable	15,191	—	—	—	334,763	—	—	—
Interest bearing demand deposits	—	333,171	—	—	—	—	—	—
Borrowings	—	—	407,266	—	—	—	159,870	—
Other liabilities	—	—	—	—	—	215,225	—	—
Preferred stocks	296,500	—	—	—	296,500	—	—	—
Interest income on securities	118,474	—	—	—	27,488	—	—	—
Interest income on loans	30,622	—	—	—	25,476	—	—	—
Fees and commission income	—	74,788	155,766	4,163	—	85,178	138,892	9,127
Interest expense	—	25,989	7,623	—	—	24,602	4,989	—
Trust performance guarantees	—	—	—	—	—	206,427	—	—
Fees and commission expense	—	—	—	17,421	—	—	—	18,980

(1) See Note 31

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Notes to Consolidated Financial Statements—(Continued)
All amounts are expressed in millions of Korean Won (“Won”) unless otherwise noted.

29. Principal subsidiary undertakings and minority interest

	Country of incorporation	Percentage Ownership
Jooeun Investment Management Co., Ltd.	Korea	100%
Jooeun Real Estate Trust Co., Ltd.	Korea	100%
Jooeun Industrial Co., Ltd.	Korea	100%
H&CB Finance Ltd. (H.K.)	Hong Kong	100%
H&CB 9901 ABS Specialty Co., Ltd.	Korea	15%(1)

(1) H&CB 9901 ABS Specialty Co., Ltd., a loan securitization vehicle, has been included in the consolidated financial statements of the Bank at December 31, 1999 as the majority owner has only a nominal capital investment.

All holdings are in the common shares of the undertaking concerned.

30. Segment reporting

For management reporting purposes, only H&CB’s business segment results under Korean Generally Accepted Accounting Principles (‘‘KGAAP’’) are reported to management. H&CB is organized into three major business segments: Retail Banking, Business Banking, and Treasury and Investment Management. These business divisions are based on the nature of the products and services provided, the type or class of customer, and H&CB’s management organization, and provide the basis on which H&CB reports its primary segment information:

- Retail banking—The retail banking segment’s assets and liabilities are mainly with individuals and general households. The segment handles private customer current accounts, savings, deposits, investment products, credit and debit cards, consumer loans and mortgages.

- Corporate banking—The business banking segment’s assets and liabilities are mainly with private and public enterprises. The activities within the segment include direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, and foreign currency and derivative products.

- Treasury and investment management—Activities within this segment include the Bank’s own asset-liability management, trading activities in securities and derivatives and activities involving investment security portfolios.

Other operations of the Bank comprise subsidiary activities, management services for the National Public Housing Fund, lottery activities, trust account activities, and providing computer services, none of which constitutes a separately reportable segment.

The accounting policies of the segments are principally the same as those of H&CB, as disclosed in Note 1. Operating revenues and expenses directly associated with each respective segment are included in determining their operating earnings. The provision for income taxes comprises of corporate income tax and resident tax surcharges. The income tax expenses are allocated to the respective segment based upon performance. H&CB does not allocate income tax expense to the unprofitable segments.

Transactions between the business segments are on normal commercial terms and conditions. There are no material items of income or expense between the business segments. The carrying amount of certain assets used jointly by two or more segments cannot to be allocated to the segments and are included in ‘Other.’

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All amounts are expressed in millions of Korean Won ("Won") unless otherwise noted.

A summary of the business segment results is shown in the following table.

Year ended December 31, 1999 *(in millions of Won)*	Retail Banking	Corporate Banking	Treasury & Investment Management	Other	Total
Operating income	2,523,506	1,014,468	1,089,089	1,074,215	5,701,278
Operating expense	2,094,163	948,508	1,165,323	905,809	5,113,803
Segment result	429,343	65,960	(76,234)	168,406	587,475
Interest income	2,460,992	655,316	872,507	304,274	4,293,089
Interest expense	1,377,036	410,447	896,735	376,745	3,060,963
Net interest income	1,083,956	244,869	(24,228)	(72,471)	1,232,126
Provision for loan losses	30,536	301,872	—	37,968	370,376
Noninterest income	62,514	359,152	216,582	769,941	1,408,189
Noninterest expense	628,823	234,111	268,217	436,660	1,567,811
Net noninterest income	(566,309)	125,041	(51,635)	333,281	(159,622)
Depreciation	57,768	2,078	371	54,436	114,653
Profit before tax	429,343	65,960	(76,234)	168,406	587,475
Income tax expense	138,847	21,331	(24,654)	83,590	219,114
Net profit/(loss) for the period	290,496	44,629	(51,580)	84,816	368,361
US GAAP adjustments	(76,657)	(6,197)	96,221	131,752	145,119
Intercompany transactions	—	44,323	(12,735)	(4,403)	27,185
Consolidated net profit	213,839	82,755	31,906	212,165	540,665
Assets	25,822,100	7,512,626	10,392,070	3,992,267	47,719,063
US GAAP adjustments	(50,800)	276,121	(267,761)	(1,906,549)	(1,948,989)
Intercompany transactions	—	(504,589)	(28,823)	39,962	(493,450)
Consolidated assets	25,771,300	7,284,158	10,095,486	2,125,680	45,276,624
Year ended December 31, 1998					
Operating income	2,495,633	1,632,064	1,064,132	1,388,561	6,580,390
Operating expense	2,187,720	1,841,315	1,211,388	1,729,559	6,969,982
Segment result	307,913	(209,251)	(147,256)	(340,998)	(389,592)
Interest income	2,449,865	967,627	904,458	379,233	4,701,183
Interest expense	1,316,990	663,664	822,905	708,069	3,511,628
Net interest income	1,132,875	303,963	81,553	(328,836)	1,189,555
Provision for loan losses	73,816	749,001	—	43,835	866,652
Noninterest income	45,768	664,437	159,674	1,009,328	1,879,207
Noninterest expense	750,452	426,979	388,185	892,656	2,458, 272
Net noninterest income	(704,684)	237,458	(228,511)	116,672	(579,065)
Depreciation	46,462	1,671	298	84,999	133,430
Profit before tax	307,913	(209,251)	(147,256)	(340,998)	(389,592)
Income tax expense	(9,736)	6,617	4,656	7,676	9,213
Net profit/(loss) for the period	317,649	(215,868)	(151,912)	(348,674)	(398,805)
US GAAP adjustments	(148,701)	550,759	63,504	57,207	522,769
Intercompany transactions	—	17,681	—	(13,735)	3,946
Consolidated net profit/(loss)	168,948	352,572	(88,408)	(305,202)	127,910
Assets	19,638,891	7,550,683	10,572,994	4,158,400	41,920,968
US GAAP adjustments	(72,338)	(781,170)	158,992	(388,066)	(1,082,582)
Intercompany transactions	—	(282,834)	(143,160)	(75,368)	(501,362)
Consolidated assets	19,566,553	6,486,679	10,588,826	3,694,966	40,337,024

H&CB
Notes to Consolidated Financial Statements—(Continued)
All amounts are expressed in millions of Korean Won ("Won") unless otherwise noted.

The allowance for loan losses for each of the segments are as follows:

Allowance for loan losses *(in millions of Won)*	**Retail Banking**	**Corporate Banking**	**Treasury & Investment Management**	**Other**	**Total**
As of December 31, 1999	176,745	1,065,327	—	44,480	1,286,552
As of December 31, 1998	112,919	1,133,649	—	12,024	1,258,592

Geographic segment disclosures have been excluded as revenues and assets attributable to external customers in foreign countries are not significant.

31. Trust accounts

The Bank manages funds on behalf of its customers through the operation of various trust accounts in accordance with the Korean Trust Law and the Korean Trust Business Act. Trust assets and liabilities are excluded from the consolidated financial statements of the Bank, and thus are recorded in separate accounts from those of the banking business.

Some trusts require that the Bank guarantee the return of the principal amount invested at the termination of a fixed term deposit. Additionally, the Bank guarantees a specified rate of return on the Fixed Rate Money Trusts. The Bank guarantees neither the principle amount nor rate of return on the Securities Investment Trusts or the No Guarantee Money Trusts. The Bank charges investment management fees to guaranteed principal trusts and other trusts, and receives commission income, including penalty charges for early withdrawal of fixed term deposits.

The Bank recognized a liability related to the trust performance guarantees of 206,427 million Won at December 31, 1998. The Bank had no such liability at December 31, 1999.

H&CB
Notes to Consolidated Financial Statements—(Continued)
All amounts are expressed in millions of Korean Won ("Won") unless otherwise noted.

Details of the trust funds managed by the Bank are set out below.

(all amounts expressed in millions of Won)	Guaranteed Principal Money Trusts	Fixed Rate Money Trusts	Securities Investments Trusts	No Guarantee Money Trusts	Total
Trust net assets:					
Assets:					
Loans	246,366	157,126	—	2,736,499	3,139,991
Securities	552,055	570,025	13,718,070	4,186,567	19,026,717
Call loans	—	—	513,482	—	513,482
Other assets	75,846	99,794	530,984	478,076	1,184,700
Liabilities:					
Accrued allocations payable	15,784	132,404	803,181	181,162	1,132,531
Reserve for future trust losses	1,886	100	—	3,842	5,828
Other liabilities	27,423	154,312	124,636	306,309	612,680
Net assets at December 31, 1999	829,174	540,129	13,834,719	6,909,829	22,113,851
Trust net assets:					
Assets:					
Loans	342,739	305,530	—	2,780,131	3,428,400
Securities	528,369	932,381	16,072,542	6,164,591	23,697,883
Call loans	144,154	67,500	2,064,052	510,446	2,786,152
Other assets	124,400	116,652	335,583	621,125	1,197,760
Liabilities:					
Accrued allocations payable	29,728	153,434	1,020,156	212,801	1,416,119
Reserve for future trust losses	7,055	1	—	—	7,056
Other liabilities	81,578	183,785	39,312	142,667	447,342
Net assets at December 31, 1998	1,021,301	1,084,843	17,412,709	9,720,825	29,239,678

32. Subsequent events

On January 11, 2000, in accordance with the share transfer and joint venture agreements, the Bank purchased one million shares of common stock of ING Life Insurance Company, Korea, Ltd. for 40,800 million Won. The one million shares of common stock purchased represent 20% of the total outstanding common shares of ING Life Insurance Company, Korea, Ltd. In return, ING Insurance International B.V. acquired 1.2 million common shares of Jooeun Investment Trust Management Co., Ltd. for 27,840 million Won, which represents 20% of the total outstanding common shares.

On January 13, 2000, the Bank and Jooeun Lease Co., Ltd. ("Jooeun Lease"), an equity investee of H&CB, entered into a memorandum of understanding (the "MOU") with other creditors of Jooeun Lease, whereby H&CB and other creditors agreed on detailed terms of a debt restructuring plan for Jooeun Lease. In accordance with the restructuring plan, the maturities of debts of Jooeun Lease of 244,234 million Won were extended until the end of 2005. H&CB converted its loans to Jooeun Lease to an equity investment in the amount of Won 82,300 million on January 20, 2000 and, correspondingly, Jooeun Lease issued 16.46 million shares of its common stock to H&CB. Subsequent to the issuance of such shares, the Bank's ownership percentage of Jooeun Lease increased to 85%. The MOU requires H&CB to provide two additional loans in the amount of 100 billion Won to Jooeun Lease upon request by Jooeun Lease. A loan of 50 billion Won will be extended during the period from April 1, 2000 to March 31, 2001. The remaining 50 billion Won will be granted during the year following March 31, 2001.

H&CB
Notes to Consolidated Financial Statements—(Continued)
All amounts are expressed in millions of Korean Won (“Won”) unless otherwise noted.

On January 31 and February 1, 2000, the Bank repurchased 17.79 million and 23.72 million preferred shares from KDIC, respectively. The total of 41.5 million preferred shares bought back from KDIC represent 70% of the 59.3 million shares sold to KDIC in 1998.

On February 9, 2000 the Bank created Jooeun Venture Capital Investment Company (‘‘Jooeun Venture’’), a wholly owned subsidiary of H&CB. On April 14, 2000 the Bank made an initial capital contribution of 19,999,850,000 Won in Jooeun Venture. Jooeun Venture will engage in investments and provide various advisory services to venture capital companies. On April 27, 2000, Jooeun Venture registered with the Korean Small Business Association under the name of ‘‘Pacific Ventures’’. The company’s authorized capital is 50,000,000,000 Won.

On March 27, 2000, the government elected to dissolve the Bond Market Stabilization Fund (‘‘Fund’’) and the Bank received the portion of the underlying securities held by the Fund corresponding to the Bank’s equity interest in the Fund. These securities consist of primarily of national and local government bonds, financial debentures bonds issued by government-invested and corporate bonds with credit ratings of mostly A or higher (as rated by the Korean credit rating agencies).

THE REPUBLIC OF KOREA

The information presented in this section has been extracted from publicly available documents which have not been prepared or independently verified by us, the underwriters or any of our or their affiliates or advisers.

Recent Developments

Since early 1997, a number of developments described below have adversely affected the Korean economy. Korean companies, including the conglomerates known as ‘‘chaebols’’ that dominate the Korean economy, banks and other financial institutions have struggled financially, and a number of them have failed. Factors that contributed to the financial difficulties include excessive investment by Korean companies and high levels of debt, including debt denominated in foreign currencies, incurred by Korean companies.

Aspects of the Republic’s financial and economic difficulties have included:

- exchange rate fluctuations;
- interest rate fluctuations;
- reduced credit from foreign banks;
- reduced liquidity in the economy;
- volatile stock prices;
- reductions in the Republic’s foreign currency reserves (which have largely been replenished);
- credit rating changes for the Republic, Korean financial institutions and companies; and
- higher unemployment.

The economic difficulties of certain Southeast Asian countries beginning in 1997 also contributed to Korea’s problems. In addition, the continuing weakness of the Japanese economy and the volatility of the Japanese Yen against the U.S. dollar increased the uncertainty of economic stability in Asia in general and may hinder the Republic’s ability to recover quickly from its own economic difficulties. Future adverse developments in Southeast Asia, Japan and elsewhere in the world could worsen Korea’s economic difficulties by, among other things, affecting Korean financial institutions that have lent to borrowers in such countries, Korean exporters that export to such countries and Korean companies and financial institutions that rely on credit from Japanese lenders.

Financial Difficulties of Korean Companies

Beginning in early 1997 and continuing through 1998, a significant number of Korean companies, including member companies of chaebol groups, experienced financial difficulties due to excessive investment in some industries, weak export prices and high levels of debt and foreign currency exposure. The Financial Supervisory Service of the Financial Supervisory Commission (formerly, the Banking Supervisory Authority) announced on March 29, 1998 that, as of December 31, 1997, the 30 largest conglomerates in the Republic owed approximately ₩111.3 trillion in loans and payment guarantees to Korean banks. In addition, the widespread practice of cross guarantees within chaebols meant that the difficulties of financially weaker companies threaten stronger ones as well. The reluctance and reduced ability of banks to renew or extend additional credit have made these problems worse.

Since early 1997, a number of significant Korean companies have failed. In January 1997, four companies in the Hanbo Group applied to the courts for corporate reorganization, and in March 1997, five companies in the Sammi Group also filed for corporate reorganization. The creditors and the courts approved reorganization plans for some of the companies in the Hanbo Group and Sammi Group in 1998.

Other corporate failures followed the Hanbo Group and Sammi Group bankruptcies. In October 1997, some lenders to Kia Motors Corporation announced that, with the support of the Government, they would seek court receivership for Kia Motors. On April 15, 1998, Kia Motors and an affiliate, Asia Motors Co., Ltd., came under court receivership under which their debt would be restructured and their interest payment obligations suspended. In July 1998, a committee of creditors of Kia Motors and Asia Motors arranged for the sale of the two companies by auction. In October 1998, it was announced that a consortium led by Hyundai Motors Corporation was the winner of the auction, and in December 1998 Hyundai Motors signed an agreement to purchase new shares to be issued by the two companies. The creditors and the court approved the reorganization plan for Kia Motors and Asia Motors in December 1998.

Numerous other Korean companies have failed, including companies in the Jinro Group, the Dainong Group, the Ssang Bang Wool Group, the New Core Group, the Tae-il Precision Group and the Halla Group. The series of major corporate failures in 1997 and 1998 contributed to increases in the Republic’s unemployment rate, which rose to 8.5% as of January 31, 1999, but decreased to 5.3% as of January 31, 2000, and labor unrest.

In August 1999, Korean financial institutional creditors of Daewoo Group agreed to enter into voluntary workout programs for twelve companies of Daewoo Group. By the end of February 2000, these creditors approved the workout programs, which include spin-offs of certain Daewoo Group companies, debt-to-equity swaps, deferment of principal and interest payments, reduction of interest rates and provision by existing creditors of new credits. In addition, by March 2000, foreign financial institutional creditors of certain Daewoo Group companies reached an agreement in principle to buy out their claims. However, individual and non-financial institutional creditors, minority shareholders and labor unions of Daewoo Group companies have not agreed on the terms of the restructuring programs. In April 2000, the court suspended the implementation of the restructuring plans for Daewoo Heavy Industries and Daewoo Electronics at the petition of minority shareholders. There are significant uncertainties concerning the prospects of the restructuring of Daewoo Group companies as well as the possibility of financial difficulties of other conglomerates as well as Korean financial institutions, which would negatively affect the Korean economy.

Worsened Financial Condition of Korean Banks and Other Financial Institutions

The capital adequacy and liquidity of most Korean banks and other financial institutions were hurt by:

- the financial difficulties of corporate borrowers;
- high levels of short-term foreign currency borrowings from foreign financial institutions; and
- the consideration of non-market oriented factors in making lending decisions.

The Government in late 1997 and 1998 ordered many of the worst-affected financial institutions to close. In addition, the Government took control of two large commercial banks, Seoul Bank and Korea First Bank, by recapitalizing them; in December 1999, the Government sold a controlling interest in Korea First Bank to Newbridge Capital and in April 2000, the Government entered into a management agreement with Deutsche Bank in an effort to rehabilitate Seoul Bank.

The Government estimates that, as of December 31, 1999, banks and non-bank financial institutions held non-performing assets defined to include loans and other credits on which interest had not been paid for at least three months totaling approximately ₩51.3 trillion, compared to ₩60.2 trillion as of December 31, 1998. By December 31, 1998, the Non-Performing Asset Management Fund managed by the Korea Asset Management Corporation (“KAMCO”) had purchased ₩44.1 trillion of non-performing assets of banks and non-bank financial institutions for ₩19.9 trillion.

Further Government financial support of Korean financial institutions may be necessary to enable them to meet capital adequacy requirements. However, the Government may be unwilling to provide all of the needed support. Continued poor financial condition of Korean financial institutions would likely reduce the amount of credit otherwise available to Korean companies, impairing the prospects for economic growth.

Concerns Regarding Liquidity and Foreign Currency Reserves

The Republic's foreign currency reserves fell 32.8%, to US$20.4 billion as of December 31, 1997 from US$33.2 billion as of December 31, 1996, mostly due to:

- the repatriation by foreign investors of their investments in Korea;
- the repayment of a portion of the Republic's private and governmental external debt;
- the unavailability of credit from foreign sources; and
- the intervention in the foreign currency market to stabilize the Won.

The usable portion of the reserves, defined as the total foreign currency reserves less amounts on deposit with overseas branches of Korean financial institutions and swap positions between The Bank of Korea and other central banks, totaled only US$8.9 billion as of December 31, 1997. The Government's usable foreign currency reserves have increased to US$58.7 billion as of May 31, 1999 primarily due to balance of trade surpluses and loans received from the International Monetary Fund (the ''IMF''), the World Bank and the Asian Development Bank. As of March 31, 2000, the Government's foreign currency reserves were US$83.7 billion.

The Republic's total external liabilities, using standards set by the IMF, totaled US$159.2 billion as of December 31, 1997, US$148.7 billion as of December 31, 1998 and US$136.4 billion as of December 31, 1999. The Government estimates that, as of December 31, 1999, the short-term external debt of Korean financial institutions, including all offshore borrowings by domestic financial institutions and their branches and subsidiaries, approximated US$38.1 billion.

In addition, any adverse developments impairing the ability of Korean financial institutions and companies to repay loans when due could increase corporate failures and impair the country's financial situation.

Credit Rating Changes

In October 1997, the Republic's long-term foreign currency rating ceiling on bond obligations, as announced by Moody's, was A1 and its long-term foreign currency rating as announced by each of Standard & Poor's and Fitch IBCA was AA-. Since that time, the rating agencies have changed the country's ratings significantly. The table below charts the credit ratings downgrades for the Republic from December 1997 to January 1998.

Date	Rating Agency	Instrument	Rating From	Rating To
December 1997	Moody's[1]	Foreign currency rating on bond obligations	Baa2	Ba1
		Foreign currency rating for long-term bank deposits	Ba2	B1
	Standard & Poor's[2]	Long-term foreign currency rating	BBB–	B+
		Long-term local currency rating	A–	BBB–
		Short-term foreign currency rating	A-3	C
		Short-term local currency rating	A-2	A-3
	Fitch IBCA [3]	Long-term foreign currency rating	BBB–	B–
January 1998	Moody's [4]	Foreign currency rating for bank deposits	B1	Caa1

(1) Moody's noted Korea's short-term foreign currency needs and the diminished level of its foreign exchange reserves. It also noted the generally deteriorating economic conditions in Asia.

(2) Standard & Poor's stated that the country's efforts to aid the banking sector threatened its own external position and conflicted with the spirit of the country's agreements with the IMF.
(3) Fitch IBCA noted the further fall in the country's foreign exchange reserve.
(4) Moody's viewed the forced rollover of interbank credits in late December 1997 as a default and noted that Korea's external payments position, combined with regional factors, could prolong the rollover period.

The table below charts the credit rating upgrades for the Republic from February 1998 to March 2000.

Date	Rating Agency	Instrument	Rating From	Rating To
February 1998	Standard & Poor's(1)	Long-term foreign currency rating	B+	BB+
		Long-term local currency rating	BBB—	BBB+
		Short-term foreign currency rating	C	B
		Short-term local currency rating	A-3	A-2
	Fitch IBCA(2)	Long-term foreign currency rating	B—	BB+
January 1999	Standard & Poor's(3)	Long-term foreign currency rating	BB+	BBB—
		Long-term local currency rating	BBB+	A—
		Short-term foreign currency rating	B	A-3
	Fitch IBCA(4)	Long-term foreign currency rating	BB+	BBB—
February 1999	Moody's(5)	Foreign currency rating on bond obligations	Ba1	Baa3
		Foreign currency rating for long-term bank deposits	Caa1	Ba2
June 1999	Fitch IBCA	Long-term foreign currency rating	BBB—	BBB
November 1999	Standard & Poor's	Long-term foreign currency rating	BBB—	BBB
December 1999	Moody's	Foreign currency rating on bond obligations	Baa3	Baa2
March 2000	Fitch IBCA	Long-term foreign currency rating	BBB	BBB+

(1) Standard & Poor's also removed the ratings from CreditWatch. The upgrade reflected the progress of the Government's reform program and the expectation of an agreement extending the short-term external debt of Korean financial institutions.
(2) Fitch IBCA viewed the agreement on January 28, 1998 extending the short-term external debt of Korean financial institutions as improving the country's external financing position.
(3) Standard & Poor's cited the Government's progress in corporate and financial sector restructuring, as well as its improved external debt position.
(4) Fitch IBCA noted that the prospect of a repetition of Korea's liquidity crisis in 1997 was remote due to the country's improved foreign currency reserves.
(5) Moody's noted the country's improved external liquidity position and a government policy stance that should foster continued improvement in 1999. Moody's also changed the Republic's outlook to positive.

Credit downgrades hinder the ability of the Republic and Korean financial institutions and companies to raise funds at favorable interest rates in the capital markets.

Interest Rate Fluctuations

Due to prevailing adverse economic conditions, the depreciation of the Won and the Government's reform policy, interest rates payable by Korean borrowers fluctuated substantially, both domestically and externally, in late 1997 and 1998. The average annual interest rate on three-year Won-denominated, non-guaranteed corporate bonds, rose from 12.6% as of September 30, 1997 to 29.0% as of December 31, 1997 but fell significantly during the fourth quarter of 1998 and was 9.95% as of December 30, 1999. Internationally, the spreads over United States treasury bonds on benchmark dollar-denominated bonds issued by the Republic and Korean financial institutions and companies have also fluctuated considerably since the second quarter of 1998, but have generally improved since the second half of 1998. If interest rates rise in the future, the debt service costs of Korean borrowers and the possibility of defaults on debt repayments would increase.

Exchange Rate Fluctuations

Due to adverse economic conditions and reduced liquidity, the value of the Won in relation to the U.S. dollar and other major foreign currencies declined substantially in 1997 but generally rose in 1998. Because of market pressure, on December 16, 1997 the Government allowed the Won to float freely. The Noon Buying Rate was ₩1,695 to US$1.00 on December 31, 1997, compared to ₩917 to US$1.00 on September 30, 1997. As of June 22, 2000, the Noon Buying Rate was ₩1,119 to US$1.00.

Won depreciation increases substantially the amount of Won revenue needed by Korean companies to repay foreign currency-denominated debt, increases the possibility of defaults, and results in higher prices for imports, including key raw materials such as oil, sugar and flour. On the other hand, Won appreciation will have an adverse effect on the export by Korean companies.

Stock Market Volatility

The Korea Composite Stock Price Index declined by over 56% from 647.1 on September 30, 1997 to 280.0 on June 16, 1998. The index was 688.6 on August 31, 2000, representing an increase of 146% since June 16, 1998.

Significant sales of Korean securities by foreign investors and the repatriation of the sales proceeds could drive down the value of the Won, reduce the foreign currency reserves held by financial institutions in the Republic and hinder the ability of Korean companies to raise capital.

Other Factors that May Potentially Affect the Republic's Economic Situation

The Republic's economic situation could be affected by a number of factors, including:

- higher unemployment;
- economic developments in other countries;
- proposals to amend the Republic's governmental structure; and
- difficulties at Korean chaebols.

Unemployment. Higher unemployment rates can be expected to lead to a decrease in income tax revenue and a substantial increase in the Government's expenditures for unemployment insurance and other social programs, thereby materially contributing to the Government's anticipated budget deficit in 1999. Higher unemployment could also lead to social and labor unrest. For a discussion of recent labor market developments and reform measures in Korea, see ''—The Economy—Post-IMF Reforms—Labor Market Reform''.

Economic Developments in Other Countries. The Republic's economic situation will be affected by economic developments in other countries. Korean companies may find it more difficult to export their goods to neighboring counties, including Japan, China and Russia, if the economies of those countries deteriorate further. In addition, any depreciation of the Japanese yen against the U.S. dollar, by effectively reducing the price of Japanese goods in U.S. dollar terms, would hurt Korean exports, as many products exported by Korean companies compete with Japanese exports. Finally, the Republic's increased reliance on exports to service foreign currency debts could cause friction with trading partners if Korea develops large trade surpluses with those countries.

Proposed Change of the Republic's Governmental Structure. During his campaign for the presidency, President Kim Dae Jung proposed creating a parliamentary system of government, a change which would require a constitutional amendment. Any disagreements among the major political parties, including any arising from disputes concerning this proposal, could delay the implementation of economic reforms. For a discussion of the proposed change in governmental structure, see ''—Land and History—Political History''.

Government Measures

The Government has taken a number of steps in response to recent economic developments, including the following:

- negotiation with the IMF of the IMF financial aid package involving loans in an aggregate amount of approximately US$58 billion;

- negotiation of an agreement with a substantial number of international creditors of Korean financial institutions to extend the maturities of an aggregate of approximately US$21.8 billion of Korean financial institutions' short-term foreign currency obligations owed to those international creditors by exchanging the obligations for longer-term floating rate loans guaranteed by the Government;
- the Government's issuance of Dollar-denominated bonds in the aggregate principal amount of US$4 billion in April 1998; and
- the announcement and implementation of a number of important economic, financial sector, labor and other reforms.

The Government may need to take further measures to adequately address the country's economic difficulties.

While the Government anticipates that its reforms of the Korean economy will alleviate its current economic difficulties and improve the economy over time, in the short term implementation of the reform measures may:

- slow economic growth;
- cause a budget deficit because of a decrease in tax revenues and an increase in Government expenditures;
- increase the rate of inflation;
- increase the number of bankruptcies of Korean companies; and
- increase unemployment.

Continued implementation of certain elements of the Government reform plan may require further action by the National Assembly, and political processes not directly within the control of the President or the Government will likely affect at least some elements of the reform plan. Accordingly, the reforms may not be fully implemented as currently contemplated. If the country fails to continue to implement reforms, the IMF and other international lenders may determine to reduce or withdraw their financial support. Declines in liquidity and availability of credit, further deterioration in the Republic's economy and increased downward pressure on the value of the Won could result.

Land and History

Territory and Population

Located south of the 38th parallel, the Republic of Korea covers about 38,000 square miles, approximately one-fourth of which is arable. The Republic's population of approximately 45 million has a literacy rate of over 90%. The country's largest city, Seoul, has a population of about 11 million people.

Political History

Dr. Rhee Syngman, Korea's elected president in 1948, 1952, 1956 and 1960, dominated the years after the Republic's founding in 1948. Shortly after President Rhee's resignation in 1960 in response to student-led demonstrations, a group of military leaders headed by Park Chung Hee assumed power by coup. The military leaders established a civilian government, and the country elected Mr. Park as President in October 1963. President Park served until his assassination in 1979 following a period of increasing strife between the Government and its critics. The Government declared martial law and formed an interim government under Prime Minister Choi Kyu Hah, who became the next President. After clashes between the Government and its critics, President Choi resigned, and General Chun Doo Hwan, who took control of the Korean army, became President in 1980.

In late 1980, the country approved, by national referendum, a new Constitution, providing for indirect election of the President by an electoral college and for certain democratic reforms, and shortly thereafter, in early 1981, re-elected President Chun. Responding to public demonstrations in 1987, the legislature revised the Constitution to permit direct election of the President. In December 1987, Roh Tae Woo won the Presidency by a narrow plurality, after opposition parties led by Kim Young Sam and Kim Dae Jung failed to unite behind a single candidate. In February 1990, two opposition political parties, including the one led by Kim Young Sam, merged into President Roh's ruling Democratic Liberal Party.

In December 1992, the country elected Kim Young Sam as President. The election of a civilian and former opposition party leader considerably lessened the controversy concerning the legitimacy of the political regime. President Kim's administration reformed the political sector and deregulated and internationalized the Korean economy.

In late 1995 and early 1996, the Government charged former Presidents Roh and Chun with accepting bribes from certain Korean companies and with sedition relating to a number of clashes between the Government and its critics, including a 1980 confrontation between the Korean army and civilian protesters in Kwangju, Korea. In April 1997, the Korean Supreme Court sentenced former President Roh to 17 years in prison and former President Chun to life imprisonment and imposed severe fines on each defendant. No significant political or social unrest resulted from the trial, conviction or sentencing. The Government pledged to uncover any other similar unlawful practices and to continue its anti-corruption reforms generally. On December 22, 1997, former President Kim pardoned former Presidents Roh and Chun following consultation with then President-elect Kim Dae Jung.

On December 18, 1997, the country elected Kim Dae Jung as President, and he started his term on February 25, 1998. President Kim's party, the National Congress for New Politics, formed a coalition with the United Liberal Democrats led by Kim Jong Phil. The coalition was ended before the election held on April 13, 2000.

Government and Politics

Government and Administrative Structure

Governmental authority in the Republic is centralized and concentrated in a strong presidency. The President is elected by popular vote, serves for a term of five years and may not be re-elected. The President chairs the State Council, which consists of the prime minister, the deputy prime ministers, the heads of the Government ministries and ministers of state. The President can select the members of the State Council and appoint or remove all other Government officials, except for local officials elected in local elections.

The National Assembly exercises the country's legislative power. The Constitution provides for the direct election of about 85% of the members of the National Assembly and the distribution of the remaining seats proportionately among parties winning over 3% of the popular vote. National Assembly members serve four year terms. The National Assembly enacts laws, ratifies treaties and approves the national budget. The executive branch drafts most legislation and submits it to the National Assembly for approval.

The country's judicial branch comprises the Supreme Court, the Constitutional Court and lower courts of various levels. The President appoints the Chief Justice of the Supreme Court and appoints the other Justices of the Supreme Court upon the recommendation of the Chief Justice. All appointments to the Supreme Court require the consent of the National Assembly. The Chief Justice, with the consent of the other Supreme Court Justices, appoints all the other judges in Korea. Supreme Court Justices serve for six years; all other judges serve for ten years. Other than the Chief Justice, justices and judges may be reappointed to successive terms.

The President formally appoints all nine judges of the Constitutional Court, but three judges must be designated by the National Assembly and three by the Chief Justice of the Supreme Court. Constitutional Court judges serve for six years and may be reappointed to successive terms.

Political Organizations

Currently, there are three main political parties:

- the Grand National Party (''GNP''), the former ruling party prior to the election of current President Kim Dae Jung;
- the Millenium Democratic Party (''MDP''), the current ruling party led by President Kim Dae Jung; and
- the United Liberal Democrats (''ULD''), led by Kim Jong Phil.

Upon the election held on April 13, 2000, the parties controlled the following number of seats in the National Assembly:

	GNP	MDP	ULD	Other	Total
Number of Seats	133	115	17	8	273

Relations with North Korea

Relations between the Republic and North Korea have been tense over most of the Republic's history. The Korean War of 1950-1953 began with the invasion of the Republic by communist forces from North Korea and, following a military stalemate, resulted in an armistice establishing a demilitarized zone monitored by the United Nations in the vicinity of the 38th parallel.

North Korea maintains a regular military force estimated at more than 1,000,000 troops, mostly concentrated near the northern border of the demilitarized zone. The Republic's military forces, composed of approximately 690,000 regular troops and almost 3.1 million reserves, maintain a state of military preparedness along the southern border of the demilitarized zone. The United States currently maintains approximately 37,000 troops in the Republic.

Since September 1990, representatives of the Republic and North Korea have from time to time met in Seoul and Pyongyang. For example, on December 13, 1991, the two countries signed an ''Agreement on Reconciliation, Nonaggression and Exchange and Cooperation'' which went into effect on February 19, 1992, agreeing, among other things, to move towards reconciliation and economic cooperation. Tension between the two Koreas rose in March 1993 following North Korea's declaration of its intent to withdraw from the Nuclear Non-Proliferation Treaty. Subsequent events, including North Korea's refusal to comply with the Nuclear Non-Proliferation Treaty, and the death of North Korea's President Kim Il-Sung on July 8, 1994 have caused the level of tension to fluctuate. An accord between the United States and North Korea, reached on October 21, 1994, eased tensions. North Korea agreed to dismantle its plutonium processing program in return for diplomatic recognition by the United States and economic undertakings from the United States, the Republic and Japan, including commitments by the Republic and Japan to assist North Korea's construction of two modern light-water nuclear reactors costing up to US$5 billion. However, disagreements have arisen in implementing this accord.

Over the last few years, relations between the Republic and North Korea have generally improved, despite occasional difficult periods. In 1995, the Republic agreed to donate 150,000 tons of rice to North Korea without preconditions. Demonstrating the improved situation, in April 1996 the United States and the Republic proposed talks with North Korea and China to secure peace on the Korean peninsula. In a troubling incident in September 1996, a small group of North Korean armed troops infiltrated the Republic by submarine; North Korea later apologized for the incident, defusing tensions. On December 9, 1997, the Republic, the United States, China and North Korea began formal talks on a permanent peace treaty.

The Government believes that recent improved relations between the Republic and North Korea stem from expectations of increased economic cooperation. Trade between the two Koreas totaled US$287 million in 1995, US$252 million in 1996 and US$308 million in 1997. On November 18, 1998, the Hyundai Group began operating tours for South Koreans to visit the Mount Kumgang region of North Korea after reaching an agreement for such tours with the North Korean government. Over the longer term, reunification of the two Koreas could occur. Reunification would entail a significant economic commitment by the Republic. On June 13, 2000, President Kim Dae Jung met with North Korea's leader Kim Jong-II in Pyongyang, North Korea. The summit meeting between the leaders of the Republic and North Korea is the first one since the nation was divided in 1945.

Foreign Relations and International Organizations

The Republic maintains diplomatic relations with most nations of the world, most importantly with the United States with which it entered into a mutual defense treaty and several economic agreements. The Republic also has an important relationship with Japan, its largest trading partner after the United States.

The Republic belongs to a number of supranational organizations, including the IMF, the World Bank, the Multilateral Investment Guarantee Agency, the International Finance Corporation, the International Development Association, the Asian Development Bank, the African Development Bank, the European Bank for Reconstruction and Development, the Bank for International Settlements and the World Trade Organization.

In September 1991, the Republic and North Korea became members of the United Nations. During the 1996 and 1997 terms, the Republic served as a non-permanent member of the United Nations Security Council.

In March 1995, the Republic applied for admission to the Organization for Economic Cooperation and Development (the ''OECD''), which it officially joined as the twenty-ninth regular member on December 12, 1996.

The Economy

Economic Policy

Since 1962, the Republic has shifted the focus of its economy from agricultural production and the export of raw materials, textiles and clothing to the production and export of manufactured goods, particularly electronic products, ships, machinery, automobiles and steel. During the two decades prior to 1998, the Republic's GDP increased at an average annual rate of approximately 9%, largely due to an industrious and well-trained labor force and Government policies favoring export-led growth.

The Government, without owning the means of industry and commerce, has actively established and implemented economic policy objectives to maintain national security, encourage industrial development and improve living standards. The Government has influenced the economy by controlling approvals and licenses and allocating credit, although the Government expects its influence to diminish because of its recent reform policies.

Current Economic Difficulties and Initial Reform Efforts

As discussed in ''Recent Developments'', since early 1997 Korea has experienced significant economic difficulties. In response, the Government has implemented a range of measures to restore the confidence of financial market participants in Korea by strengthening the country's economic fundamentals.

The Government has focused its reform measures on restructuring the country's financial sector. In April 1997, a presidential committee introduced short-term reform measures, including:

- allowing commercial banks, securities firms and insurance companies to compete;
- permitting the issuance of financial debentures by commercial banks and securities firms;
- increasing the size of deposit insurance funds;

- improving public disclosure systems and accounting standards; and
- eliminating interest rate controls.

In June 1997, the Government announced medium- and long-term measures relating to the restructuring of The Bank of Korea and financial institution supervisory systems. The Government accelerated implementation of these measures in connection with the IMF financial aid package and related reforms.

To support troubled financial institutions and to stabilize the Republic's financial markets, on August 25, 1997 the Government announced a financial aid package, including special loans and other measures, for certain commercial and merchant banks with large amounts of bad loans. The Government also announced measures to increase the Republic's foreign currency reserves, including guaranteeing the overseas foreign currency borrowings of Korean commercial banks.

On October 19, 1997, the Ministry of Finance and Economy established the Non-Performing Asset Management Fund to assist certain commercial banks and other financial institutions. The ministry restructured and expanded KAMCO in November 1997 and mandated it to manage the Non-Performing Asset Management Fund and purchase and dispose of non-performing assets of financial institutions. In December 1998, the Government increased the size of the Non-Performing Asset Management Fund to approximately ₩33.6 trillion, to be funded by ₩32.5 trillion in proceeds from the issuance of Government guaranteed bonds (of which ₩19.2 trillion worth of bonds have been issued), a ₩0.5 trillion loan from The Korea Development Bank and a ₩0.6 trillion contribution from the Republic's financial institutions. In 1997, the Non-Performing Asset Management Fund purchased approximately ₩11 trillion worth of non-performing assets from commercial and merchant banks for about ₩7 trillion. In 1998, the Non-Performing Asset Management Fund purchased approximately ₩33 trillion worth of non-performing assets from commercial banks, specialized banks and other forms of financial institutions for approximately ₩13.0 trillion. The fund uses cash and three- to five-year Government guaranteed notes to pay for its acquisitions.

As uncertainty about the stability of the Republic's financial markets persisted, on November 19, 1997 the Government announced additional comprehensive measures to aid the financial sector, including:

- providing faster settlement of bad loans purchased by KAMCO from financial institutions;
- offering incentives for financial institutions to merge;
- requiring the merger of certain troubled financial institutions with other financial institutions;
- monitoring the condition of individual financial institutions;
- insuring all amounts deposited with banks, non-bank financial institutions, and securities investment companies, and all amounts due from life insurance companies, until the end of 2000;
- increasing the daily exchange rate band within which the Won may float from 2.25% to 10% (the band was subsequently removed); and
- exploring the expansion of the Republic's foreign currency borrowings from international capital markets.

On December 12, 1997, The Bank of Korea approved approximately ₩11.3 trillion in aid to stabilize the financial markets. Commercial banks, merchant banks and securities companies facing difficulties because of, among other things, the paralysis of the call loan market, received approximately ₩7.3 trillion and troubled securities companies, merchant banks and investment trust companies facing liquidity problems received about ₩4.0 trillion.

IMF Financial Aid Package

To help address the country's liquidity crisis and its generally difficult economic situation, the Government sought assistance from the IMF on November 21, 1997 and reached agreement with the IMF on an aid package on December 3, 1997. The aid package called for the Republic to receive loans totaling US$58 billion from the IMF, the World Bank, the ADB and the governments of certain countries, subject to compliance with several conditions. The loans have helped to replenish the Republic's foreign currency reserves and support the Republic's banking sector.

While it receives aid from the IMF, the Government does not plan to have any new external payment arrears, impose new restrictions on payments and transfers for current international transactions, introduce or modify multiple currency practices or conclude bilateral payments agreements inconsistent with its agreement with the IMF or impose new import restrictions for balance of payments reasons.

The aid package consists of US$21 billion over three years from the IMF in standby credits (approximately US$18.8 billion of which has been disbursed as of December 31, 1998), US$10 billion from the World Bank to support specific structural reform programs (US$6 billion of which has been disbursed as of December 31, 1998) and US$4 billion from the ADB to support policy and institutional reforms (US$3.7 billion of which has been disbursed as of December 31, 1998). In addition, Japan, the United States, France, Germany, the United Kingdom, Italy, Australia, Canada, Belgium, The Netherlands, Sweden, Switzerland and New Zealand pledged supplemental financing totaling approximately US$23 billion; to date, Korea has not utilized any of the supplemental financing.

The Republic repaid the IMF a total of US$13.5 billion by September 1999. The balance is scheduled to be paid from 2001 to 2004 in accordance with their agreement.

Post-IMF Reforms

Overview of Conditions to IMF Aid

As a condition to the IMF aid package, the Government announced a series of reforms, intended to address the structural weaknesses in the Korean economy and the financial sector. The reforms accelerate a number of the liberalization measures previously announced by the Government.

As outlined in a Ministry of Finance and Economy statement, the reform measures include:

- meeting revised macroeconomic targets for real GDP growth, external current account position and inflation;
- restructuring and recapitalizing the financial sector and making it more transparent, market-oriented, better supervised and free from political intervention;
- improving corporate governance;
- removing restrictions on foreign investment in the country;
- removing restrictions on trade; and
- improving the transparency and timely reporting of economic data.

On December 24, 1997, the Government announced measures in addition to those agreed with the IMF to enhance the Government's stabilization and structural goals. The new measures concentrate on:

- monetary policy;
- foreign investment restrictions;
- the financial sector;
- exchange rate policy and reserve management;
- trade policy;
- labor market policies; and
- fiscal policy.

Macroeconomic Targets

The Republic agreed with the IMF to limit growth of real GDP in 1998 to approximately 3%, contain inflation at or below 5%, and build international reserves to more than two months of imports. The agreement allowed GDP to grow more rapidly in 1999. Because of greater than expected depreciation of the Won and substantial interest rate increases in 1997, however, the Government, in consultation with the IMF, revised its projections. Based on preliminary data, GDP fell by approximately 5.8% and inflation was 7.5% in 1998. The Government estimates GDP growth, however, of 10.7% for 1999.

Monetary and Exchange Rate Policies

The Government intends to implement monetary and exchange rate policy in close consultation with the IMF. The Republic agreed to tighten monetary policy to restore and sustain calm in the markets and contain the inflationary impact of the Won depreciation in late 1997. Accordingly, the Government allowed interest rates to rise substantially, reaching approximately 30% on December 31, 1997. The Government also allowed the Won to float freely. To control inflation, the Government agreed to reduce broad money growth in 1997 and 1998. Subsequently, the Government, following consultation with the IMF, has increased broad money growth and interest rates have fallen. The Government expects financial restructuring and the sharp slowdown in economic growth to suppress the demand for money, helping the country reach its monetary goals. The Government intends to use open market operations to contain the expansion of the net domestic assets of The Bank of Korea.

Fiscal Policy

The Government maintained a tight fiscal policy in 1998 to help meet the country's macroeconomic goals and provide for the still uncertain costs of the financial sector restructuring. Nevertheless, the Government recorded a fiscal deficit of approximately 4.2% of GDP in 1998 and an estimated fiscal deficit of approximately 2.9% because of slowing growth and rising expenditure related to economic reform, such as interest costs relating to the financial sector restructuring. To help meet the country's fiscal goals, on December 29, 1997, the National Assembly supplemented revenues by increasing the transportation tax rate on gasoline and the special excise tax on luxury items, effective January 9, 1998. Other revenue enhancing measures included widening the tax base of the corporate, income and value-added taxes. In 1998, the Government issued approximately ₩22.3 trillion of Government bonds in the domestic and overseas markets.

Financial Sector Restructuring

Since December 1997, the Government has started restructuring and recapitalizing troubled financial institutions, including closing insolvent financial institutions and those failing to carry out rehabilitation plans within specified periods. In particular:

- The Government took control of Korea First Bank and Seoul Bank by recapitalizing them. In December 1999, the Government sold a controlling interest in Korea First Bank to Newbridge Capital and in April 2000, the Government entered into a management agreement with Deutsche Bank in an effort to rehabilitate Seoul Bank.
- The Government closed 16 of the country's 30 merchant banks and required the other 14 to achieve a capital adequacy ratio of 8% by June 30, 1999 or be penalized. The Government monitors progress of the remaining 14 in implementing their rehabilitation plans. The Government established a bridge merchant banking corporation to acquire, manage and sell certain assets and liabilities of the closed merchant banks. In 2000, the Government closed one additional merchant bank which failed to implement its rehabilitation plan;
- In June 1998, the Government closed two securities companies, one securities investment trust company, 31 mutual savings and finance companies and 50 credit unions and suspended operations of two securities companies and a securities investment trust company. One securities company decided to liquidate;

- In June 1998, the Financial Supervisory Commission, after reviewing the restructuring plans submitted by 12 commercial banks (not including Seoul Bank and Korea First Bank) that failed to meet Bank of International Settlement capital adequacy standards as of December 31, 1997, ordered the suspension of operations of five commercial banks and the assignment of their assets and liabilities to five other commercial banks and KAMCO. The Government provided certain tax benefits to the five banks that purchased and assumed the assets and liabilities of the banks being closed. KAMCO granted the five purchasing banks ‘‘putback’’ options if the assets deteriorated within six months from the purchase. The five banks could also request compensation from the Korea Deposit Insurance Corporation for certain losses arising from the purchase and assumption of the assets and liabilities. In addition, the Korea Deposit Insurance Corporation injected capital into the purchasing banks by buying subordinated bonds or stocks. The Government allowed the seven other commercial banks to continue operations after they submitted revised restructuring or rehabilitation plans. The Government will monitor the implementation of the restructuring plans and rehabilitation measures; and

- In October 1998, after reviewing the rehabilitation plans submitted by four securities companies that had failed to meet the Government's minimum capital adequacy ratios, the Government suspended the operation of two and approved the rehabilitation of the other two if they supplemented their rehabilitation plans and provided detailed implementation plans.

In 1999, (1) Boram Bank merged into Hana Bank, (2) Kangwon Bank, Hyundai International Merchant Bank and Chungbuk Bank merged into Cho Hung Bank, (3) Hanil Bank and the Commercial Bank of Korea merged to form Hanvit Bank and (4) Korea Long Term Credit Bank merged into Kookmin Bank.

The Government has been monitoring the borrowing and lending activities of overseas branches of Korean banks to ensure their financial soundness. The Government has also gradually reduced The Bank of Korea's deposits with nonresident branches and affiliates of domestic financial institutions.

In 2000, the Government announced its intention to restructure securities investment trust companies, including the recapitalization of Korea Investment Trust Co., Ltd. and Daehan Investment Trust Co., Ltd. The restructuring of securities investment trust companies may have a serious impact on the Korean financial market.

Corporate Governance and Corporate Structure

The agreement with the IMF calls for increased transparency in corporate governance, in particular through improved accounting, disclosure and auditing standards. It also requires the elimination of Government influence in credit allocation and other corporate decisions and the adoption of a more market-based approach.

In late 1997 and 1998, the National Assembly passed a broad range of measures restructuring the corporate and financial sectors, including:

- providing tax benefits, such as tax deferrals or exemptions, for mergers and acquisitions occurring as part of a corporate restructuring;

- rendering interest expenses on excessive corporate borrowing not deductible for tax purposes beginning in the year 2000 to discourage excessive borrowing;

- raising the foreign investor shareholding threshold which triggers the requirement of board approval from the target company from 10% to one-third of the company's outstanding shares, to facilitate the acquisition of Korean companies by foreign investors (the board approval requirement was subsequently abolished);

- repealing the mandatory tender offer rule, which previously had required any acquirer of 25% or more of shares of a corporation listed on the Korea Stock Exchange or registered in KOSDAQ to make a tender offer bid for more than 50% of the target company's shares;

- repealing the ceiling on the amount of its own shares that a listed company may hold;
- strengthening the legal protection for minority shareholder interests;
- requiring the preparation of combined financial statements for chaebols, commencing from fiscal year 1999;
- amending the Republic's insolvency laws, including creating a ''management committee'' composed of qualified professionals to assist the district courts' handling of the management of insolvent companies, limiting the availability of composition proceedings to large-sized companies by reinforcing eligibility requirements and expediting the time frames applicable to corporate reorganization and composition proceedings;
- eliminating the ceiling on equity investment by chaebols (which has been reinstated effective from April 1, 2001);
- phasing out by March 2000 outstanding cross-guarantees by one chaebol member of its affiliates' indebtedness, and prohibiting the issuance of new cross-guarantees;
- adopting a new foreign investment law to facilitate foreign investment by streamlining the investment procedure;
- adopting a law to facilitate the securitization of assets held by the Republic's corporations and financial institutions; and
- providing the Financial Supervisory Commission with greater authority to require the restructuring of the Republic's financial institutions.

It was reported that in December 1998, the top five chaebols agreed with their respective major creditor banks to:

- eliminate certain cross guarantees by the end of 1998 or 1999, as applicable;
- lower their respective average debt to equity ratio to below 200% by the end of 1999 by repaying existing debt, disposing of their assets or raising equity; and
- reduce the number of their affiliates.

It was reported in April 2000 that the top four chaebols (excluding Daewoo Group) have complied with the agreements, recording an average debt to equity ratio under 190%. However, there can be no assurance whether such chaebols can continue to comply with the conditions in the agreements.

Labor Market Reform

On February 6, 1998, a committee of representatives of labor unions, corporations and the Government agreed to implement labor reform measures, including:

- amending the labor laws to enable corporations to lay off workers for business reasons;
- permitting, starting July 1999, the formation of teachers' unions; and
- allocating up to ₩5 trillion to stabilize the labor market.

The agreement calls for companies to make all reasonable efforts to avoid layoffs, consult with a representative of the employees 60 days before the planned layoffs, notify the Ministry of Labor about the planned layoffs, select workers to be laid off based on a fair and rational standard and make an effort to rehire the laid-off workers when business conditions improve. The Government endorsed the agreement, and the National Assembly passed legislation regarding the labor reform measures on February 14, 1998.

Gross Domestic Product and Major Financial Indicators

Gross Domestic Product

Gross domestic product, or GDP, measures the market value of all final goods and services produced within a country for a given period and reveals whether a country's productive output rises or falls over time. Economists present GDP in both current and constant market prices. GDP at current market prices values a country's output using the actual prices of each year; GDP at constant market prices values output using the prices from a base year, thereby eliminating the distorting effects of inflation.

The following table sets out the composition of the Republic's GDP at current and constant 1995 market prices and the annual average increase in the Republic's GDP.

Gross Domestic Product(1)

	1995	1996	1997	1998	1999(2)	As % of GDP 1999(2)
			(in ₩ billion)			
Gross Domestic Product at Current Market Prices:						
Private Consumption	206,406.5	233,644.1	254,986.5	243,395.9	269,651.0	55.7
General Government Consumption	36,433.5	42,477.4	45,659.7	48,782.1	48,837.0	10.1
Gross Domestic Fixed Capital Formation	138,438.6	153,975.6	159,110.4	132,307.5	135,233.8	28.0
Change in Inventories	1,825.7	4,792.9	(3,933.1)	(38,252.7)	(5,431.8)	(1.1)
Exports of Goods and Services	113,971.6	123,468.3	157,413.3	219,380.4	203,632.5	42.1
Less Imports of Goods and Services	(119,533.7)	(140,658.5)	(162,031.0)	(160,324.6)	(170,643.4)	(35.3)
Statistical Discrepancy	(192.3)	779.2	2,070.7	(922.0)	2,498.7	(0.5)
Expenditures on Gross Domestic Product	377,349.8	418,479.0	453,276.4	444,366.5	483,777.8	100.0
Net Factor Income from the Rest of the World	(1,033.4)	(1,370.6)	(2,423.1)	(6,495.1)	(5,526.9)	(1.1)
Gross National Product(1)	376,316.4	417,108.4	450,853.3	437,871.4	478,250.9	98.9
Gross Domestic Product at Constant 1995 Market Prices:						
Private Consumption	206,406.5	221,005.7	228,738.3	202,587.2	223,496.1	51.2
General Government Consumption	36,433.5	39,411.9	39,984.2	39,818.7	39,581.5	9.1
Gross Domestic Fixed Capital Formation	138,438.6	148,579.8	145,294.6	114,563.5	119,272.9	27.3
Change in Inventories	1,825.7	3,914.4	(4,218.3)	(27,626.2)	(5,906.2)	(1.4)
Exports of Goods and Services	113,971.6	126,750.4	153,930.9	174,320.9	202,817.6	46.4
Less Imports of Goods and Services	(119,533.7)	(136,561.7)	(140,905.2)	(109,346.7)	(140,988.5)	32.3
Statistical Discrepancy	(192.3)	(279.2)	182.2	393.0	(1,474.8)	(0.3)
Expenditures on Gross Domestic Product	377,349.8	402,821.2	423,006.7	394,710.4	436,798.5	100.0
Net Factor Income from the Rest of the World	(1,033.4)	(1,302.6)	(2,174.9)	(5,550.6)	(4,645.7)	1.1
Trading Gains and Losses from Changes in the Terms of Trade	0.0	(7,320.0)	(18,176.4)	(21,788.2)	(31,956.6)	(7.3)
Gross National Income(3)	376,316.4	394,198.6	402,655.4	367,371.6	400,196.2	91.6
Percentage Increase of GDP over Previous Year At Current Prices	16.6	10.8	8.1	(2.0)	8.9	
At Constant 1995 Market Prices	8.9	6.8	5.0	(6.3)	10.7	

(1) GDP plus net factor income from the rest of the world is equal to the Republic's gross national product.

(2) Preliminary.

(3) GDP plus net factor income from the rest of the world and trading gains and losses from changes in the terms of trade is equal to the Republic's gross national income. Source: *National Accounts 1999 (Preliminary)*, March 2000; The Bank of Korea.

From 1990 through 1995, GDP grew at an average annual rate of 8.5%. In 1996, however, GDP growth declined to 6.8%, at constant market prices, because of sluggish growth in exports and investment. The aggregate of private and general government consumption expenditures grew 7.2%, lower than the 8.2% growth in 1995. Growth of gross domestic fixed capital formation declined to 7.3% from 1995's 11.9%, because of diminished growth in facility investments, which posted a 9.1% growth rate compared to 18.1% in 1995.

In 1997, GDP growth declined to 5.0%, at constant market prices. The aggregate of private and general government consumption expenditures grew only 3.2% in 1997. Gross domestic fixed capital formation decreased by 2.2% in 1997, due to the continued sharp decline in facility investments, which decreased by 8.7% in 1997.

GDP contracted 6.3% in 1998, at constant market prices. The aggregate of private and general government consumption expenditures declined by 2.8% and gross domestic fixed capital formation declined by 16.8%, as facility investments declined sharply by 21.1% compared with 1997, leading to the 6.3% contraction in GDP during 1998.

Based on preliminary data, GDP is estimated to have grown in 1999 by 10.7%, at constant market prices. The aggregate of private and general government consumption expenditures increased by 2.8% and gross domestic fixed capital formation increased 2.2%, as facility investments increased by 4.1% compared with the same period in 1998.

Prices, Wages and Employment

The following table shows selected price and wage indices and unemployment rates:

	Producer Price Index(1)	Increase Over Previous Year	Consumer Price Index(1)	Increase Over Previous Year	Wage Index(1)(2)	Increase Over Previous year	Unemployment Rate(1)(3)
	(1995=100)	(%)	(1995=100)	(%)	(1990=100)	(%)	(%)
1995	100	4.7	100.0	4.5	190.3	11.2	2.0
1996	103.2	2.7	104.9	4.9	212.9	11.9	2.0
1997	107.2	3.9	109.6	4.5	227.8	7.0	2.6
1998	120.3	12.2	117.8	7.5	222.3	(2.5)	6.8
1999	117.8	(2.1)	118.8	0.8	249.1	12.1	6.3

(1) Average for year.
(2) Nominal wage index of earnings in all industries.
(3) Expressed as a percentage of the economically active population. Source: The Bank of Korea; The National Statistical Office.

Slower economic growth and the Government's economic policy has helped keep inflation low. The inflation rate stood at 6.2% in 1994, 4.5% in 1995, 4.9% in 1996, 4.5% in 1997, 7.5% in 1998 and 0.8% in 1999.

Slower economic growth resulted in an increase in unemployment from 3.1% as of December 31, 1997 to 7.2% as of April 30, 1999. The level of unemployment remained high in 1999.

Korea regards its well-educated labor force as one of its principal assets. From 1992 to 1999, the economically active population of the Republic increased by 10.9% to 21.6 million, while the number of employees increased 6.6% to 20.3 million. The economically active population over 15 years old as a percentage of the total over-15 population has remained between 58% and 63% over the past decade. Literacy among workers under 50 is almost universal.

Balance of Payments and Foreign Trade

Balance of Payments

The following table sets out certain information with respect to the Republic's balance of payments.

Classification	December 31, 1995	1996	1997	1998	1999[3]
Current Account	(8,507.7)	(23,004.7)	(8,166.7)	40,558.4	25,000.4
Goods	(4,444.2)	(14,964.7)	(3,179.1)	41,626.8	28,716.3
Exports[1]	124,632.2	129,968.0	138,619.1	132,121.6	145,494.2
Imports[1]	129,076.4	144,932.7	141,798.2	90,494.8	116,777.9
Services	(2,978.8)	(6,179.4)	(3,200.3)	628.3	(1,006.3)
Income	(1,302.8)	(1,814.5)	(2,454.3)	(5,049.0)	(4,660.3)
Current Transfers	218.1	(46.1)	667.0	3,352.3	1,950.7
Capital and Financial Account	16,785.6	23,326.8	1,314.4	(3,253.3)	577.9
Financial Account[2]	17,273.2	23,924.4	1,922.0	(3,424.4)	886.4
Capital Account	(487.6)	(597.6)	(607.6)	171.1	(308.5)
Changes in Reserve Assets	(7,044.9)	1,338.6)	11,921.7	(30,975.0)	(22,966.8)
Net Errors and Omissions	(1,223.0)	1,066.5	(5,069.4)	(6,330.1)	(2,611.5)

(1) These entries are derived from trade statistics and are valued on a free on board basis, meaning that the insurance and freight costs are not included.
(2) Includes borrowings from the IMF, syndicated bank loans and short-term borrowings.
(3) Preliminary. Source: The Bank of Korea.

Preliminary figures for 1999 indicate a current account surplus of US$25 billion, primarily resulting from reduced imports. The Government anticipates that the Republic will have a smaller current account surplus or a current account deficit in 2000. The estimated current account surplus for the first four months of 2000 is US$1.0 billion.

Trade Balance

The following table summarizes the Republic's trade balance for the periods indicated:

	Exports[1]	Imports	of Trade	% of Imports
	(millions of dollars, except percentages)			
1995	124,632.2	129,076.4	(4,444.2)	96.6
1996	129,968.0	144,932.7	(14,964.7)	89.7
1997	138,619.1	141,798.2	(3,179.1)	97.8
1998	132,121.6	90,494.8	41,626.8	146.0
1999[2]	145,494.2	116,777.9	28,716.3	124.6

(1) These entries are derived from trade statistics and are valued on a free on board basis.
(2) Preliminary. Source: The Bank of Korea.

The Republic, due to its lack of natural resources, relies on extensive trading activity for growth. The country meets virtually all domestic requirements for petroleum, wood and rubber with imports, as well as much of its coal and iron needs. Exports consistently represent a high percentage of GDP; accordingly, the international economic environment is crucially importance to the Republic's economy.

From 1994 to 1997, export growth averaged 13.0% per annum. In 1998, however, exports decreased by 4.9% due to difficult economic conditions in Asia, which is one of Korea's major export markets. In 1999, manufactured goods, machinery and transportation equipment constituted over 90% of Korea's exports, whereas commodities such as oil and iron ore, represented the bulk of imports. Prior to 1998, imports of consumer durables grew with the import liberalization policy imposed under the WTO regime.

In 1995, the trade deficit widened to US$4.4 billion, as the growth of imports exceeded that of exports. Due to the appreciation of the Japanese yen, the economic recovery in advanced countries and continuing growth in developing countries, especially China and Southeast Asia, exports soared 31.2% to US$124.6 billion. Exports of heavy and chemical products led the strong growth.

In 1996, imports grew by 12.3% while exports grew by 4.3%, resulting in a trade deficit of approximately US$15.0 billion, more than triple the previous year. A fall in electronics exports and a sharp decrease in unit prices in heavy chemical and industrial products and metallic products and the depreciation of the Japanese yen contributed to the sluggish export growth.

In 1997, primarily because of a decline in imports, the Republic's trade deficit narrowed to US$3.2 billion. The Republic's economic difficulties reduced imports of capital goods and food and consumer goods. Exports grew by 6.7% due principally to increases in exports of electronics, chemical manufacturing products and metal products resulting from the depreciation of the Won.

In 1998, the Republic recorded a trade surplus of US$41.2 billion due to a 36.1% decrease in imports. The Republic's economic difficulties drove down imports of all categories of goods. Exports decreased by 4.9% due to decreases in the country's major export categories.

Based on preliminary data, the Republic recorded a trade surplus of US$28.7 billion in 1999. The Republic's economic recovery led to a 29.0% increase in imports and a 10.1% increase in exports.

The Republic's largest trading partners, the United States and Japan accounted for the following percentages of the country's imports and exports:

	1997		1998		1999	
	Exports	**Imports**	**Exports**	**Imports**	**Exports**	**Imports**
United States	15.9	20.8	17.3	22.5	20.3	21.3
Japan	10.8	19.3	9.3	18.6	10.9	20.7

Non-Commodities Trade Balance

Korea's non-commodities trade deficit in its current account was US$8.0 billion in 1996, compared with deficits of US$4.1 billion in 1995. The increase in the non-commodities trade deficit resulted principally from increases in:

- interest payments for overseas borrowings;
- royalty payments for technology introduction; and
- advertisement expenses for overseas marketing.

In 1997, however, the non-commodities trade deficit narrowed to US$5.0 billion, mainly due to a decline in overseas travel payments. In 1998, the Republic recorded a non-commodities trade deficit in its current account of approximately US$1.1 billion. In 1999, based on preliminary data, the non-commodities trade deficit increased to US$3.5 billion.

Monetary Policy

The Bank of Korea

Established in 1950, The Bank of Korea functions as the Korean central bank and the country's sole currency issuing bank. A seven-member Monetary Board, chaired by the Governor of The Bank of Korea, formulates and controls monetary and credit policies. The President may override any Monetary Board decisions that conflicts with the Government's economic policy.

The Bank of Korea implements monetary policy by influencing the reserve positions of banks, principally through the terms and conditions of discounts, open market operations and changes in reserve requirements. The Bank of Korea may also set or alter maximum interest rates on certain deposits and loans and, in periods of extreme monetary expansion, directly control the volume and nature of bank credit. In practice, The Bank of Korea's power to impose direct credit controls has been the most effective means of implementing monetary policy.

Interest Rates

In November 1991, the Government adopted a four-stage plan to deregulate interest rates gradually. On July 7, 1997, the Government implemented the fourth phase of its program which liberalized interest rates, with the exception of interest rates on demand deposits, which will be reviewed after 1998.

Money Supply

The following table shows the volume of the country's money supply:

	December 31,				
	1995	**1996**	**1997**	**1998**	**1999**
			(in ₩billion)		
Money Supply (M1)(1)	38,872.8	39,542.1	35,036.1	35,582.5	44,374.5
Quasi-money(2)	115,072.6	138,769.5	168,495.4	222,955.9	284,942.9
Money Supply (M2)	153,945.4	178,311.6	203,531.5	258,538.4	329,317.4
Percentage Increase Over Previous Year.	15.6%	15.8%	14.1%	27.0%	27.4%

(1) Consists of cash and demand deposits.

(2) Includes time and savings deposits and residents' foreign currency deposits at financial institutions. Source: Principal Economic Indicators, April 2000, The Bank of Korea.

Exchange Controls

Authorized foreign exchange banks, as approved by the Ministry of Finance and Economy, handle foreign exchange transactions. The ministry has designated other types of financial institutions to handle foreign exchange transactions on a limited basis.

Korean laws and regulations generally require the approval of, or a report to, either the Ministry of Finance and Economy, The Bank of Korea or authorized foreign exchange banks, as applicable, for overseas payments, issuances of international bonds and other instruments, overseas investments and certain other transactions involving foreign exchange payments.

The Government may impose foreign exchange restrictions, such as requiring approval to allow foreign investors to acquire, or repatriate proceeds from, Korean securities, in emergency situations, including sudden fluctuations in interest rates or exchange rates, extreme difficulty in stabilizing the balance of payments or substantial disturbances in the Korean financial and capital markets.

In 1994 and 1995, the Government relaxed regulations of foreign exchange position ceilings and foreign exchange transaction documentation and created free won accounts. In December 1996, after joining the OECD, the Republic freed the repatriation of investment funds, dividends and profits, as well as loan repayments and interest payments. The Government continues to reduce exchange controls in response to changes in the world economy, including the new trade regime under the WTO, anticipating that such foreign exchange reform will improve the Republic's competitiveness and encourage strategic alliances between domestic and foreign entities.

On September 2, 1998 the National Assembly passed the Foreign Exchange Transaction Laws, which became effective from April 1, 1999. In principle, all currency and capital transactions, including, among others, the following transactions have been liberalized:

- the borrowing or issuance of debentures by Korean companies from overseas having less than one-year maturities;

- the investment in real property located overseas by Korean companies and financial institutions;
- the establishment of overseas branches and subsidiaries by Korean companies and financial institutions;
- the investment by non-residents in deposits and trust products having more than one year maturities; and
- the issuance of debentures by non-residents in the Korean market.

To minimize the adverse effects from further opening of Korean capital markets, the Ministry of Finance and Economy is authorized to introduce a variable deposit requirement system to restrict the influx of short-term speculative funds.

Appendix B

PRICEWATERHOUSECOOPERS

H&CB
Review Report 2000

For the six-month periods ended June 30, 2000 and 1999

SAMIL ACCOUNTING CORPORATION

SAMIL ACCOUNTING CORPORATION

PRICEWATERHOUSECOOPERS

Samil Accounting Corporation
Hanil Group Building 20th Flr.
191 Hankangro 2 ga, Yongsanku
Seoul 140-702, KOREA
(C.P.O. Box 2170, 100-621)
Telephone +82 2 709-0713
Facsimile +82 2 792-7003

Review Report of Independent Accountants

To the Board of Directors and Stockholders of H&CB

We have reviewed the accompanying non-consolidated semi-annual balance sheets of H&CB (the ''Bank''), as of June 30, 2000 and 1999, and the related non-consolidated semi-annual income statements for the six-month periods then ended, expressed in Korean Won in accordance with the independent accountants' review standards for non-consolidated semi-annual financial statements as established by the Securities & Futures Commission of the Republic of Korea. All information included in these non-consolidated semi-annual financial statements is the representation of the Bank's management.

A review of non-consolidated interim financial statements consists principally of obtaining an understanding of the system for the preparation of interim financial information, applying analytical review procedures to financial data, and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit in accordance with auditing standards generally accepted in the Republic of Korea, the objective of which is the expression of an opinion regarding the non-consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modification that should be made to the non-consolidated semi-annual financial statements of the Bank referred to above for them to be in conformity with accounting standards for preparing quarterly and semi-annual financial statements as established by the Securities & Futures Commission of the Republic of Korea.

As discussed in Note 2 to the accompanying non-consolidated semi-annual financial statements, in accordance with accounting standards for preparing quarterly and semi-annual financial statements established by the Securities & Futures Commission of the Republic of Korea, the semi-annual statements of appropriation of retained earnings and cash flows are not presented.

As discussed in Note 14 of the non-consolidated semi-annual financial statements, the operations of the Bank have been significantly affected and may continue to be affected for the foreseeable future, by the general adverse economic conditions in the Republic of Korea and in the Asia Pacific region. Certain financially troubled borrowers including Daewoo Group companies are in process of debt restructuring under workout plans or other similar programs. As of June 30, 2000, the Bank's outstanding loans to Daewoo Group companies and other companies under workout or other similar programs amount to ₩290,251 million and ₩1,644,075 million before present value discounts of ₩51,512 million and ₩34,128 million, respectively. The Bank has accrued ₩217,357 million and ₩350,222 million of allowance for such loan losses as of June 30, 2000. In addition, as of June 30, 2000, the Bank's outstanding loans to Hyundai Group companies and allowance for such loan losses amount to ₩497,685 million and ₩1,725 million, respectively. Actual loan losses to the above companies can differ from allowances for such loan losses accrued by the Bank. The ultimate effect of these significant uncertainties on the financial position of the Bank as of the balance sheet date cannot presently be determined and accordingly, no adjustments have been made in the accompanying non-consolidated semi-annual financial statements related to such uncertainties other than reserve for allowances for losses as mentioned above.

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

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

Samil Accounting Corporation

Seoul, Korea
July 21, 2000

H&CB

(BANKING ACCOUNTS)
NON-CONSOLIDATED SEMI-ANNUAL BALANCE SHEETS
as of June 30, 2000 and 1999
(Unaudited—See Accountants' Review Report)

	In Millions of Korean Won		In Thousands of U.S. Dollars (Note 3)	
	2000	1999	2000	1999
ASSETS				
Cash and due from banks (Note 4)	₩ 2,807,735	₩ 2,768,389	US$ 2,518,600	US$ 2,483,306
Loans (Note 5)	38,463,177	26,397,685	34,502,312	23,679,301
less allowance for doubtful accounts of ₩1,211,024 million in 2000 and ₩1,304,580 million in 1999 and present value discounts of ₩85,641 million in 2000 and ₩33,281 million in 1999				
Trading securities (Note 6)	2,314,518	1,139,496	2,076,173	1,022,153
Investment securities (Note 6)	8,618,538	8,957,592	7,731,017	8,035,156
Premises and equipment, net (Note 7)	861,262	814,676	772,571	730,782
Other assets (Note 8)	2,333,432	3,018,287	2,093,140	2,707,470
Total assets	₩55,398,662	₩43,096,125	US$49,693,813	US$38,658,168
LIABILITIES AND SHAREHOLDERS' EQUITY				
Deposits (Note 9)	₩42,248,030	₩29,963,187	US$37,897,408	US$26,877,635
Borrowings (Note 10)	2,664,391	3,153,611	2,390,017	2,828,858
Debentures (Note 11)	2,596,587	2,371,283	2,329,195	2,127,093
less discount on debentures of ₩44,158 million in 2000 and ₩121,895 million in 1999				
Other liabilities (Note 12)	5,535,168	5,564,706	4,965,168	4,991,663
net of national pension fund of ₩17,408 million in 2000 and ₩20,897 million in 1999				
Total liabilities	53,044,176	41,052,787	47,581,788	36,825,249
Commitments and contingencies (Notes 13 and 14)				
Shareholders' equity:				
Common stock (Note 15)	545,313	446,165	489,158	400,220
Preferred stock (Note 16)	296,500	296,500	265,967	265,967
Capital surplus (Note 17)	777,238	500,716	697,199	449,153
Retained earnings (Note 18)	901,366	625,962	808,545	561,502
Capital adjustment (Note 19)	(165,931)	173,995	(148,844)	156,077
Total shareholders' equity	2,354,486	2,043,338	2,112,025	1,832,919
Total liabilities and shareholders' equity	₩55,398,662	₩43,096,125	US$49,693,813	US$38,658,168

The accompanying notes are an integral part of these non-consolidated semi-annual financial statements.

H&CB

(BANKING ACCOUNTS)
NON-CONSOLIDATED SEMI-ANNUAL INCOME STATEMENTS
for the six-month periods ended June 30, 2000 and 1999
(Unaudited—See Accountants' Review Report)

	In Millions of Korean Won		In Thousands of U.S. Dollars (Note 3)	
	2000	1999	2000	1999
Interest income:				
Interest on loans	₩1,761,787	₩1,529,333	US$1,580,361	US$1,371,845
Interest on due from banks	29,596	60,815	26,548	54,552
Interest on trading securities	90,281	51,582	80,984	46,270
Interest on investment securities	410,770	334,404	368,470	299,968
Other interest income	6,377	28,189	5,720	25,286
	2,298,811	2,004,323	2,062,083	1,797,921
Interest expense:				
Interest on deposits	1,323,892	1,119,955	1,187,560	1,004,624
Interest on borrowings	110,230	125,973	98,879	113,001
Interest on debentures	124,766	133,835	111,918	120,053
Other interest expenses	12,111	19,173	10,864	17,199
	1,570,999	1,398,936	1,409,221	1,254,877
Net interest income	727,812	605,387	652,862	543,044
Provision for possible loan losses	110,052	126,284	98,719	113,280
Net interest income after provision for possible loan losses	617,760	479,103	554,143	429,764
Non-interest revenue:				
Fees and commissions	311,934	230,869	279,812	207,095
Dividends on trading securities	1,113	1,010	998	906
Dividends on investment securities	8,855	1,528	7,943	1,371
Other (Note 21)	211,913	454,373	190,091	407,583
	533,815	687,780	478,844	616,955
Non-interest expense:				
Fees and commissions	₩ 35,958	₩ 14,500	US$ 32,255	US$ 13,007
General and administrative expenses (Note 22)	402,992	358,078	361,493	321,204
Other (Note 21)	198,392	351,636	177,962	315,425
	637,342	724,214	571,710	649,636
Operating income	514,233	442,669	461,277	397,083
Non-operating gains, net	27,756	11,156	24,898	10,008
Income before income tax expense	541,989	453,825	486,175	407,091
Income tax expense (Note 23)	166,787	146,279	149,612	131,215
Net income	₩ 375,202	₩ 307,546	US$ 336,563	US$ 275,876
Earnings per share and ordinary income per share (Note 24) (in Korean Won and U.S. Dollars)				
Basic ordinary income per share	₩ 3,436	₩ 3,430	US$ 3.082	US$ 3.077
Basic earnings per share	3,436	3,430	3.082	3.077
Diluted ordinary income per share	2,789	2,071	2.502	1.858
Diluted earnings per share	2,789	2,071	2.502	1.858

The accompanying notes are an integral part of these non-consolidated semi-annual financial statements.

H&CB

NOTES TO NON-CONSOLIDATED SEMI-ANNUAL FINANCIAL STATEMENTS

for the six-month periods ended June 30, 2000 and 1999
(Unaudited—See Accountants' Review Report)

1. The Bank:

H&CB Ltd. (the ''Bank'') was established in 1967 under the Korea Housing Bank Act to support the formation of funds for housing projects for low and moderate income households and to promote the efficient supply and management of housing funds. In August 1997, the Bank became a commercial bank governed by the Bank Act and the Commercial Code of the Republic of Korea as a bill on repeal of the Korea Housing Bank Act was passed.

The Bank operates through 638 local branches and three overseas branches as of June 30, 2000. The Bank is engaged in commercial banking business under the Bank Act and in trust business according to the Trust Business Act and other related laws. The Bank assumed certain assets and substantially all of the liabilities of DongNam Bank through a purchase and assumption arrangement recommended by the Financial Supervisory Commission on June 29, 1998.

The Bank listed its stock on the Korea Stock Exchange on March 7, 1996. On July 22, 1997, the Bank issued US$300 million of Global Depositary Receipts by issuing an additional 7,618,000 common shares for cash at US$19.69 per share and by selling common shares owned by the Korean government for US$150 million. At June 30, 2000, the Bank has 1,000,000,000 authorized common stocks with par value of ₩5,000 per share, of which 109,062,554 shares are issued, outstanding and fully paid.

At June 30, 2000, the Bank has 500,000,000 authorized, noncumulative and nonparticipating preferred stocks with par value of ₩5,000 per share, of which 59,300,000 shares are issued, outstanding and fully paid.

At June 30, 2000, the Korean government and foreign investors owned 14.5% and 65.87%, respectively, of the outstanding common stocks of the Bank.

2. Summary of Significant Accounting Policies:

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

Basis of Non-Consolidated Semi-Annual Financial Statement Presentation–

The official accounting records of the Bank are maintained in Korean Won in accordance with the relevant laws and regulations of the Republic of Korea. In accordance with accounting standards for preparing quarterly and semi-annual financial statements established by the Securities & Futures Commissions of Korea, non-consolidated semi-annual statements of appropriation of retained earning and cash flows are not presented.

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

For the convenience of the reader, the accompanying non-consolidated semi-annual financial statements have been extracted from the Bank's Korean language non-consolidated semi-annual financial statements that were prepared using accounting principles, procedures and reporting practices generally accepted in the Republic of Korea. These standards vary from International Accounting Standards and the accounting principles generally accepted in the country of the reader. The non-consolidated semi-annual financial statements have been translated from Korean into English, and have been formatted in a manner different from the presentation under Korean financial statement practices. Certain supplementary information included in the statutory non-consolidated semi-

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NOTES TO NON-CONSOLIDATED SEMI-ANNUAL FINANCIAL STATEMENTS—(Continued)

for the six-month periods ended June 30, 2000 and 1999
(Unaudited—See Accountants' Review Report)

annual financial statements, not required for a fair presentation of the Bank's financial position or results of operations, is not presented in the accompanying non-consolidated semi-annual financial statements.

The Bank's non-consolidated semi-annual financial statements are prepared in conformity with the revised financial accounting standards in the Republic of Korea. As permitted by the revised financial accounting standards, the Bank has presented its non-consolidated semi-annual financial statements for the six-month periods ended June 30, 2000 and 1999.

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

Recognition of Interest Income–

The Bank recognizes interest income on loans and debt securities on an accrual basis. However, interest income on delinquent and dishonored loans, other than those subject to security deposits and guaranteed by financial institutions, is recognized on a cash basis. Accordingly, unaccrued interest income amounted to ₩335,471 million and ₩354,809 million as of June 30, 2000 and 1999, respectively.

Foreign Currency Translation–

Assets and liabilities denominated in foreign currencies are translated into Korean Won at exchange rates (₩1,114.8/US$) announced by Korea Financial Telecommunications and Clearings Institute at the balance sheet date. Resulting exchange gains or losses are reflected in operations as an other operating income.

Allowance for Loan Losses–

The Bank classifies asset quality as normal, special mention, substandard, doubtful and estimated loss considering the delinquency period, value of collateral and the borrowers' future debt service capacity.

For large companies, the Bank uses an internal credit evaluation model (''Unsecured Commercial Bills Discounted Borrowers Selection Model''). The results of the credit evaluation are reviewed by a credit officers' committee that rates the borrower's credit.

The Bank rates credit risk of small and medium companies using a Credit Rating System which evaluates the borrowers' future debt service capacity.

Credit Ratings	Asset Quality Classification
1-7	Normal
8-9	Special mention
10	Substandard
11	Doubtful
12	Estimated loss

However, the Bank classifies credit risk for small corporate loans and household loans based on the delinquency period and the value of collaterals.

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NOTES TO NON-CONSOLIDATED SEMI-ANNUAL FINANCIAL STATEMENTS—(Continued)

for the six-month periods ended June 30, 2000 and 1999
(Unaudited—See Accountants' Review Report)

Estimated loan losses as of June 30, 2000, were determined by applying the following percentages to each asset quality classification:

Normal	0.5%
Special mention	2.0%
Substandard	20.0%
Doubtful	50.0%
Estimated loss	100.0%

The bank accrues additional allowance for loan losses for unsecured loans to companies whose total loan amounts ₩10,000 million or more, or for loans to companies considered as having high risk of those in the process of debt restructuring.

Trading Securities and Investment Securities–

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

– ***Trading Securities***

Securities held for trading purposes are recorded as trading securities and are carried at fair value, with unrealized gains and losses recorded in current operations.

– ***Investment Securities***

Marketable equity securities of non-controlled investees are carried at fair value. Temporary changes in fair value are accounted for as the capital adjustment account.

Non-marketable equity securities of non-controlled investees are carried at cost.

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

Debt securities which the Bank has the intent and ability to hold to maturity are generally carried at cost, adjusted for the amortization of discounts or premiums (the ''amortized cost''). Premiums and discounts on debt securities are amortized over the life of the debt using the effective interest method.

Other debt securities are carried at fair value. Temporary differences between fair value and amortized cost are accounted for as the capital adjustment account.

Declines in fair value or net asset value of investment securities, except equity securities recorded using the equity method of accounting, anticipated to be permanent are recorded in current operations. Subsequent recoveries are recorded in current operations up to the acquisition cost and recorded in the capital adjustment account over the acquisition cost.

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NOTES TO NON-CONSOLIDATED SEMI-ANNUAL FINANCIAL STATEMENTS—(Continued)

for the six-month periods ended June 30, 2000 and 1999
(Unaudited—See Accountants' Review Report)

Premises and Equipment–

Premises and equipment are recorded at cost or the appraised value in accordance with the Korean Asset Revaluation Law. The revaluation increment, net of a 3% tax, was credited to capital surplus. Previously recorded accumulated depreciation was eliminated and a new basis for depreciation of the revalued assets was established.

Routine maintenance and repairs are charged to expense as incurred. Expenditures which enhance the value or extend the useful life of the facilities involved are capitalized as premises and equipment.

Depreciation is computed using the declining-balance method, except for buildings acquired after January 1, 1995 and leasehold improvements, which are depreciated using the straight-line method, based on the estimated average useful lives of the assets.

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

Buildings	5-60 years
Leasehold improvements	5 years
Machine	5 years
Equipment and vehicles	5 years

The residual value of assets acquired prior to 1995 is being depreciated on a straight-line basis over three years commencing in the year following the year in which the assets are otherwise fully depreciated.

Intangible Assets–

The Bank accounts for trademarks and other intangible assets by amortizing over 5 to 30 years using the straight-line method.

Foreclosed Land and Buildings–

Foreclosed assets acquired through, or in lieu of, loan foreclosure are initially recorded at their fair value at the date of foreclosure. After foreclosure, the asset is carried at the lower of its cost or fair value.

Present Value Discounts–

In cases where the Bank disposes of foreclosed land and buildings under long-term installment contracts, the resulting long-term installment accounts receivable are valued at the net present value of future cash flows, calculated using the average interest rate on the underlying loans. The difference between the nominal value and the present value of these accounts receivable is amortized over the installment period using the effective interest method. Resulting amortization is recognized as interest income.

When contract terms such as principal amount, interest rate, and repayment terms are changed unfavorably for the Bank due to the commencement of a reorganization plan, procedures of composition, mutual agreements between debtors and creditors or other similar reasons, related receivables are stated at present value based on a reasonable interest rate prevailing at the transaction date if the difference between the nominal value and the present value is material. The difference between the nominal value and the present value is presented as in the present value discount account, directly deducted from the nominal value and offset against the provision for possible credit losses, if available, or recognized as bad debt expense in the period incurred. The present value

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NOTES TO NON-CONSOLIDATED SEMI-ANNUAL FINANCIAL STATEMENTS—(Continued)

for the six-month periods ended June 30, 2000 and 1999
(Unaudited—See Accountants' Review Report)

discount account is amortized using the effective interest rate method and the related amortization is included in interest income.

Discounts on Debentures–

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

Accrued Severance Benefits–

Employees and directors with one or more years of service are entitled to receive a lump-sum payment upon termination of their employment with the Bank, based on their length of service and rate of pay at the time of termination. Accrued severance benefits represent the amount which would be payable assuming all eligible employees were to terminate their employment as of the balance sheet date.

Actual payments of severance benefits for the six-month periods ended June 30, 2000 and 1999 were ₩54,312 million and ₩37,915 million, respectively.

In addition, the Bank deposited 82.24% and 92.4% of accrued severance benefits in insurance companies including Korea Life Insurance Co., Ltd. at June 30, 2000 and 1999, respectively. The deposits are made under a group severance insurance plan and their withdrawal is restricted to the actual payment of severance benefits.

In accordance with the National Pension Act, a certain portion of accrued severance benefits was contributed to the National Pension Fund. Accrued severance benefits represent the net amount. The contributed amount shall be refunded to employees and directors from the National Pension Fund on their retirement.

Allowance for Guarantee Losses–

The Bank accrues allowances for estimated potential losses on outstanding guarantees and acceptances contracts for customers with credit classifications of substandard, doubtful and estimated loss. The estimated losses are determined by applying the same percentage used in estimating allowance for loan losses explained under the caption "Allowances for Loan Losses". The allowances are recorded as liabilities. The Bank provides additional allowance for guarantees and acceptances to companies with borrowing of ₩10,000 million or more in total or companies assessed as high risky internally among companies which are in the process of restructuring of their debt structure under workout or other similar programs.

Deferred Income Tax Assets and Liabilities–

Deferred income taxes are recognized for tax consequences of "temporary differences" by applying enacted statutory tax rates, applicable to future years, to differences between the financial reporting and the tax basis of existing assets and liabilities. The Bank recorded deferred income taxes as deferred income tax asset or deferred income tax liabilities in other assets or liabilities.

Bonds Purchased Under Resale Agreements and Bonds Sold under Repurchase Agreements–

Bonds purchased or sold under resale or repurchase agreements are included in loans and borrowings, respectively. The differences between the sale and repurchase price or the purchase and resale price are treated as interest and accrued evenly over the life of the agreements.

Foreign Currency Translation of the Overseas Branches' Semi-Annual Financial Statements–

Accounts and records of the overseas branches are maintained in a foreign currency prevailing in its respective country. For presentation in the accompanying non-consolidated semi-annual financial statements, the semi-annual financial statements of the branches have been translated using exchange rates published by Korea Financial Telecommunications and Clearings Institute as of the balance sheet date.

Derivative Financial Instruments–

Derivative financial instruments (''derivatives'') are carried at fair value. Unrealized gains or losses on derivatives for trading or fair value hedging purposes are recorded in current operation. However, unrealized gains or losses on derivatives for cash-flow hedging purposes are accounted for in the capital adjustment account and recorded in operation in the period when expected transactions have an effect on operation or adjusted to related assets or liabilities when expected transactions occur. Unrealized gains or losses on derivatives for non-hedging purposes are recorded in current operation. Beginning January 1, 2000 in accordance with the revised financial accounting standards generally accepted in the Republic of Korea, hedging accounting is applied. In connection with such changes the Bank recorded a ₩1,448 million increase in its net income for the six-month period ended June 30, 2000 and a ₩922 million decrease in its retained earning at June 30, 2000.

National Housing Fund–

Under the Housing Construction Promotion Law, the Bank manages the sources and uses of funds of the National Housing Fund (the ''NHF'') designated by the Korean Government. The NHF has the settlement account in the Bank, which are recorded as other liabilities. The Bank pays interest amounting to 1% of average balance of this account to the NHF.

Stock Options–

The compensation cost, which is computed by the option pricing model, is amortized over the service period. For the options granted before December 31, 1999, the difference between the exercise price and the market value of shares to be given upon exercise of a stock option is amortized over the period between the granting date and the exercisable date. The resulting amortization expenses are charged to current operations and the capital adjustment account.

Trust Fees and Compensation to the Trust Accounts–

The Bank receives trust fees from the Trust accounts for its management of trust assets and operations and recognizes such fees as other income.

The Bank compensates for losses incurred in guaranteed principal or rate of return trust accounts and recognizes such compensations as other expenses.

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NOTES TO NON-CONSOLIDATED SEMI-ANNUAL FINANCIAL STATEMENTS—(Continued)

for the six-month periods ended June 30, 2000 and 1999
(Unaudited—See Accountants' Review Report)

Reclassification of Comparative Amounts–

The comparative non-consolidated semi-annual financial statements have been reclassified to conform with current period presentation. As a result of this reclassification, previously reported total assets and liabilities of banking accounts as of June 30, 1999 were decreased by ₩100,478 million, each.

3. United States Dollar Amounts:

The Bank operates primarily in Korean Won and its official accounting records are maintained in Korean Won. The U.S. Dollar amounts are provided herein as supplementary information solely for the convenience of the reader. Won amounts are expressed in U.S. Dollars at the rate of ₩1,114.8:US$1, the rate in effect at June 30, 2000. This presentation is not in accordance with accounting principles generally accepted in either the Republic of Korea or the United States, and should not be construed as a representation that the Won amounts shown could be converted, realized or settled in U.S. Dollars at this or any other rates.

4. Cash and Due from Banks:

Cash and Due from Banks at June 30, 2000 and 1999 are summarized as follows:

	Due from	Annual Interest Rate (%)	Millions of Won 2000	Millions of Won 1999
Cash on hand				
Cash in Won	—	—	₩1,234,036	₩ 935,458
Cash in foreign currencies	—	—	33,497	23,347
			1,267,533	958,805
Due from Banks in Won				
Reserve Deposits	The Bank of Korea	—	849,752	329,230
Deposits for severance Payments	Korea Life Insurance Co., Ltd. and other	7.5	263,500	280,865
Deposits in Banks	CITI Bank and other	9.0	23,671	277,627
Other deposits	SEC and other	0.0–5.0	592	342,985
			1,137,515	1,230,707
Due from Banks in foreign currencies				
Reserve Deposits	The Bank of Korea	—	7,122	38,523
Due from Banks on Demand	Bankers Trust Co. and other	—	71,077	26,752
Time Deposits	H&CB Finance(H.K) and other	2.5–8.15	97,626	321,722
Other Deposits	Hanvit Bank and other	7.06–8.125	226,862	191,880
			402,687	578,877
			₩2,807,735	₩2,768,389

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NOTES TO NON-CONSOLIDATED SEMI-ANNUAL FINANCIAL STATEMENTS—(Continued)

for the six-month periods ended June 30, 2000 and 1999
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The scheduled maturities of due from banks as of June 30, 2000 and 1999 are as follows (Unit:Millions of Won):

	Due in one year or less	Due after ten years	Total
Due from banks in Won	₩1,136,923	₩592	₩1,137,515
Due from banks in foreign currencies	402,687	—	402,687
Total at June 30, 2000	₩1,539,610	₩592	₩1,540,202
Total at June 30, 1999	₩1,809,502	₩ 82	₩1,809,584

Restricted deposits included in due from banks at June 30, 2000 and 1999 are the following:

	Millions of Won	
	2000	1999
Due from Banks in Won		
Reserve deposits in the Bank of Korea (*)	₩ 849,752	₩329,230
National Investment Fund deposits with BOK	—	10,900
Deposits for severance payments (**)	263,500	270,865
Other Deposits	592	32,082
Due from Banks in foreign currencies		
Reserve deposits in the Bank of Korea (*)	7,122	38,523
Deposits in foreign currencies	—	17,338
	₩1,120,966	₩698,938

(*) Reserve deposits in the Bank of Korea represent amounts required under the Bank Act for the payment of deposits.

(**) Deposits for severance payments are made under a group severance insurance plan, and the withdrawal is restricted to the actual payment of severance benefits.

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NOTES TO NON-CONSOLIDATED SEMI-ANNUAL FINANCIAL STATEMENTS—(Continued)

for the six-month periods ended June 30, 2000 and 1999
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5. Loans:

(1) Loans at June 30, 2000 and 1999 are as follows:

	Annual Interest Rate (%) at June 30, 2000	Millions of Won 2000	Millions of Won 1999
Loans in Won			
Commercial and industrial	5.0~13.9	₩ 6,303,926	₩ 4,269,632
Households	7.5~8.5	28,470,462	20,089,504
Other	3.0~9.0	503,874	405,918
Loans in foreign currencies (Won equivalent)	Libor+1.35	1,101,027	1,162,234
Bills bought in Won	5.94	3,606	1,476
Bills bought in foreign currencies	Libor+2.95	458,970	348,939
Advances for customers	18.0	53,808	86,201
Credit card accounts	9.4~14.9	1,874,574	878,354
Bonds purchased on resale agreement	—	28,366	40,000
Call loans	4.6~6.0	728,280	195,054
Private corporate bonds	12.1~12.3	221,054	257,966
Other	—	11,895	268
		39,759,842	27,735,546
Allowance for possible loan losses		(1,211,024)	(1,304,580)
Present value discounts		(85,641)	(33,281)
		₩38,463,177	₩26,397,685

Since most of Loans bear floating interest rate, effective interest rate might be different from the above interest rate.

(2) The maturities of loan at June 30, 2000 and 1999 are as follows (Unit: Millions of Won):

Type	2001	2002	2003	2004	2005	2006 and thereafter	Total
Loans in Won	₩12,505,698	₩2,827,586	₩7,199,505	₩1,461,580	₩1,453,149	₩9,830,744	₩35,278,262
Loans in foreign currencies	624,804	120,299	98,281	82,726	51,984	122,933	1,101,027
Bills bought	462,576	—	—	—	—	—	462,576
Advances for customers	53,808	—	—	—	—	—	53,808
Credit card accounts	1,872,865	923	719	31	36	—	1,874,574
Other	668,415	100,000	50,376	45,705	1,436	123,663	989,595
Total in 2000	₩16,188,166	₩3,048,808	₩7,348,881	₩1,590,042	₩1,506,605	₩10,077,340	₩39,759,842
Total in 1999	₩ 6,716,659	₩2,983,991	₩3,841,479	₩1,635,655	₩1,382,186	₩11,175,576	₩27,735,546

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NOTES TO NON-CONSOLIDATED SEMI-ANNUAL FINANCIAL STATEMENTS—(Continued)

for the six-month periods ended June 30, 2000 and 1999
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(3) Loans to other financial institutions at June 30, 2000 and 1999 are as follows:

	Type	Millions of Won 2000	Millions of Won 1999
Korea Deposit Insurance Co.	Loans in Won	₩190,000	₩190,000
Korea Housing Guarantee Co.	Loans in Won and private coporate bonds	450,400	210,000
The Trust Accounts and other	Call loans	328,454	52,945
Deutsche Bank and others	Call loans	172,794	21,359
Kookmin Credit Card	Loans in Won	100,000	—
Jooeun Leasing Co. and other	Loans in Won and foreign currencies	259,545	524,603
Jooeun real estate trust	Loans in Won	74,856	—
H&CB Finance(HK)	Loans in foreign currencies	11,148	23,118
Samsung Capital	Loans in Won	50,000	—
KTB Network	Private corporate bonds	50,000	—
SK Securities Co. Ltd.	Private corporate bonds	50,000	—
Mirae Asset Venture Capital	Loans in Won	14,000	—
Dongbu Capital and other	Loans in Won and other	313,793	125,410
		₩2,064,990	₩1,147,435

(4) At June 30, 2000 and 1999, the Bank's commercial and industrial loans in Won, and loans in foreign currencies classified by industry, are as follows (Unit:Millions of Won):

	Commercial and industrial loans in Won	Loans in Foreign Currencies	Total in 2000	Total in 1999
Agriculture & horticulture	₩4,463	₩1,671	₩6,134	₩8,111
Fishing	22,563	—	22,563	32,263
Mining	23,970	—	23,970	22,443
Manufacturing	1,817,001	519,786	2,336,787	990,245
Utilities	12,791	10,176	22,967	19,498
Construction	2,000,727	3,910	2,004,637	2,223,530
Wholesale & retail trade	860,603	88,350	948,953	836,455
Hotel, food & beverages	86,683	—	86,683	40,919
Transportation, storage & communications	162,820	152,878	315,698	192,024
Finance & insurance	989,049	259,545	1,248,594	820,013
Real estate & business services	198,170	48,495	246,665	145,592
Other	125,086	16,216	141,302	100,773
	₩6,303,926	₩1,101,027	₩7,404,953	₩5,431,866

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NOTES TO NON-CONSOLIDATED SEMI-ANNUAL FINANCIAL STATEMENTS—(Continued)

for the six-month periods ended June 30, 2000 and 1999
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(5) At June 30, 2000 and 1999, loans in foreign currencies classified by nationality of borrowers are as follows:

	Millions of Won	
	2000	1999
Korea	₩ 940,324	₩1,025,748
Japan	75,804	38,381
Indonesia	50,132	40,335
Other	34,767	57,770
	₩1,101,027	₩1,162,234

(6) Restructured loans due to commencement of workout plans or other similar restructuring agreements at June 30, 2000 are as follows (Unit: Millions of Won):

	Total face value of restructured loans			
	Converted to investment	Converted to convertible bond	Change in contract condition	Present value discounts
Balance at 12/31/99(*)	₩78,931	₩117,867	₩291,625	₩40,967
Increase	11,869	1,599	295,412	83,252
Decrease	78,931	—	229,916	38,578
Balance at 6/30/00	₩11,869	₩119,466	₩357,121	₩85,641

(*) Adjustments on retained earning of ₩4,262 million are included.

The present value after restructuring was calculated using either the fair market value or the discounted cash flows upon confirmation of the revised loan schedule. The present value discounts is amortized using the effective interest rate method. The amortization is recognized as interest on loans.

(7) During the six-month periods ended June 30, 2000 and 1999 the allowance for possible loan losses changed as follows:

	Millions of Won	
	2000	1999
Balance at January 1,	₩1,476,461	₩1,321,484
Valuation adjustment of allowance for loan losses in foreign currencies and other	(9,720)	(674)
Write-offs	(168,238)	(25,275)
Recovery of write-offs	13,188	—
Netting to present value discount account from restructuring of loans	(67,106)	(52,878)
Decrease from sale of loans	(145,979)	—
Substitute for allowance for possible guarantee Losses	—	(87,577)
Increase from repurchase of dishonored loans	3,375	—
Provision for loan losses	109,043	126,079
Increase from put-back-option of assumed loans from DongNam Bank and other	—	23,421
Balance at June 30,	₩1,211,024	₩1,304,580

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NOTES TO NON-CONSOLIDATED SEMI-ANNUAL FINANCIAL STATEMENTS—(Continued)

for the six-month periods ended June 30, 2000 and 1999
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(8) The allowance for possible loan losses at June 30, 2000 and 1999 are provided as follows:

	Millions of Won	
	2000	1999
Allowance for:		
Loans in Won	₩712,796	₩783,336
Loans in foreign currencies	168,025	171,319
Bills bought in foreign currencies	114,823	52,805
Advances for customers	28,589	40,602
Credit card accounts	36,262	42,932
Bond purchased on resale agreement	22,345	21,248
Call Loans	52,324	51,843
Private corporate bonds	55,128	94,017
Other	20,732	46,478
	₩1,211,024	₩1,304,580

The reserve ratios to total loans as of June 30, 2000, 1999 and 1998 are 3.03%, 4.71%, 2.25%, respectively.

(9) Asset quality classification as of June 30, 2000 and 1999 are as follows (Unit: Millions of Won):

	Normal	Special Attention	Substandard	Doubtful	Estimated loss	Total
Loans in Won(1)	₩31,551,107	₩2,687,132	₩623,515	₩284,376	₩98,733	₩35,244,863
Loans in foreign currencies(2)	731,745	46,030	219,825	92,905	7,694	1,098,199
Bills bought in Won	3,582	—	24	—	—	3,606
Bill bought in foreign currencies(3)	167,440	143,699	6,277	120,714	3,774	441,904
Advance for customer(4)	251	1,758	11,138	28,983	9,648	51,778
Credit card accounts	1,809,944	27,272	314	20,832	16,188	1,874,550
Bonds purchased on resale agreement	—	—	11,806	—	16,560	28,366
Call loans(6)	501,247	—	14,838	—	45,054	561,139
Private corporate bonds	100,000	42,688	23,772	54,594	—	221,054
Other	26	—		22,121	3,082	25,229
Total in 2000	₩34,865,342	₩2,948,579	₩911,509	₩624,525	₩200,733	₩39,550,688
Total in 1999	₩20,679,530	₩4,634,776	₩1,352,053	₩855,730	₩203,668	₩27,725,757

(1) Loan amounts after deduction of present value discount of ₩33,399 million
(2) Loan amounts after deduction of present value discount of ₩2,828 million
(3) Loan amounts after deduction of present value discount of ₩47,357 million and addition of dishonored bills bought in foreign currencies of ₩30,291 million
(4) Loan amounts after deduction of present value discount of ₩2,030 million
(5) Loan amounts after deduction of present value discount of ₩24 million
(6) Loan amounts after deduction of inter-bank reconciliation funds of ₩167,141 million

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NOTES TO NON-CONSOLIDATED SEMI-ANNUAL FINANCIAL STATEMENTS—(Continued)

for the six-month periods ended June 30, 2000 and 1999
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6. Trading Securities and Investment Securities:

(1) Trading Securities

Trading securities at June 30, 2000 and 1999 comprise the following:

	Annual Interest Rate (%) at June 30, 2000	Millions of Won 2000	Millions of Won 1999
Equity securities	—	₩ 40,795	₩ 79,969
Government and public bonds	5.00～9.84	1,230,631	375,594
Finance debentures			
–Monetary stabilization bonds	6.58～8.60	932,257	610,911
–Other finance debentures	6.98～8.14	87,863	—
Beneficiary certificates	—	7,787	64,084
Securities in foreign currencies	4.375	2,708	5,746
Other	—	12,477	3,192
		₩2,314,518	₩1,139,496

Trading debt securities at June 30, 2000 and 1999 are as follows (Unit: Millions of Won):

	Par Value	Beginning Balance	Amortized Cost	Market Value
Government and public bonds	₩1,244,900	₩1,207,006	₩1,208,299	₩1,230,631
Monetary stabilization bonds	955,000	930,262	930,926	932,257
Other finance debentures	95,000	87,463	87,676	87,863
Securities in foreign currencies	2,713	2,704	2,704	2,708
Other	12,477	12,362	12,362	12,477
Total in 2000	₩2,310,090	₩2,239,797	₩2,241,967	₩2,265,936
Total in 1999	₩1,027,000	₩ 989,630	₩ 986,793	₩ 986,505

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NOTES TO NON-CONSOLIDATED SEMI-ANNUAL FINANCIAL STATEMENTS—(Continued)

for the six-month periods ended June 30, 2000 and 1999
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(2) Investment Securites

Investment securities at June 30, 2000 and 1999 are as follows:

	Annual Interest Rate (%) at June 30, 2000	Millions of Won	
		2000	1999
Equity securities in Won			
–Subsidiaries	—	₩ 136,859	₩ 89,289
–Other	—	217,362	160,157
Government and public bonds	3.00–12.5	1,363,898	631,899
Finance debentures			
–Monetary stabilization bonds	6.6–9.4	1,594,967	3,336,333
–Other finance debentures	5.5–12.4	542,298	507,174
Corporate bonds	1.0–25.0	4,120,313	2,070,604
Beneficiary certificates	—	382,392	1,847,445
Securities in foreign currencies			
–Investment in H&CB Finance (H.K)	—	37,959	22,817
–Debt securities	0.25–11.51	68,944	132,557
Other	4.0–10.4	153,546	159,317
		₩8,618,538	₩8,957,592

Investment debt securities at June 30, 2000 and 1999 are as follows (Unit: Millions of Won):

	Par value	Acquisition cost	Amortized cost	Market value
Available for sale				
Government and public bonds	₩ 821,583	₩ 824,100	₩ 825,127	₩ 830,366
Monetary stabilization bonds	1,537,100	1,507,722	1,508,387	1,523,246
Other finance debentures	506,983	481,360	482,997	491,493
Corporate bonds(**)	2,627,136	2,595,898	2,591,328	2,651,670
Securities in foreign currencies(**)	70,680	34,420	34,420	28,573
	5,563,482	5,443,500	5,442,259	5,525,348
Held to maturity(*)				
Government and public bonds	533,800	533,528	533,532	535,530
Monetary stabilization bonds	72,400	71,277	71,721	72,048
Other finance debentures	50,000	50,985	50,805	50,962
Corporate bonds	1,471,007	1,471,849	1,468,643	1,453,198
Securities in foreign currencies	43,756	40,371	40,371	41,835
Other(**)	153,585	153,546	153,546	153,546
	2,324,548	2,321,556	2,318,618	2,307,119
Total at June 30, 2000	₩7,888,030	₩7,765,056	₩7,760,877	₩7,832,467
Total at June 30, 1999	₩9,164,560	₩8,528,670	₩8,521,604	₩8,688,309

(*) Valued after adjustment for amortization of discount or premium by effective interest rate

(**) Market values of corporate bonds, debt securities in foreign currencies and other securities represent amounts after deduction of losses due to impairment. Such losses on subordinated bonds issued by Jooeun Third Securitizatin Co., Ltd., debt securities in foregin currencies issued by China Construction Holdings and commercial papers issued by Ssangyong Motors are ₩9,000 million, ₩1,773 million and ₩196 million, respectively.

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NOTES TO NON-CONSOLIDATED SEMI-ANNUAL FINANCIAL STATEMENTS—(Continued)

for the six-month periods ended June 30, 2000 and 1999
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Investments in subsidiaries at June 30, 2000 and 1999 are as follows:

		Millions of Won			
	Ownership (%) at June 30, 2000	Beginning Balance		Market Value or Net Asset Value(*)	
		2000	1999	2000	1999
Domestic subsidiaries					
Jooeun Investment Management Co., Ltd.	80.00	₩ 12,167	₩ 32,226	₩ 25,725	₩ 46,284
Jooeun Leasing Co., Ltd.	85.43	44,852	—	20,630	—
Jooeun Real Estate Trust Co., Ltd.	100.00	21,691	18,578	14,852	24,982
Jooeun Industrial Co., Ltd.	100.00	14,603	11,782	12,549	12,018
Jooeun Credit Information Co., Ltd.	50.00	1,500	—	2,927	—
PACIFIC VENTURES	100.00	20,000	—	19,677	—
ING Life Insurance, Ltd.	20.00	41,384	—	40,499	—
Jooeun Mutual Savings & Finance Co., Ltd.	—	—	24,469	—	6,005
		156,197	87,055	136,859	89,289
Foreign subsidiaries					
H&CB Finance (H.K)	100.00	29,460	24,199	37,959	22,817
		₩185,657	₩111,254	₩174,818	₩112,106

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

Book values of the investments above at June 30, 2000 comprise the following (Unit: Millions of Won):

	Beginning Balance	Book Value	Current gains or losses	Capital Adjustment	Adjustment to Retained Earnings
Jooeun Investment Management Co., Ltd.	₩ 12,167	₩ 25,725	₩ 13,611	₩ (55)	₩ 2
Jooeun Leasing Co., Ltd.	44,852	20,630	(22,698)	(1,524)	—
Jooeun Real Estate Trust Co., Ltd.	21,691	14,852	(5,829)	(708)	(302)
Jooeun Industrial Co., Ltd.	14,603	12,549	(2,040)	—	(14)
Jooeun Credit Information Co., Ltd.	1,500	2,927	1,292	—	135
PACIFIC VENTURES	20,000	19,677	(323)	—	—
ING Life Insurance, Ltd.	41,384	40,499	(2,520)	(11)	1,646
	156,197	136,859	(18,507)	(2,298)	1,467
Foreign subsidiaries					
H&CB Finance (H.K)	29,460	37,959	8,499	—	—
	₩185,657	₩174,818	₩(10,008)	₩(2,298)	₩1,467

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NOTES TO NON-CONSOLIDATED SEMI-ANNUAL FINANCIAL STATEMENTS—(Continued)

for the six-month periods ended June 30, 2000 and 1999
(Unaudited—See Accountants' Review Report)

Investments in non-subsidiaries at June 30, 2000 and 1999 comprise the following:

		Millions of Won			
	Ownership (%) at June 30, 2000	Book Value		Market Value or Net Asset Value(*)	
		2000	1999	2000	1999
Marketable equity securities					
Korea Telecom	—	₩ —	₩ 3,876	₩ —	₩ 7,834
Korea Electric Power Co.	0.05	10,013	—	10,380	—
Samsung Electronics Co., Ltd	0.02	10,693	—	11,070	—
SK Telecom	0.01	4,567	—	4,380	—
POSCO	0.05	5,520	—	4,730	—
Kangwon Industries	1.18	10,103	—	5,023	—
Kia Motors Corporation	0.11	3,512	1,881	3,166	3,336
SK Securities	5.48	75,878	—	36,910	—
Hankang restructuring fund	1.97	15,375	—	9,950	—
Shin Won Corporation	9.78	5,120	15,267	4,452	15,267
KOHAP Ltd.	1.63	2,660	3,556	1,470	3,556
Woo Bang Housing Co., Ltd	14.39	6,142	7,533	2,102	7,533
Mi Ju Co.	—	11,196	7,981	15,593	6,347
		160,779	40,094	109,226	43,873
Current valuation gains (loss)		△ 51,553	3,779	—	—
		109,226	43,873	109,226	43,873
Other equity securities					
BC Card Co., Ltd.	4.95	3,411	3,411	5,323	3,414
National Information & Credit Evaluation Inc.	8.66	1,775	1,549	2,152	1,685
Korea Housing Gurantee Co., Ltd	2.84	41,100	41,100	20,468	24,084
Korea Mortgage Corporation	14.99	15,000	—	15,087	—
Daehan Investment Co	1.00	10,000	—	—	—
Seoul Debt-Restructuring Fund	3.75	22,500	22,500	24,110	22,685
Arirang Restructuring Fund	3.75	12,500	12,500	26,428	12,545
Mukungwha restructuring Fund	3.75	12,500	12,500	15,964	12,759
Korea Financial Safeties and other	—	9,982	19,744	11,689	19,893
		128,768	113,304	121,221	97,065
Impairment Loss(**)		△ 20,632	—	—	—
		108,136	113,304	121,221	97,065
		₩217,362	₩157,177	₩230,447	₩140,938

(*) Net Asset Values are calculated by using the most recent financial information of the investees.
(**) Impairment loss on investment in Korea Housing Guarantee Co., Ltd.

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NOTES TO NON-CONSOLIDATED SEMI-ANNUAL FINANCIAL STATEMENTS—(Continued)

for the six-month periods ended June 30, 2000 and 1999
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Investment securities in foreign currencies at June 30, 2000 and 1999 comprise as follows:

	In Thousands of U.S. Dollars		Millions of Won	
Nationality Of Issuers	**2000**	**1999**	**2000**	**1999**
Malaysia	US$ 8,250	US$ 10,507	₩ 9,197	₩ 12,145
U.S.A.	—	4,995	—	5,773
Indonesia	4,500	18,594	5,017	15,881
India	5,500	6,150	6,131	7,109
China	180	2,000	201	1,610
Thailand	7,995	24,775	8,913	28,638
Korea(*)	61,545	71,906	77,110	83,813
Hong Kong	300	1,250	334	405
	US$88,270	US$140,177	₩106,903	₩155,374

(*) Investments in the Bank's subsidiary, H&CB Finance (H.K), are included.

(3) The maturities of debt securities at June 30, 2000 and 1999 are as follows (Unit: Millions of Won):

Year ending June 30,	Government and public bonds	Finance debentures	Corporate bonds	Securities in Foreign Currencies	Other(*)	Total in 2000	Total in 1999
2001	₩ 741,364	₩2,083,986	₩ 522,607	₩34,956	₩398,157	₩ 3,781,070	₩6,545,265
2002	341,731	746,579	638,706	20,011	—	1,747,027	1,012,397
2003	440,149	319,776	701,067	—	—	1,460,992	106,388
2004	104,105	2,081	1,492,346	—	—	1,598,532	321,369
2005	965,402	4,963	525,874	2,230	—	1,498,469	1,500,029
2006-2010	1,778	—	239,713	14,455	—	255,946	259,409
After 2010	—	—	—	—	—	—	2,980
	₩2,594,529	₩3,157,385	₩4,120,313	₩71,652	₩398,157	₩10,342,036	₩9,747,837

(*) Comprised of beneficiary certificates, commercial papers, and self-issued bills.

(4) At June 30, 2000, the Bank provided debt securities of ₩1,052,122 million as collateral for borrowings from the Bank of Korea, and debt securities of ₩69,729 million as a collateral in connection with the Bank's loan selling agreement with KAMCO.

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NOTES TO NON-CONSOLIDATED SEMI-ANNUAL FINANCIAL STATEMENTS—(Continued)

for the six-month periods ended June 30, 2000 and 1999
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7. Premises and Equipment:

Premises and equipment at June 30, 2000 comprise the following:

	Millions of Won		
	Acquisition Cost	Accumulated Depreciation	Net Book Value
Land	₩ 395,027	₩ —	₩395,027
Buildings and structures	422,378	109,509	312,869
Leasehold improvements	37,561	16,992	20,569
Machinery	287,790	189,410	98,380
Equipment and vehicles	69,187	52,365	16,822
Construction in progress	2,158	—	2,158
Intangible assets(*)	169	—	169
Foreclosed assets(**)	16,415	1,147	15,268
	₩1,230,685	₩369,423	₩861,262

(*) Intangible assets are composed of trademark rights, goodwill and franchise.
(**) The Bank forecloses debtors' land and building which is provided as collateral for collection of dishonored loans. Valuation loss of foreclosed assets is directly subtracted from book value.

In accordance with the Asset Revaluation Law, the Bank revalued a substantial portion of its premises used for business purposes as of January 1, 1995, primarily based on current replacement costs. The revaluation increment of ₩211,693 million, net of a revaluation tax payment of ₩6,547 million, was credited to capital surplus.

The Bank's premises and equipment, other than land and construction in progress, are covered by insurance policies against fire and other casualty losses. Vehicles are covered by a legal and general insurance policy.

The government-posted prices of land for tax imposition and compensation for confiscation as of June 30, 2000 are as follows (Unit: Millions of Won):

	Book Value		Government-posted price	
	2000	1999	2000	1999
Land	₩395,027	₩388,664	₩373,110	₩412,990
Land included in foreclosed assets	13,380	18,686	12,031	20,349
	₩408,407	₩407,350	₩385,141	₩433,339

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NOTES TO NON-CONSOLIDATED SEMI-ANNUAL FINANCIAL STATEMENTS—(Continued)

for the six-month periods ended June 30, 2000 and 1999
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8. Other Assets:

Other assets at June 30, 2000 and 1999 are as follows:

	Millions of Won	
	2000	1999
Leasehold deposits	₩ 524,843	₩ 509,991
Accounts receivable	417,316	748,174
Accrued interest income	437,539	515,681
Prepaid expenses	2,559	2,879
Deferred income tax assets	116,692	—
Unsettled domestic exchange transaction	701,884	1,130,878
Other(*)	157,659	110,684
Allowance for losses(**)	(25,060)	—
	₩2,333,432	₩3,018,287

(*) Security deposit of ₩37,302 million is provided as collateral to Jooeun Second Securitization Co., Ltd. at June 30, 2000.

(**) Allowance of ₩25,060 million is provided for contribution to Fund for Consolidation of Bad Debt of ₩8,680 million and security deposits of ₩37,302 million at June 30, 2000.

9. Deposits:

Deposits as of June 30, 2000 and 1999 are summarized as follows:

	Millions of Won	
	2000	1999
Deposits in Won	₩42,063,163	₩29,713,075
Deposits in foreign currencies	148,617	204,172
Certificate of deposits	36,250	45,940
	₩42,248,030	₩29,963,187

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NOTES TO NON-CONSOLIDATED SEMI-ANNUAL FINANCIAL STATEMENTS—(Continued)

for the six-month periods ended June 30, 2000 and 1999
(Unaudited—See Accountants' Review Report)

Deposits in Won as of June 30, 2000 and 1999 are as follows:

		Annual Interest Rate(%)	Millions of Won	
		at June 30, 2000	2000	1999
Demand Deposits	Checking deposits	—	₩ 142,232	₩ 120,856
	Passbook deposits	1.00	1,727,359	1,051,031
	Temporary deposits	0.0~2.0	1,084,976	1,187,006
	Public deposits	0.0~1.0	148,060	126,491
	Other	1.0~3.0	24,640	15,646
			3,127,267	2,501,030
Time & savings deposits	Time deposits	3.0~9.1	21,127,785	13,923,229
	Installment savings deposits	6.5~9.6	4,687,293	2,006,514
	Long-term savings for household	11.0	1,847,725	1,110,477
	Savings deposits	1.0~5.0	5,159,051	4,223,426
	Company free deposits	1.0~5.0	1,139,097	526,632
	Other	7.0~12.0	636,679	346,497
			34,597,630	22,136,775
Mutual installment Deposits	Mutual installment deposits	7.0~8.0	632,643	1,528,675
	Housing installment savings deposits	7.0~8.5	3,705,623	3,546,595
			4,338,266	5,075,270
			₩42,063,163	₩29,713,075

Deposits in foreign currencies as of June 30, 2000 and 1999 are as follows:

		Annual Interest Rate(%)	Millions of Won	
		at June 30, 2000	2000	1999
Demand Deposits	Passbook deposit	0.68~2.67	₩ 40,393	₩ 40,514
	Other	0.05~1.74	3,278	7,101
			43,671	47,615
Time & Savings deposits	Time deposits	0.04~7.61	104,946	156,557
			₩ 148,617	₩ 204,172

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NOTES TO NON-CONSOLIDATED SEMI-ANNUAL FINANCIAL STATEMENTS—(Continued)

for the six-month periods ended June 30, 2000 and 1999
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Certificate of deposits as of June 30, 2000 and 1999 are as follows:

Annual Interest Rate(%) at June 30, 2000	Millions of Won 2000	Millions of Won 1999
4.8~7.8	₩36,250	₩45,940

Deposits due to financial institutes as of June 30, 2000 and 1999 are as follows:

	Due to	Millions of Won 2000	Millions of Won 1999
Demand deposits	Banks	₩ 109,238	₩ 6,505
	Insurance companies or pension funds	119,956	48,486
	Other financial agents	384,801	103,944
	Credit facilities	18,683	2,490
		632,678	161,425
Time & savings deposits	Banks	25,840	157,323
	Insurance companies or pension funds	106,198	408,838
	Other financial agents	1,463,570	1,525,012
	Credit facilities	17,965	15,041
		1,613,573	2,106,214
		₩2,246,251	₩2,267,639

The maturities of deposits at June 30, 2000 and 1999 are as follows (Unit: Millions of Won):

Year ending June 30,	Deposits in Won	Deposits in foreign currencies	Certificate of deposits	Total in 2000	Total in 1999
2001	₩29,968,808	₩109,788	₩36,250	₩30,114,846	₩21,615,914
2002	4,107,504	2,144	—	4,109,648	2,325,937
2003	6,846,216	36,685	—	6,882,901	5,254,306
2004	822,199	—	—	822,199	121,329
2005	160,121	—	—	160,121	439,800
2006~2010	158,315	—	—	158,315	205,901
	₩42,063,163	₩148,617	₩36,250	₩42,248,030	₩29,963,187

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NOTES TO NON-CONSOLIDATED SEMI-ANNUAL FINANCIAL STATEMENTS—(Continued)

for the six-month periods ended June 30, 2000 and 1999
(Unaudited—See Accountants' Review Report)

10. Borrowings:

Borrowings at June 30, 2000 and 1999 are as follows:

	Annual Interest Rate (%)	Millions of Won	
	At June 30, 2000	2000	1999
Won currency borrowings:			
The Bank of Korea	5.0	₩ 1,481	₩ 2,802
Korean Government	4.0～7.25	342,764	320,140
National Housing Fund	8.0	9,970	209,287
Subordinated debt	8.0～8.69	250,000	260,000
Industrial Bank of Korea	7.5～8.55	158,024	189,523
Others	3.7～9.76	125,409	191,681
		887,648	1,173,433
Foreign currency borrowings:			
Short-term borrowings	6.97～7.93	474,561	343,737
Long-term borrowings	7.45～7.65	81,938	678,507
Overseas branches' borrowings	0.44～7.60	307,709	397,802
Overdraft	—	34,801	2,011
		899,009	1,422,057
Bonds sold on repurchase agreement	4.74～7.4	650,676	382,109
Bills sold	—	3,029	1,045
Due to the Bank of Korea in foreign currencies	6.22～7.79	51,706	114,776
Call money	4.85～7.13	172,323	60,191
		₩2,664,391	₩3,153,611

Subordinated borrowings at June 30, 2000 and 1999 are as follows:

	Maturity	Annual Interest Rate (%)	Millions of Won	
		At June 30, 2000	2000	1999
Korea Life insurance Co., Ltd.	10 years	8.69	₩150,000	₩150,000
KyoBo Life insurance Co., Ltd.	10 years	8.5	100,000	100,000
Han Deuk Life insurance Co., Ltd.	—	—	—	10,000
			₩250,000	₩260,000

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NOTES TO NON-CONSOLIDATED SEMI-ANNUAL FINANCIAL STATEMENTS—(Continued)

for the six-month periods ended June 30, 2000 and 1999
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The maturities of borrowings at June 30, 2000 and 1999 are as follows (Unit: Millions of Won):

Year ending December 31,	Won currency borrowings	Foreign currency borrowings	Other	Total in 2000	Total in 1999
2001	₩100,873	₩753,471	₩877,734	₩1,732,078	₩1,666,612
2002	41,826	42,400	—	84,226	608,600
2003	35,767	92,538	—	128,305	175,275
2004	48,182	—	—	48,182	141,655
2005	35,573	—	—	35,573	85,686
thereafter	625,427	10,600	—	636,027	475,783
	₩887,648	₩899,009	₩877,734	₩2,664,391	₩3,153,611

At June 30, 2000, in the normal course of funding activities, the Bank provided ₩1,052,122 million of securities as collateral for borrowings from the Bank of Korea.

11. Debentures

Debentures at June 30, 2000 and 1999 are as follows:

	Annual Interest Rate (%) At June 30, 2000	Millions of Won 2000	Millions of Won 1999
Debentures in Won:			
H&CB finance debentures	6.1~15.03	₩1,351,075	₩ 718,100
Housing debentures	5.5~16.46	824,590	1,505,709
Discount on debentures		(41,419)	(121,895)
		2,134,246	2,101,914
Debentures in foreign currencies:			
Debentures	5.0~7.65	359,174	209,909
Off-shore debentures	7.24~7.63	105,906	59,460
Discount on debentures		(2,739)	—
		462,341	269,369
		₩2,596,587	₩2,371,283

Subordinated debentures at June 30, 2000 and 1999 are as follows:

Creditor	Type	Repayment	Annual Interest Rate (%) at June 30, 2000	Millions of Won 2000	Millions of Won 1999
Public Fund	H&CB finance debentures	Lump sum	8.84~9.84	₩348,200	₩348,200
"	Housing debentures	"	"	79,000	79,000
Credit Guarantee Fund	H&CB finance debentures	5 year grace and serial	15.02	174,900	174,900
Hyundai Investment Trust & Securities	"	Lump sum	15.30	40,000	40,000
Other	"	"	9.04~9.10	253,975	—
				₩896,075	₩642,100

The maturities of debentures at June 30, 2000 and 1999 are as follows (Unit: Millions of Won):

Year ending June 30,	Debentures in Won	Debentures in foreign currencies	Total in 2000	Total in 1999
2001	₩1,132,081	₩176,139	₩1,308,220	₩ 804,585
2002	56,219	—	56,219	900,275
2003	409,220	288,941	698,161	56,219
2004	176,200	—	176,200	409,000
2005	29,070	—	29,070	176,200
thereafter	372,875	—	372,875	146,900
	₩2,175,665	₩465,080	₩2,640,745	₩2,493,179

12. Other liabilities:

Other liabilities at June 30, 2000 and 1999 comprise the following:

	Millions of Won	
	2000	1999
Accrued expenses	₩2,974,200	₩2,408,880
Unsettled domestic exchange transaction	954,917	1,324,349
Due to the Trust accounts	412,009	280,678
Accounts payables	395,156	415,248
Accrued severance benefits(*)	303,006	327,635
Deposits held by agency relationship	178,968	90,815
National Housing Fund	61,474	20,003
Withholding taxes	50,646	80,407
Unearned revenue	32,613	18,828
Guarantee deposits received	32,505	22,557
Allowance for possible guarantee losses	28,522	87,305
Giro accounts	24,187	30,166
Unsettled foreign exchange transaction	6,563	23,779
Deferred income tax liabilities	—	3,090
Other	80,402	430,966
	₩5,535,168	₩5,564,706

(*) Accrued severance benefits at June 30, 2000 are as follows:

	Millions of Won
Balance at December 31, 1999	₩339,791
Provisions	34,935
Severance payment	(54,312)
	320,414
Less: Cumulative deposits in National Pension Fund	(17,408)
	₩303,006

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NOTES TO NON-CONSOLIDATED SEMI-ANNUAL FINANCIAL STATEMENTS—(Continued)

for the six-month periods ended June 30, 2000 and 1999
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13. Guarantees and Acceptances:

Guarantees and acceptances outstanding at June 30, 2000 and 1999 are summarized as follows:

	Millions of Won	
	2000	1999
Guarantees and acceptances in Won	₩ 50,182	₩ 75,088
Guarantees and acceptances in foreign currencies		
Acceptances for letters of credit	528,336	181,452
Letters of guarantee for importers	12,796	11,215
Credit derivatives sold	3,902	9,825
Other(*)	89,554	456,538
	₩684,770	₩734,118

(*) Other includes guarantees for borrowings, contract performance and tender.

Credit risk classifications of guarantees and acceptances at June 30, 2000 and 1999 are as follows (Unit: Millions of Won):

	Normal	Special mention	Substandard	Doubtful or below	Total
Guarantees and acceptances in Won	₩ 40,860	₩ 3,456	₩ 1,500	₩ 4,366	₩ 50,182
Acceptances for letters of credit	507,945	5,429	1,223	13,739	528,336
Letters of guarantee for importers	11,743	578	—	475	12,796
Credit derivatives sold	3,902	—	—	—	3,902
Other	72,509	—	—	17,045	89,554
Total in 2000	₩636,959	₩ 9,463	₩ 2,723	₩35,625	₩684,770
Total in 1999	₩272,504	₩294,491	₩93,063	₩74,060	₩734,118

At June 30, 2000 ₩28,522 million of allowances for estimated potential losses from the outstanding guarantees and acceptances with credit classifications of substandard, doubtful and estimated loss were provided and included in other liabilities.

The details are as follows (Unit: Millions of Won):

	Allowance for possible losses	
	2000	1999
Guarantees and acceptances in Won	₩ 3,610	₩12,509
Acceptances for letters of credit	7,797	3,537
Letters of guarantee for importers	240	—
Credit derivatives sold	—	—
Other	16,875	71,259
	₩28,522	₩87,305

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NOTES TO NON-CONSOLIDATED SEMI-ANNUAL FINANCIAL STATEMENTS—(Continued)

for the six-month periods ended June 30, 2000 and 1999
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During the six-month periods ended June 30, 2000 and 1999, the allowances for possible losses from the outstanding guarantees and acceptances changed as follows:

	Millions of Won	
	2000	1999
Balance at January 1,	₩29,757	₩ —
Provision	—	—
Transferred from allowance for loan losses	—	87,577
Reversal of allowance	(623)	(272)
Changes in foreign exchange rates	(612)	—
	₩28,522	₩87,305

The guarantees and acceptances outstanding classified by industry as of June 30, 2000 and 1999 are as follows:

	Millions of Won	
	2000	1999
Manufacturing	₩481,404	₩380,420
Construction	18,410	38,510
Wholesale & retail trade	89,991	59,146
Finance and insurance	12,339	217,643
Real estate and business service	13,122	2,701
Utilities	22,404	400
Other	47,100	35,298
	₩684,770	₩734,118

14. Commitments and Contingencies:

(1) Except for guarantees and acceptances described in Note 13, the notional amounts of the Bank's guarantees and acceptances without underlying liabilities of customers and endorsed bills, provided in the normal course of business, at June 30, 2000 and 1999 are as follows:

	Millions of Won	
	2000	1999
Guarantees and acceptances without underlying liabilities of customers(*)	₩331,686	₩141,351
Endorsed bills	2,397	4,838

(*) including letters of credit issued but not yet being drawn

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(2) The Bank has entered into various agreements to exchange different currencies at predetermined future dates and rates.

Summary of derivative financial instrument information at June 30, 2000 and 1999 are as follows (Unit:Millions of Won)

At June 30, 2000

	Notional amount		Valuation gains or losses (I/S)	
	Trading	Hedging	Gain	Loss
Foreign currency related contracts				
– Forward	₩384,613	—	₩ 1,528	₩ (980)
– Swap	303,169	—	6,654	—
	687,782	—	8,182	(980)
Interest rate related contracts				
– Swap	3,344	3,344	1,448	—
Stock price index related contracts				
– Forward	2,375	—	—	(1,145)
	₩693,501	₩ 3,344	₩ 9,630	₩ (2,125)

At June 30, 1999

	Notional amount		Valuation gains or losses (I/S)	
	Trading	Hedging	Gain	Loss
Foreign currency related contracts				
– Forward	₩401,976	₩ —	₩14,983	₩(13,927)
– Swap	33,424	468,410	51,644	(38,440)
	435,400	468,410	66,627	(52,367)
Interest rate related contracts				
– Swap	—	11,559	—	—
	₩435,400	₩479,969	₩66,627	₩(52,367)

For the six-month period ended June 30, 2000, the Bank recognized unrealized gains and losses from derivative financial instruments of ₩9,630 million and ₩2,125 million, respectively. These are recorded as other non-interest revenue, and non-interest expenses.

(3) In addition, the Bank has entered into overdraft contracts and other loan commitments. The total loan commitments and the unused commitments at June 30, 2000 and 1999 are summarized as follows:

	2000	1999
Total loan commitments	₩6,355,262	₩3,175,726
Unused commitments	3,428,414	1,750,541

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(4) Pursuant to asset securitization plan, the Bank transferred loans or securities of total book value of ₩172,091 million, ₩136,400 million and ₩193,656 million to Jooeun First Securitization Co. Ltd., Jooeun Second Securitization Co., Ltd., and Jooeun Third Securitization Co., Ltd. on December 10, 1999, February 1, 2000 and March 15, 2000, respectively. Since the contracts for transfer stipulate warranty for the above-mentioned assets, there could be additional future losses associated with such loans. Jooeun Second Securitization Co., Ltd. and Jooeun Third Securitization Co., Ltd. are entitled to put back transferred assets of ₩77,800 million and ₩27,000 million, respectively, for impairment of delinquency or bankruptcy. In addition, the Bank provides credit related to asset management or fiduciary service to securitization companies other than the above three companies. As of June 30, 2000 the provided credit line and outstanding loans to such companies totaled ₩2,327,500 million and ₩843 million, respectively. The estimated loans related to such credit are as follows (Unit: Millions of Won):

	Millions of Won
2001	₩144,927
2002	201,206
2003	68,053
2004	29,600
2005	35,064
2006 and thereafter	6,838

(5) The Bank settled with Morgan Guaranty Trust Company of New York (''MGT'') on the legal claim placed against the Bank in relation to guarantees provided to SK Securities Co., Ltd. (''SKS'') and to other investment funds in the previous year. In accordance with the Settlement and Release Agreement (the ''Settlement Agreement''), the Bank entered into an agreement with MGT, SKS, and the other parties involved in the legal claim. In accordance with the agreement the Bank purchased 14.7 million common shares of SKS in the amount of $60 million (72,349 million Korean Won) on October 13, 1999. The Settlement Agreement generally prohibits the Bank from selling the investment for two years from the date of the purchase. However, the Bank is allowed to sell up to 30% of the investment after one year, or to sell 30% of the investment over the counter within a year from the purchase date. The investment in SKS was included in the investment securities as of June 30, 2000.

Pursuant to the Settlement Agreement, the Bank entered into a Share Sales and Purchase Agreement on October 14, 1999 with MGT whereby the Bank is required to purchase 490,170 shares of common stock of SKS for $2,130,759 on October 16, 2000.

(6) For the six-month period ended June 30, 2000, the Bank recognized an additional gains of ₩8,122 million and losses of ₩119 million in connection with prior year's non-performing loan sales to KAMCO. Since the proceeds on the sale of loans might be different from the sales prices, the Bank may recognize additional gains or losses on the sales of loans of ₩127,237 million.

(7) In accordance with the purchase and assumption arrangement recommended in 1998 by the Financial Supervisory Commission, the Bank purchased certain assets and assumed most of the liabilities of Dong Nam Bank. As of June 30, 2000, the accounts receivables for the transaction amounts to ₩15,191 million.

(8) As of June 30, 2000 and 1999, the Bank has an unexpired right to claim from borrowers or guarantors for loans, which already has been written off, of ₩349,420 million and ₩141,634 million, respectively.

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(9) In connection with the Asian financial crisis which began in 1997, the Korean economy as well as other economies in the Asia Pacific region experienced economic contractions. Such conditions had a significant adverse effect on the operations of the Bank and other companies in Korea and in the Asia Pacific region. Certain financially troubled borrowers including Daewoo Group companies are in process of debt restructuring under workout plans or other similar programs. As of June 30, 2000, the Bank's outstanding loans to Daewoo Group companies and other companies under workout or other similar programs amount to ₩290,251 million and ₩1,644,075 million before present value discounts of ₩51,512 million and ₩34,128 million, respectively. The Bank has accrued ₩217,357 million and ₩350,222 million of allowance for such loan losses as of June 30, 2000. In addition, as of June 30, 2000, the Bank's outstanding loans to Hyundai Group companies and allowance for such loan losses amount to ₩497,685 million and ₩1,725 million, respectively. Actual loan losses to the above companies can differ from allowances for such loan losses accrued by the Bank. The ultimate effect of these significant uncertainties on the financial position of the Bank as of the balance sheet date cannot presently be determined and accordingly, no adjustments have been made in the accompanying non-consolidated semi-annual financial statements related to such uncertainties other than reserve for allowances for losses as mentioned above.

15. Common Shares and Share premium:

On July 15, 1999, ING Insurance International B.V. (''III''), ING International Financial Holdings B.V., and ING Verzekeringen N.V. (collectively ''ING'') and the Bank entered into an investment agreement whereby ING purchased 9,914,777 newly issued common shares of the Bank at a price of ₩33,500 per share, representing approximately 10% of the total outstanding shares of the Bank, in order to form a strategic alliance between the two entities. Pursuant to the investment agreement, III acquired the common shares on August 17, 1999 and the Bank recorded ₩49,574 million and ₩275,713 million as share capital and share premium, respectively. Under the agreement, ING is not allowed to dispose of its investment in the Bank during the five years following the acquisition of the shares.

The strategic alliance allows ING to appoint one standing executive director and one non-standing executive director to the board of directors of the Bank.

In addition the Bank is allowed to acquire shares of the insurance subsidiary of ING in Korea and ING is allowed to acquire shares of Jooeun Investment Management Co., Ltd., a subsidiary of the Bank, in the future. The Bank issued 9,914,777 shares on March 20, 2000, as stock dividends to shareholders.

16. Preferred Shares:

On December 29, 1998, in connection with the purchase and assumption arrangement of Dong Nam Bank, the Bank issued 59,300,000 non-cumulative and non-participating redeemable preferred shares with a par value of ₩5,000 per share to the Korea Deposit Insurance Corporation (''KDIC''). In return, the Bank purchased marketable, non-callable bonds with a face value of ₩296,500 million issued by KDIC. These shares are redeemable at par at the Bank's option during various dates until 2004. Any preferred shares which have not been redeemed at their maturity dates will be converted to the Bank's common shares. The number of shares maturing on March 27, 2002 and March 27, 2004 is 41,510,000 shares and 17,790,000 shares, respectively.

It was determined at the shareholders' meeting during February of 1999 that holders of preferred shares would not be paid a dividend. As a result, the preferred shareholders have been entitled to voting rights equivalent to those of holders of the same number of common shares, and retain such rights until a year in which it is determined that the preferred shareholders are to receive dividends.

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The Bank repurchased 17,790,000 and 23,720,000 preferred shares from KDIC on January 31 and February 1, 2000, respectively and recorded as treasury stock (Note 19). As a result, 17,790,000 preferred shares were outstanding as of June 30, 2000. The disposal schedule for the above treasury stock has not been set as of June 30, 2000.

17. Capital Surplus:

Capital surplus as of June 30, 2000 and 1999 are as follows:

	Millions of Won	
	2000	**1999**
Share premium	₩565,532	₩289,023
Revaluation surplus	211,706	211,693
	₩777,238	₩500,716

18. Retained Earnings:

Retained earnings as of June 30, 2000 and 1999 are as follows:

	Millions of Won	
	2000	**1999**
Legal reserve	₩214,133	₩169,000
Reserve for business rationalization	101	62
Reserve for overseas investment losses	4,664	5,555
Other statutory reserves	23	21
Voluntary reserves	325,280	25,281
Unappropriated retained earnings	357,165	426,043
	₩901,366	₩625,962

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

Pursuant to the Special Tax Treatment Control Law, the Bank is required to appropriate, as a reserve for business rationalization, amounts equal to tax reductions arising from tax exemptions and tax credits. This reserve is not available for payment of cash dividends, but could be transferred to capital stock or used to reduce accumulated deficit, if any. Pursuant to the Korean tax laws, the Bank was allowed to claim the amount of retained earnings appropriated to reserves for overseas investment loss as a deduction from taxable income for tax reporting purposes. These reserves are not available for payment of dividends until used for the specified purpose or reversed.

The overseas branch in Japan is required to appropriate, as a legal reserve, an amount equal to or less than 10% of annual income, until such reserve equals 2 billion Yen. This reserve is used only to reduce accumulated deficit.

The voluntary reserve does not have any specified purpose and could be restored to unappropriated retained earnings through shareholders' resolution.

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NOTES TO NON-CONSOLIDATED SEMI-ANNUAL FINANCIAL STATEMENTS—(Continued)

for the six-month periods ended June 30, 2000 and 1999
(Unaudited—See Accountants' Review Report)

The revised financial accounting standards generally accepted in the Republic of Korea and the accounting standards generally accepted for banking institutions were applied retroactively. The adjustment of the beginning balance of retained earnings and unappropriated retained earnings as of June 30, 2000 are as follows:

	Millions of Won	
	2000	1999
Unappropriated retained earnings at beginning of year adjustments	₩ 8,482	₩ —
Difference between book value and market value of short-term bond investment as of December 31, 1998	—	141,241
Gain from previous year loan rescheduling	—	6,309
Deferred income tax assets from the previous year	—	55,639
Deferred income tax due to adjustment to retained earnings	14,304	(29,893)
Loss on valuation of investment in equity securities	(20,343)	(36,332)
Prior year adjustments	(19,558)	(18,467)
Loss on valuation of hedging derivatives as of December 31, 1999.	(922)	—
	(18,037)	118,497
Net income	375,202	307,546
Unappropriated retained earnings as of June 30	₩357,165	₩426,043

Prior year adjustments as of June 30, 2000 and 1999 are as follows:

	Millions of Won	
	2000	1999
Gain on prior year adjustments:		
Present value discounts	₩ 1,091	₩ —
Other	1,818	464
	2,909	464
Loss on prior year adjustments:		
Valuation of subordinated bonds	(14,000)	—
Valuation of derivatives	(922)	—
Interest income on bonds purchased on resale agreement	—	(10,658)
Present value discounts	(5,353)	—
Other	(2,192)	(8,273)
	(22,467)	(18,931)
	₩ (19,558)	₩ 18,467)

Retained earnings that were appropriated to reduce an accumulated deficit by the resolution of the Bank's stockholders' meeting held during February 1999 are as follows:

	Millions of Won
Accumulated deficit before disposition	₩291,356
Transfer from voluntary reserves	(407)
	290,949
Disposition:	
Transfer from Voluntary Reserves	(290,949)
Undisposed accumulated deficit	₩ —

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NOTES TO NON-CONSOLIDATED SEMI-ANNUAL FINANCIAL STATEMENTS—(Continued)

for the six-month periods ended June 30, 2000 and 1999
(Unaudited—See Accountants' Review Report)

19. Capital Adjustments:

Capital adjustments as of June 30, 2000 and 1999 comprise the following:

	Millions of Won	
	2000	1999
Treasury stocks (Note 16)	₩(207,550)	₩ —
Valuation gain on investment securities	35,244	170,492
Stock options	6,375	3,503
	₩(165,931)	₩173,995

20. Stock Option:

The Bank granted 847,000 shares of stock option to 35 directors and employees. The Bank can issue new common shares, resale treasury stocks or pay in cash or treasury shares for the difference between the exercise price and the market value of shares to be given upon exercise of a stock option at the date of exercise at its own discretion. As of June 30, 2000, stock options in effect are as follows:

Date of grant	Grantee	Number of shares	Exercise price	Expiration date
October 31, 1998	CEO	300,000(*)	₩ 5,000	October 31, 2004
February 27, 1999	Directors	280,000(**)	13,900	February 27, 2005
February 28, 2000	Directors and employee	267,000	27,600	February 28, 2006
		847,000		

(*) For the stock option granted to the CEO, 100,000 additional stock options will be granted, if three-month-weighted average stock price of the Bank before the date on which the exercise period begins is higher than that of any other listed banks in Korea.

(**) 20,000 shares of stock option, which were granted on February 27, 1999, were expired due to a resignation of a director during the current period.

For the 580,000 shares of stock option granted during prior period, the difference between the exercise price and market value of shares to be given upon exercise of a stock option is amortised over the period between the grant date and the exercisable date.

For the 267,000 shares of stock option granted in 2000, the compensation cost, which is computed by the option price model, is amortized over the service period. The cost of ₩166 million of 267,000 shares of stock option was reversed and compensation cost of ₩208 million was recorded as expenses for the six-month period ended June 30, 2000. As a result, compensation cost to be recognized as expenses after June 30, 2000 is ₩1,666 million. The resulting amortization expenses are charged to current operations and the capital adjustment account.

Following assumptions are used for the estimated compensation cost for the option granted in 2000:

	Figure	Assumptions
Risk-free interest rate	8.995%	Average yield of 3 year maturity government bond for a month before grant of option
Expected exercise date	3 years	Exercisable date
Variance of expected stock price	47.75%	Variance of stock price for 3 years before grant of the option
Expected dividend yield	3.87 %	Average dividend yield for 1996, 1997 and 1999 (1998 figure is excluded since dividend was not distributed)

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NOTES TO NON-CONSOLIDATED SEMI-ANNUAL FINANCIAL STATEMENTS—(Continued)

for the six-month periods ended June 30, 2000 and 1999
(Unaudited—See Accountants' Review Report)

21. Other Non-Interest Revenue (Expense):

Other non-interest revenue (expense) for the six-month periods ended June 30, 2000 and 1999 comprises the following:

	Millions of Won	
	2000	**1999**
Other Non-Interest Revenue		
Gain on disposal of trading securities	₩ 30,352	₩ 81,696
Gain on valuation of trading securities	23,969	13,020
Gain on foreign currency transaction	62,205	227,522
Trust fees	38,543	29,844
Reversal of allowance for guarantee losses	623	272
Gain from derivative transaction	56,221	98,758
Reversal of allowance for loan losses	—	3,261
	₩211,913	₩454,373
Other Non-Interest Expense		
Loss on disposal of trading securities	₩ 37,192	₩ 15,827
Loss on valuation of trading securities	12,025	857
Loss on foreign currency transaction	63,493	233,743
Contribution(*)	16,761	12,890
Compensation to the Trust accounts	42	—
Loss from derivative transactions	30,870	80,310
Other	38,009	8,009
	₩198,392	₩351,636

(*) Including contribution to Credit Guarantee Fund and Housing Credit Guarantee Fund

22. General and Administrative Expenses:

General and administrative expenses for the six-month periods ended June 30, 2000 and 1999 comprise the following:

	Millions of Won	
	2000	**1999**
Salaries and wages	₩178,797	₩157,267
Provision for severance benefits	34,937	39,425
Other employee benefits	46,994	50,400
Rent	2,581	1,901
Entertainment	4,349	7,034
Depreciation	42,597	29,368
Taxes and dues	16,114	14,291
Business promotion	5,817	2,768
Other	70,806	55,624
	₩402,992	₩358,078

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NOTES TO NON-CONSOLIDATED SEMI-ANNUAL FINANCIAL STATEMENTS—(Continued)

for the six-month periods ended June 30, 2000 and 1999
(Unaudited—See Accountants' Review Report)

23. Income Tax Expenses:

The statuary income tax rate applicable to the Bank, including resident tax surcharges, is approximately 30.8%, however, the effective tax rate is approximately 30.77% and 32.23% for the six-month periods ended June 30, 2000 and 1999, respectively.

Income tax expenses and effective tax rate for the six-month periods ended June 30, 2000 and 1999 comprise the following:

	Millions of Won	
	2000	1999
Current period income taxes	₩148,980	₩117,443
Deferred income taxes	17,807	28,836
Income tax expenses	₩166,787	₩146,279
Income before income tax expenses	₩541,989	₩453,825
Effective tax rate	30.77%	32.23%

Major tax adjustments and tax effects, between accounting income (expenses) and tax income (expenses), comprise the following for the six-month periods ended June 30, 2000 and 1999:

	Millions of Won	
	2000	1999
Income before income tax expenses	₩541,989	₩453,825
Tax expenses by the statutory income tax rate	166,919	139,765
Temporary difference adjustments		
Accrued income	(6,385)	3,508
Provision for possible loan losses(*)	(32,851)	(30,155)
Loss on impaired securities	8,791	—
Valuation gains or losses on securities	2,737	(13,440)
Other	9,901	11,251
	(17,807)	(28,836)
Permanent difference adjustments interest expenses and others	(132)	6,514
	₩148,980	₩117,443

(*) Present value discounts were included.

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NOTES TO NON-CONSOLIDATED SEMI-ANNUAL FINANCIAL STATEMENTS—(Continued)

for the six-month periods ended June 30, 2000 and 1999
(Unaudited—See Accountants' Review Report)

Major accumulated temporary differences for the six-month period ended June 30, 2000 comprise the following (Unit: Millions of Won):

	December 31, 1999(*)	Increase	Decrease	June 30, 2000
Accrued income	₩(164,312)	₩(178,202)	₩(157,470)	₩(185,044)
Provision for possible loan losses (**)	519,504	389,288	495,948	412,844
Loss on impaired securities	56,154	31,601	3,059	84,696
Valuation gains or losses on securities	26,164	(1,935)	(10,821)	35,050
Other	(826)	20,910	(11,240)	31,324
	₩ 436,684	₩ 261,662	₩ 319,476	₩ 378,870
Deferred income tax assets	₩ 134,499	₩ 80,592	₩ 98,399	₩ 116,692

(*) After adjustment of deferred income tax effect of ₩14,304 million due to equity method and other.
(**) Present value discounts were included.

24. Earnings Per Share and Ordinary Income Per Share:

Earnings per share and ordinary income per share for the six-month periods ended June 30, 2000 and 1999 are calculated as follows:

(1) Basic earnings per share and ordinary income per share:

Basic earnings per share and ordinary income per share are computed by dividing net income and ordinary income imputable to common shares by the weighted average number of common share outstanding during the period, respectively.

Basic earnings per share and ordinary income per share for the six-month periods ended June 30, 2000 and 1999 are calculated as follows:

	2000	1999
Basic ordinary income per share		
Ordinary income after income tax	₩375,201,990,937	₩307,545,724,233
Dividend on preferred stock	(444,750,000)	(1,482,500,000)
	374,757,240,937	306,063,224,233
Weighted average number of common shares outstanding	109,062,554	89,233,333
	₩ 3,436	₩ 3,430

	2000	1999
Basic earnings per share		
Net income	₩375,201,990,937	₩307,545,724,233
Dividend on preferred stock	(444,750,000)	(1,482,500,000)
	374,757,240,937	306,063,224,233
Weighted average number of common shares outstanding	109,062,554	89,233,333
	₩ 3,436	₩ 3,430

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NOTES TO NON-CONSOLIDATED SEMI-ANNUAL FINANCIAL STATEMENTS—(Continued)

for the six-month periods ended June 30, 2000 and 1999
(Unaudited—See Accountants' Review Report)

Weighted average number of common shares outstanding and dividend on preferred stock are calculated as follows:

– Weighted average number of common shares outstanding

	Number of Shares	Number of Days	Accumulated Shares
December 31, 1999	99,147,777	182	18,044,895,414
Stock dividend	9,914,777	182	1,804,489,414
			19,849,384,828

Weighted average number of common shares outstanding:
19,849,384,828 ÷ 182 Days = 109,062,554

– Dividend on preferred stock

	2000	1999
Weighted average number of preferred shares outstanding	17,790,000	59,300,000
Dividend per share	₩ 50	₩ 50
Dividend for the six-month periods ended June 30,(*)	₩444,750,000	₩1,482,500,000

(*) Weighted average number of preferred shares x Dividend per share ÷ 2

(2) Diluted earnings per share and ordinary income per share:

Diluted earnings per share and diluted ordinary income per share are calculated by dividing net income and ordinary income by number of common stock and diluted securities as convertible preferred stock and stock option, respectively. Convertible preferred stock of 17,790,000 shares which is not repurchased by the Bank, could be converted to common stock on March 28, 2004. There is a possibility of new stock issuance due to the exercise of stock option of 847,000 shares (for the stock option granted to the CEO, 100,000 additional stock options will be granted, if three-month-weighted average stock price of the Bank before the date on which the exercise period begins is higher than that of any other listed banks in Korea) granted to directors and employees.

Diluted earnings per share and ordinary income per share for the six-month periods ended June 30, 2000 and 1999 are calculated as follows:

	2000	1999
Diluted ordinary income per share:		
Diluted ordinary income after income tax	₩375,201,990,937	₩307,545,724,233
Weighted average number of common shares outstanding	109,062,554	89,233,333
Weighted average number of diluted shares	25,444,966	59,300,000
	₩ 2,789	₩ 2,071
Diluted earnings per share		
Diluted net income	₩375,201,990,937	₩307,545,724,233
Weighted average number of common shares outstanding	109,062,554	89,233,333
Weighted average number of diluted shares	25,444,966	59,300,000
	₩ 2,789	₩ 2,071

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NOTES TO NON-CONSOLIDATED SEMI-ANNUAL FINANCIAL STATEMENTS—(Continued)

for the six-month periods ended June 30, 2000 and 1999
(Unaudited—See Accountants' Review Report)

Number of diluted shares and diluted ordinary income and net income are calculated as follows:

– Number of diluted shares are calculated as follows:

Convertible preferred shares are considered to be common share equivalent. Stock options are considered as diluted only if market value of shares to be given upon exercise of a stock option is higher than the exercise price, using the treasury stock method.

Number of diluted shares of convertible preferred stock is calculated as follows:

Period	Type	Number of shares	Accumulated Number of Shares
January 1～31	Convertible preferred stock	59,300,000	1,838,300,000
February 1	Convertible preferred stock	41,510,000	41,510,000
February 2～June 30	Convertible preferred stock	17,790,000	2,668,500,000
			4,548,310,000

– Number of diluted shares of convertible preferred share: 4,548,310,000 ÷ 182 days = 24,990,714

– Number of diluted shares of stock option is calculated as follows: (400,000 − 400,000 x 5,000 ÷ 26,100) (280,000 − 280,000 x 13,900 ÷ 26,100) = 454,252

As a result, total number of diluted shares: 24,990,714 + 454,252 = 25,444,966

– Diluted ordinary income and net income are calculated as follows:

	Diluted Ordinary Income	Diluted Net Income
Ordinary income allocated to common shares	₩374,757,240,937	₩ —
Net income allocated to common shares	—	374,757,240,937
Dividend to convertible preferred shares	444,750,000	444,750,000
	₩375,201,990,937	₩375,201,990,937

(3) As of June 30, 2000, potential common share information is as follows:

Type	Exercise Period	Number of common shares to be issued	Exercise Price
Stock option	November 1, 2001～October 31, 2004	400,000(*)	₩ 5,000
	February 28, 2002～February 27, 2005	280,000	₩13,900
	March 1, 2003～February 28, 2006	267,000	₩27,600
Convertible preferred stock	After March 27, 2004	17,790,000	convert to common stock

(*) For the stock option granted to the CEO, 100,000 additional stock options will be granted, if three-month-weighted average stock price of the Bank before the date on which the exercise period begins is higher than that of any other listed banks in Korea. The above number of common shares to be issued includes the additional 100,000 stock options.

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NOTES TO NON-CONSOLIDATED SEMI-ANNUAL FINANCIAL STATEMENTS—(Continued)

for the six-month periods ended June 30, 2000 and 1999
(Unaudited—See Accountants' Review Report)

25. Assets and Liabilities Denominated in Foreign Currencies:

Significant assets and liabilities denominated in foreign currencies at June 30, 2000 and 1999 are as follows:

	Millions of Won		Thousands of US$ Equivalent	
	2000	1999	2000	1999
Assets:				
Foreign exchange	₩ 33,496	₩ 23,347	US$ 30,047	US$ 20,198
Due from banks	402,687	578,876	361,219	500,801
Trading securities	2,708	5,746	2,429	4,971
Investing securities	106,903	155,374	95,893	134,418
Loans	1,101,027	1,162,234	987,645	1,005,479
Domestic import usance	26	268	23	232
Call loans	172,794	21,359	155,000	18,478
Bills bought	458,970	348,939	411,706	301,876
Account receivable	173,554	—	155,682	—
	₩2,452,165	₩2,296,143	US$2,199,644	US$1,986,453
Liabilities:				
Deposits	₩ 148,617	₩ 204,172	US$ 133,312	US$ 176,635
Borrowings	899,009	1,422,057	806,430	1,230,259
Due to banks	51,706	114,776	46,381	99,296
Call money	223	191	200	165
Loans	465,080	269,370	417,190	233,039
Debentures	6,563	23,779	5,887	20,572
Import deposit	6,872	1,211	6,164	1,048
Accounts payable	205,821	—	184,626	—
	₩1,783,891	₩2,035,556	US$1,600,190	US$1,761,014

Note: Foreign currencies other than US Dollar are shown as equivalent US Dollar amount at the exchange rate effective on June 30, 2000.

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NOTES TO NON-CONSOLIDATED SEMI-ANNUAL FINANCIAL STATEMENTS—(Continued)

for the six-month periods ended June 30, 2000 and 1999
(Unaudited—See Accountants' Review Report)

26. Related Party Transactions:

Significant transactions with related parties for the six-month period ended June 30, 2000 and related account balances then ended are as follows (Unit: Millions of Won):

	Loans and securities			Deposits and Commissions or fees payable		
	December 31, 1999	Increase (Decrease)	June 30, 2000	December 31, 1999	Increase (Decrease)	June 30, 2000
Jooeun Investment Management Co., Ltd.	₩ —	₩ —	₩ —	₩18,204	₩25,104	₩43,308
Jooeun Leasing Co., Ltd.	176,147	(76,543)	99,604	1,344	4,566	5,910
Jooeun Real Estate Trust Co., Ltd.	79,316	(4,460)	74,856	698	(492)	206
Jooeun Industrial Co., Ltd.	64,856	36,247	101,103	720	1,717	2,437
Jooeun Credit Information Co., Ltd.	—	—	—	1,325	4,302	5,627
PACIFIC VENTURES	—	1,000	1,000	—	9,283	9,283
ING Life Insurance Ltd.	—	—	—	3,000	7	3,007
H&CB Finance (HK)(*)	33,217	865	34,082	—	—	—
	₩353,536	₩(42,891)	₩310,645	₩25,291	₩44,487	₩69,778

(*) Due from Banks is included

	Interest on Loans and Securities	Interest on Deposits and Fees or commissions paid
Jooeun Investment Management Co., Ltd.	₩ —	₩ 683
Jooeun Leasing Co., Ltd.	5,304	6
Jooeun Real Estate Trust Co., Ltd.	2,866	6
Jooeun Industrial Co., Ltd	2,833	39
Jooeun Credit Information Co., Ltd.	—	9,839
PACIFIC VENTURES	1	125
ING Life Insurance Ltd.	—	142
H&CB Finance (HK)(**)	1,192	—
	₩12,196	₩10,840

(**) Interest on Due from Banks is included.

27. Employee Benefits:

The Bank subsidizes employees ₩81,523 million for housing. Household loans to employees are ₩52,800 million as of June 30, 2000.

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NOTES TO NON-CONSOLIDATED SEMI-ANNUAL FINANCIAL STATEMENTS—(Continued)

for the six-month periods ended June 30, 2000 and 1999
(Unaudited—See Accountants' Review Report)

28. Business Segments:

The Bank is organized into four major business segments: Retail Banking, Business Banking, Securities Dealing and Treasury and Investment Management. These business divisions are based on the nature of the products and services provided, the type or class of customer, and the Bank's management organization, and provide the basis on which the Bank reports its primary segment information.

Other operations of the Bank comprise management services for the National Housing Fund, lottery activities, trust account activities and providing computer services, none of which constitutes a separately reportable segment.

The following table shows the distribution of the Bank's revenue by business segment (Unit: Millions of Won).

As of June 30, 2000

	Retail Banking	Business Banking	Securities dealing	Treasury and Investment Management	Others	Bank Total
Operating Revenue	₩ 1,615,000	₩ 426,024	₩ 655,218	₩ 40,342	₩ 96,042	₩ 2,832,626
Operating Expense	1,212,693	312,934	611,703	12,640	168,423	2,318,393
Segment result	₩ 402,307	₩ 113,090	₩ 43,515	₩ 27,702	₩ (72,381)	₩ 514,233
Loans	₩30,353,451	₩8,649,743	₩ —	₩ 756,647	₩ —	₩39,759,841
Loan loss reserve	310,181	826,174	—	74,669	—	1,211,024
Securities	—	177,947	10,244,731	373,519	136,859	10,933,056
Premises and equipment	885,204	82,570	6,071	8,500	247,194	1,229,539
Accumulated Depreciation	268,474	25,043	1,841	2,578	70,341	368,277
Total Assets	32,615,090	7,973,347	10,248,961	2,584,068	1,977,196	55,398,662

As of June 30, 1999

	Retail Banking	Business Banking	Securities dealing	Treasury and Investment Management	Others	Bank Total
Operating Revenue	₩ 1,308,963	₩ 356,218	₩ 629,608	₩ 74,026	₩323,288	₩ 2,692,103
Operating Expense	995,867	269,799	597,768	71,746	314,254	2,249,434
Segment result	₩ 313,096	₩ 86,419	₩ 31,840	₩ 2,280	₩ 9,034	₩ 442,669
Loans	₩21,161,917	₩6,338,575	₩ —	₩ 235,053	₩ —	₩27,735,545
Loan loss reserve	347,094	878,121	—	79,365	—	1,304,580
Securities	—	71,825	1,133,703	8,565,298	326,262	10,097,088
Premises and equipment	808,740	75,854	5,578	7,809	246,445	1,144,426
Accumulated Depreciation	239,069	22,423	1,649	2,308	64,301	329,750
Total Assets	22,516,302	5,747,483	1,196,756	9,734,113	3,901,471	43,096,125

The Bank principally operates in Korea. Secondary segments are geographically oriented and are segregated into two segments: domestic and foreign operations. The Bank's foreign operations include branches in London, Tokyo and New York.

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NOTES TO NON-CONSOLIDATED SEMI-ANNUAL FINANCIAL STATEMENTS—(Continued)

for the six-month periods ended June 30, 2000 and 1999
(Unaudited—See Accountants' Review Report)

The following table shows the distribution of the Bank's revenue by geographical market (Unit: Millions of Won).

As of June 30, 2000

	Domestic	Overseas	Bank Total
Operating Revenue	₩ 2,810,389	₩ 22,237	₩ 2,832,626
Operating Expense	2,296,289	22,104	2,318,393
Segment result	₩ 514,100	₩ 133	₩ 514,233
Loans	₩39,361,270	₩398,571	₩39,759,841
Securities	10,909,779	23,277	10,933,056

As of June 30, 1999

	Domestic	Overseas	Bank Total
Operating Revenue	₩ 2,662,403	₩ 29,700	₩ 2,692,103
Operating Expense	2,223,057	26,377	2,249,434
Segment result	₩ 439,346	₩ 3,323	₩ 442,669
Loans	₩27,445,008	₩290,537	₩27,735,545
Securities	10,075,159	21,929	10,097,088

29. Subsequent events:

As a leading creditor of Korea Housing Guarantee Co., Ltd. (KHGC), the Bank drew up a workout plan with approval of Ministry of Construction and Transportation who is the major shareholder of KHGC as of July 5, 2000. The Bank is in the process of obtaining approval of the other credit banks.

The above mentioned workout plan allows KHGC the grace period for repayment of the loans until the end of 2002, the repayment of 25% of the principal from 2003 to 2009 and alleviate the interest rate of the loans. The repayment of 75% of the principal is not scheduled yet. The Bank's credit to KHGC (including commercial paper) amounts to ₩464.4 billion with allowance for loan losses of ₩88.2 billion as of June 30, 2000. The realized losses of the above mentioned loans may differ from its estimation.

Supplementary Informatiom
NON-CONSOLIDATED SEMI-ANNUAL FINANCIAL STATEMENTS OF THE BANK'S TRUST ACCOUNTS

To the Shareholders and Board of Directors of H&CB

We have reviewed the non-consolidated balance sheets of H&CB (the ''Bank''), as of June 30, 2000 and 1999, and the related non-consolidated income statements for the six-month periods then ended. We have also reviewed the accompanying non-consolidated balance sheets of the Bank's Trust accounts (''the Trust accounts'') as of June 30, 2000 and 1999, and the related non-consolidated income statements for the six-month periods then ended provided as supplementary information, in accordance with the independent accountant's review standards for non-consolidated semi-annual financial statements as established by the Securities & Futures Commission of the Republic of Korea. These non-consolidated semi-annual financial statements are the responsibility of the Bank's management.

Based on our review, we are not aware of any material modification that should be made to the accompanying non-consolidated semi-annual financial statements of the Trust accounts referred to above for them to be in conformity with the relevant Trust Business Act and related regulations.

The amounts expressed in U.S. Dollars, provided solely for the convenience of the reader, have been translated on the basis set forth in Note 2 to the accompanying non-consolidated semi-annual financial statements.

Samil Accounting Corporation

Seoul, Korea
July 21, 2000

Attachment:

Non-consolidated Semi-annual Balance Sheets of the Trust Accounts
Non-consolidated Semi-annual Income Statements of the Trust Accounts
Notes to the Non-consolidated Semi-annual Financial Statements of the Trust Accounts

H&CB

(TRUST ACCOUNTS)
BALANCE SHEETS
as of June 30, 2000 and 1999
(Unaudited—See Accountants' Review Report)

	In Millions of Korean Won		In Thousands of U.S. Dollars (Note 2)	
	2000	1999	2000	1999
ASSETS (Note 3)				
Loans (Note 4)	₩2,503,187	₩ 3,248,421	US$2,245,414	US$ 2,913,905
Call loans	80,000	—	71,762	—
Securities (Note 5)	5,134,113	7,558,340	4,605,412	6,779,996
Due from banking accounts	254,540	226,492	228,328	203,168
Accrued income	196,383	512,884	176,160	460,068
Other assets	50,470	882,263	45,273	791,409
	₩8,218,693	₩12,428,400	US$7,372,349	US$11,148,546
LIABILITIES (Note 3)				
Money trusts (Note 6)	₩7,260,957	₩10,756,730	US$6,513,237	US$ 9,649,022
Borrowings (Note 7)	328,454	52,945	294,630	47,493
Allowance for future trust losses	7,030	6,518	6,306	5,847
Allowance for credit losses	296,415	391,318	265,891	351,021
Accrued trust dividends	183,220	381,350	164,352	342,079
Other liabilities	142,617	839,539	127,933	753,084
	₩8,218,693	₩12,428,400	US$7,372,349	US$11,148,546

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

H&CB

(TRUST ACCOUNTS)
INCOME STATEMENTS
for the six-month periods ended June 30, 2000 and 1999
(Unaudited—See Accountants' Review Report)

	In Millions of Korean Won		In Thousands of U.S. Dollars (Note 2)	
	2000	1999	2000	1999
REVENUE (Note 3)				
Interest on loans	₩151,169	₩195,555	US$135,602	US$175,417
Interest on call loans	1,386	4,210	1,243	3,776
Interest on securities	221,979	373,868	199,120	335,368
Other interest income	6,221	16,894	5,580	15,154
	380,755	590,527	341,545	529,715
Gain on securities transaction (Note 8)	37,638	130,983	33,762	117,495
Reversal of provision for future trust losses	—	714	—	640
Other income (Note 8)	50,717	25,805	45,494	23,148
	469,110	748,029	420,801	670,998
EXPENSES (Note 3)				
Commissions paid	5,840	16,352	5,239	14,668
Provisions for future trust losses	1,201	177	1,077	159
Loss on securities transaction	58,272	13,859	52,271	12,432
Provisions for credit losses	13,971	113,670	12,532	101,964
Trust fees to the Bank	34,959	23,585	31,359	21,156
Interest on borrowings	3,605	6,365	3,234	5,710
Other expenses (Note 8)	25,318	16,343	22,711	14,660
	143,166	190,351	128,423	170,749
Dividends of trust profit to beneficiaries (Note 3)	₩325,944	₩557,678	US$292,378	US$500,249

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

H&CB

Notes to Non-Consolidated Semi-Annual Financial Statements—(Continued)

June 30, 2000 and 1999
(Unaudited)

1. Summary of Significant Accounting Policies:

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

– ***Dividends of Trust Profit to Beneficiaries***

For guaranteed rate of return trusts, dividends of trust profit to beneficiaries (''dividends'') are computed by using the guaranteed rate of return. For the other trusts, i.e. guaranteed principal or non guaranteed trusts, dividends are computed by using the performance rate of return. However, for guaranteed principal trusts, dividends are zero if the dividends are negative.

– ***Interest Income Recognition***

Interest income on loans and securities of the Trust accounts are recognized same as the Bank's banking accounts.

– ***Due from Banking Accounts***

The Trust accounts deposit the surplus funds in the banking accounts, and record as due from banking accounts. The Bank's banking accounts record as other liabilities.

– ***Trust Fees to the Bank***

The Bank's banking accounts receive trust fees from the Trust accounts for the management, operation and disposal of the Trust's assets. The Trust accounts record fees as expense and the Bank's banking accounts record fees as revenue.

– ***Securities***

Securities held in such trust accounts as retirement, unit-type or open-type money trusts established in the six-month period ended June 30, 2000 are recorded at Fair Market Value except for guaranteed bills, commercial papers, other bills and certificate of deposits are stated at cost. Securities held in the specified money trusts are recorded at cost. Equity securities and beneficiary certificates (excluding development trust beneficiary certificates) held in the other money trusts are recorded at Fair Market Value and debt securities are recorded at cost or amortized cost.

– ***Allowance for Future Trust Losses***

For each guaranteed principal or rate of return trust, allowance for future trust losses is required to provide 25% or more of trust fees until each allowance equals 5% of the related money trust balance and related provisions are recorded as deduction from trust fees. Before January 1,2000, such allowance had been required to be provided not to exceed 5% of revenues until the allowance equaled 3% of the related money trust balance.

– ***Allowance for Credit Losses***

The Trust accounts except for specified money trusts provide for possible credit losses based on the estimated collectibility of assets as determined by an analysis of the quality of the asset portfolio in accordance with the accounting and reporting guidelines by the Financial Supervisory Services.

H&CB

NOTES TO NON-CONSOLIDATED SEMI-ANNUAL FINANCIAL STATEMENTS—(Continued)

June 30, 2000 and 1999
(Unaudited)

– ***Compensation from the Banking accounts***

If the income from operation of guaranteed principal or rate of return trust is negative or insufficient to generate the required rate of return, respectively, the deficiency may be recovered serially from trust fees, previously established provision for future trust losses or compensation by the Bank's banking accounts due to trust performance guarantees. Such compensation is accounted for as other income of the Trust accounts and other expenses of the banking accounts, respectively. Compensation revenue due to trust performance guarantees for the six-month periods ended June 30, 2000 and 1999 was ₩42 million and nil, respectively.

– ***Present Value Discounts***

Beginning June 30, 2000 when contract terms such as principal amount, interest rate, and repayment terms are changed unfavorably for the creditor, trust accounts, due to the commencement of a reorganization plan, procedures of composition, mutual agreements between debtors and creditors or other similar reasons, related receivables are stated at present value based on a reasonable interest rate prevailing at the transaction date if the difference between nominal value and present value is material. The difference between the nominal value and the present value is presented as in other liabilities (the ''present value discount account'') and offset against the allowance for credit losses, if available, or recognized as other expenses in the period incurred. The present value discount account is amortized using the effective interest rate method and the related amortization is included in interest income. Such losses incurred by applying the above accounting policy was all recognized as expense for the six-month period ended June 30, 2000.

– ***Accounting for Securities Investment Trust***

In accordance with the accounting and reporting guidelines by the Financial Supervisory Services (the ''FSS''), the Securities Investment Trust account is excluded from the non-consolidated financial statements of the Trust accounts for the current period whereas it was included in the previous periods. The accompanying non-consolidated semi-annual financial statements of 1999 was reclassified in conformity with the FSS's guideline for the comparative presentation.

2. United States Dollar Amounts:

The Trust accounts operates primarily in Korean Won and its official accounting records are maintained in Korean Won. The U.S. Dollar amounts are provided herein as supplementary information solely for the convenience of the reader. Won amounts are expressed in U.S. Dollars at the rate of ₩1,114.8:US$1, the rate in effect on June 30, 2000. This presentation is not in accordance with accounting principles generally accepted in either the Republic of Korea or the United States, and should not be construed as a representation that the Won amounts shown could be converted, realized or settled in U.S. Dollars at this or any other rate.

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NOTES TO NON-CONSOLIDATED SEMI-ANNUAL FINANCIAL STATEMENTS—(Continued)

June 30, 2000 and 1999
(Unaudited)

3. Trust Accounts:

The followings are brief balance sheets and income statements of trusts by category at June 30, 2000 and 1999.

Condensed Balance Sheets–

	Millions of Won					
	2000			1999		
	Guaranteed Principal or Rate of Return Trusts	No Guarantee Trusts	Total	Guaranteed Principal or Rate of Return Trusts	No Guarantee Trusts	Total
(Assets)						
Loans	₩ 428,586	₩2,074,601	₩2,503,187	₩ 454,386	₩2,794,035	₩ 3,248,421
Call loans	2,641	77,359	80,000	—	—	—
Investment in securities	1,109,411	4,024,702	5,134,113	1,483,552	6,074,788	7,558,340
Due from banking accounts	12,605	241,935	254,540	49,171	177,321	226,492
Account receivable	5,982	38,629	44,611	858,150	11,962	870,112
Other	26,483	175,759	202,242	92,191	432,844	525,035
Total	₩1,585,708	₩6,632,985	₩8,218,693	₩2,937,450	₩9,490,950	₩12,428,400
(Liabilities)						
Money trusts	₩1,006,014	₩6,254,943	₩7,260,957	₩1,712,809	₩9,043,921	₩10,756,730
Borrowings	328,454	—	328,454	52,945	—	52,945
Allowance for future trust losses	7,030	—	7,030	6,518	—	6,518
Allowance for credit losses	149,848	146,567	296,415	196,958	194,360	391,318
Accrued trust dividends	49,007	134,213	183,220	176,392	204,958	381,350
Other	45,355	97,262	142,617	791,828	47,711	839,539
Total	₩1,585,708	₩6,632,985	₩8,218,693	₩2,937,450	₩9,490,950	₩12,428,400

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NOTES TO NON-CONSOLIDATED SEMI-ANNUAL FINANCIAL STATEMENTS—(Continued)

June 30, 2000 and 1999
(Unaudited)

Condensed Income Statements–

	Millions of Won					
	2000			1999		
	Guaranteed Principal or Rate of Return Trusts	No Guarantee Trusts	Total	Guaranteed Principal or Rate of Return Trusts	No Guarantee Trusts	Total
(Revenue)						
Interest revenue	₩ 70,162	₩310,593	₩380,755	₩104,044	₩486,483	₩590,527
Gains on securities transactions	9,578	28,060	37,638	51,979	79,004	130,983
Other	37,313	13,404	50,717	25,458	1,061	26,519
Total	₩117,053	₩352,057	₩469,110	₩181,481	₩566,548	₩748,029
(Expenses)						
Interest on borrowings	₩ 3,605	₩ —	₩ 3,605	₩ 6,365	₩ —	₩ 6,365
Loss on securities transactions	28,116	30,156	58,272	5,060	8,799	13,859
Trust fees to the Bank	3,550	31,409	34,959	9,615	13,970	23,585
Provisions for possible loan losses	2,790	11,181	13,971	27,957	85,713	113,670
Other	13,897	18,462	32,359	16,448	16,424	32,872
	51,958	91,208	143,166	65,445	124,906	190,351
Dividends of trust profit to Beneficiaries	₩ 65,095	₩260,849	₩325,944	₩116,036	₩441,642	₩557,678

4. Loans:

Loans in the Trust accounts at June 30, 2000 and 1999 comprise the following:

	Annual Interest Rate (%) at June 30, 2000	Millions of Won	
		2000	1999
Commercial bills discounted	20.8	₩ 132	₩ 132
Loans on securities collateral	10.45–11.7	968	2,613
Loans on movables collateral	10.95–11.4	21	16
Loans on real estate collateral	8.8–17.0	1,092,044	1,328,784
Loans on group estate collateral	—	—	382
Loans on beneficiary certificates collateral	8.73–14.4	233,511	277,784
Loans on receivables collateral	8.96–15.95	53,626	44,591
Loans to public organizations	6.5–16.0	264,499	265,868
Loans on guarantees	8.92–17.0	196,780	398,638
Loans on certificates	8.0–17.0	339,461	526,483
Loans on bills	8.25–17.0	322,145	403,130
		₩2,503,187	₩3,248,421

Most loans bear either floating interest rates or fixed rates which are subject to subsequent change as prime rates fluctuate.

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NOTES TO NON-CONSOLIDATED SEMI-ANNUAL FINANCIAL STATEMENTS—(Continued)

June 30, 2000 and 1999
(Unaudited)

5. Securities:

Investment in securities in the Trust accounts at June 30, 2000 and 1999 comprise the following:

	Annual Interest Rate (%) at June 30, 2000	Millions of Won	
		2000	1999
Equity securities	—	₩ 295,405	₩ 30,607
Government bonds	7.3~12.49	175,444	143,464
Monetary stabilization bonds	6.63~9.0	748,202	675,027
Other finance debentures	6.8~18.8	437,836	485,505
Local government bonds	7.3~13.3	106,309	85,604
Corporate bonds(*)	0.98~26.0	1,882,981	1,377,751
Guaranteed bills	14.2~15.6	5,240	4,546
Commercial papers(*)(**)	0~14.5	445,159	1,191,232
Other bills	5.5~11.5	257,163	226,656
Certificate of deposits	6.84~7.65	62,508	467,041
Development trust beneficiary certificates	7.09~16.55	273,129	1,591,879
Securities investment trust beneficiary certificates	—	444,737	1,279,028
		₩5,134,113	₩7,558,340

(*) Interests on some securities were unusually low due to restructuring.

(**) Investments in secured commercial papers issued by the Daewoo Group companies totaled 161,500 million, of which 90,000 million and 71,500 million was issued by Daewoo Motors and Daewoo Corporation, respectively, at June 30, 2000. The Trust accounts provided for credit losses based on the estimated collectibility of the above debt securities differently from that of other receivables from the Daewoo Group companies.

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NOTES TO NON-CONSOLIDATED SEMI-ANNUAL FINANCIAL STATEMENTS—(Continued)

June 30, 2000 and 1999
(Unaudited)

6. Money Trust Accounts:

The Trust accounts managed 1,134,531 and 1,710,395 open accounts at June 30, 2000 and 1999, respectively.

The details of trust businesses are as follows:

	Trust Terms		
Trusts	Period	Dividend Rate	Guarantee of principal repayment
General unspecified money trusts	1.5 or 5 Years	Fixed	Yes
Installment money trusts	1.5 Years or more	Floating	No(*)
Household money trusts	1.5 Years	Floating	No(*)
Development trusts	2, 3 or 5 Years	Fixed	Yes
Old-age living pension trusts	5 Years or more	Floating	Yes
Corporation money trusts	1.5 Years	″	No(*)
National stock trusts	3 Years or more	″	No
Individual pension trusts	10 Years or more	″	Yes
Household long-term trusts	3 or 5 Years	″	No
Labor preferential trusts	″	″	No
New installment trusts	1.5 Years or more	″	No
Retirement trusts(**)	Retirement	″	Yes
Specified money trusts	1.5 Years or more	″	No
Unit-type money trusts(**)	6 Months or more	″	No
Open-type money trusts(**)	3 Months or more	″	No

(*) The principal repayment is guaranteed for customer accounts opened before April 30, 1996.
(**) In March 2000 retirement trusts, unit-type money trusts and open-type money trusts were established.

General unspecified money trusts and development trusts guaranteed principal repayment and an annual rate of return ranging from 8.5% to 13.0% and from 4.6% to 20.0%, respectively, depending on each account at June 30, 2000.

Transfer of loans between different trust accounts to share losses due to workout of debtors between the Trust accounts and the Bank's banking accounts totaled 70,010 million for the six-month period ended June 30, 2000. Transfer of securities between different trust accounts to collect funds paid for terminated accounts totaled 668,478 million for the six-month period ended June 30, 2000.

7. Borrowings:

As of June 30, 2000, the Trust accounts borrowed ₩328,454 million from the Bank's banking accounts to resolve liquidity problems and share the losses due to workout of debtors with the Bank's banking accounts. The borrowings are due on December 31, 2000. The Bank's banking accounts recorded the above borrowings as call loans. Borrowings from the Bank's banking accounts to resolve liquidity problems in the Trust accounts assumed from Dong Nam Bank totaled ₩52,945 million at June 30, 1999.

8. Commitments and Contingencies:

The Trust accounts have entered into stock price index futures to sell contract amount at predetermined future dates and stock price index based on KOSPI200(Korea Composite Stock Price Index 200), which represents listed stock price level.

H&CB

NOTES TO NON-CONSOLIDATED SEMI-ANNUAL FINANCIAL STATEMENTS—(Continued)

June 30, 2000 and 1999
(Unaudited)

Summary of stock price index futures information at June 30, 2000 is as follows:

	Millions of Won			
	Notional amount		Valuation gain or loss	
	Trading	Hedging	Gain	Loss
Stock price index futures	₩1,461	₩—	₩292	₩328

Pursuant to asset securitization plan, the Trust accounts transferred loans or securities of total book value of ₩11,340 million, ₩144,686 million and ₩23,523 million to Jooeun First Securitization Co. Ltd., Jooeun Second Securitization Co., Ltd., and Jooeun Third Securitization Co., Ltd. on December 10, 1999, February 1, 2000 and March 18, 2000, respectively. Since the contracts for transfer stipulate warranty for the above-mentioned assets, there could be additional future losses associated with such loans.

For the six-month period ended June 30, 2000, the Trust accounts recognized an additional gains of ₩9,295 million and losses of ₩51 million in connection with prior year's non-performing loan sales to KAMCO. Since the proceeds on the sale of loans may differ from the sales prices, the Trust accounts may recognize additional gains or losses on the sales of loans of ₩10,200 million.

In connection with the Asian financial crisis which began in 1997, the Korean economy as well as other economies in the Asia Pacific region experienced economic contractions. Such conditions had a significant adverse effect on the operations of the Trust accounts and other companies in Korea and in the Asia Pacific region. Certain financially troubled borrowers including Daewoo Group companies are in process of debt restructuring under workout plans or other similar programs. As of June 30, 2000, the Trust's outstanding loans and securities to Daewoo Group companies and other companies under workout or other similar programs amount to ₩221,770 million and ₩502,741 million before present value discounts of ₩12,652 million and ₩38,216 million, respectively. The Trust accounts have accrued ₩60,378 million and ₩91,084 million of allowance for such losses as of June 30, 2000. In addition, as of June 30, 2000, the Trust's outstanding loans and securities to Hyundai Group companies and allowance for such losses amount to ₩110,075 million and ₩799 million, respectively. The ultimate effect of these significant uncertainties on the financial position of the Trust accounts as of the balance sheet date cannot presently be determined and accordingly, no adjustments have been made in the accompanying non-consolidated semi-annual financial statements related to such uncertainties other than reserve for allowances for losses as mentioned above.

SIGNATURE

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant certifies that it meets all of the requirements for filing on Form 20-F and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized.

H&CB

Date: September 29, 2000

By: /s/ Jung-Tae Kim
Name: Jung-Tae Kim
Title: Chairman, President and Chief Executive Officer

Until October 27, 2000, all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

H&CB

(a Korean limited liability company)

The Exchange Agent for the Exchange Offer is:

The Bank of New York
101 Barclay Street
New York, New York 10286
Attn: Receive and Deliver Window
(telephone) (800) 507-9375
(facsimile) (212) 815-6213