As filed with the Securities and Exchange Commission on September 10, 2001

Registration No. 333-13880

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 1
TO
FORM F-4
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

Kookmin Bank	H&CB
(Exact name of Registrant as specified in its charter)	(Exact name of Registrant as specified in its charter)

Republic of Korea	6029	Not Applicable
(Jurisdiction of incorporation or organization)	*(Primary Standard Industrial Classification Code Number)*	*(I.R.S. Employer Identification No.)*

Kookmin Bank	H&CB
9-1, 2-ga, Namdaemoon-ro, Jung-gu **Seoul, Korea 100-703** **822-317-2161**	**36-3, Yoido-dong, Youngdeungpo-gu** **Seoul, Korea 150-758** **822-769-7256**
(Address of Registrant's principal executive offices)	(Address of Registrant's principal executive offices)
Kookmin Bank, New York Branch **565 Fifth Avenue, 24th Floor** **New York, New York 10017** **212-697-6100**	**H&CB, New York Branch** **Mutual of America Building, 9th Floor** **320 Park Avenue** **New York, New York 10022** **212-755-4300**
(Name, Address, Including Zip Code, and Telephone Number, including Area Code, of Agent for Service)	(Name, Address, Including Zip Code, and Telephone Number, including Area Code, of Agent for Service)

Copies to:

Paul B. Ford, Jr., Esq. **Simpson Thacher & Bartlett** **425 Lexington Avenue** **New York, NY 10017-3954** **United States of America** **212-455-2000**	**Jin Hyuk Park, Esq.** **Simpson Thacher & Bartlett** **Asia Pacific Finance Tower, 7th Floor** **3 Garden Road, Central** **Hong Kong, S.A.R.** **People's Republic of China** **852-2514-7600**	**Jinduk Han, Esq.** **Cleary, Gottlieb, Steen & Hamilton** **39th Floor, Bank of China Tower** **One Garden Road, Central** **Hong Kong, S.A.R.** **People's Republic of China** **852-2521-4122**	**Yong G. Lee, Esq.** **Cleary, Gottlieb, Steen & Hamilton** **One Liberty Plaza** **New York, NY 10006-1470** **United States of America** **212-225-2000**

Approximate date of commencement of proposed sale of the securities to the public: As soon as practicable after the Registration Statement becomes effective.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

Calculation of Registration Fee

Title of each class of securities to be registered(1)	Amount to be Registered(2)	Proposed maximum offering price per unit(3)	Proposed maximum aggregate offering price(2)(3)	Amount of registration fee(4)
Common stock, par value ₩5,000 per share	83,179,565	$22.59	$1,879,026,373.35	$469,756.60

(1) American depositary receipts evidencing American depositary shares issuable upon deposit of the securities registered hereby are being registered under a separate registration statement on Form F-6, Registration No. 333-13882.

(2) Represents the maximum number of shares of the new merged entity expected to be issued to Kookmin Bank and H&CB securityholders resident in the United States in connection with the merger described herein. The securities to be issued in connection with the merger outside the United States are not registered under this registration statement.

(3) Estimated solely for the purpose of calculating the amount of the registration fee pursuant to Rule 457(f), based on (i) the merger ratio of one share of common stock of the new merged entity to be issued every 1.688346 shares of common stock of Kookmin Bank and for every share of common stock of H&CB, respectively, (ii) the market value of the shares of Kookmin Bank common stock and H&CB common stock, respectively, in each case calculated pursuant to Rule 457(c) by taking the average of the high and low prices of such shares as reported on the Korea Stock Exchange on September 3, 2001 and converting them into U.S. Dollars based on the noon buying rate for cable transfers in Won as certified for customs purposes by the Federal Reserve Bank of New York as in effect on such date of ₩1,284 = US$1.00, and (iii) the total number of shares of common stock of the new merged entity to be issued to securityholders of Kookmin Bank and H&CB, respectively.

(4) Previously paid.

The Registrants hereby amend this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrants shall file a further amendment which specifically states that this Registrant Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

EXTRAORDINARY GENERAL MEETINGS OF STOCKHOLDERS OF KOOKMIN BANK AND H&CB

MERGER PROPOSAL—YOUR VOTE IS VERY IMPORTANT

Pursuant to a merger agreement dated as of April 23, 2001, Kookmin Bank and H&CB have agreed to merge by combining both banks into a new corporation to be named Kookmin Bank, which we refer to as "New Kookmin". In the merger, Kookmin Bank common stockholders will receive one share of New Kookmin common stock for every 1.688346 shares they own and H&CB common stockholders will receive one share of New Kookmin common stock for every share they own. Holders of Kookmin Bank global depositary shares, each of which represents one share of Kookmin Bank common stock, will receive one New Kookmin American depositary share, each of which will represent one share of New Kookmin common stock, for every 1.688346 global depositary shares they own. Holders of H&CB American depositary shares, each of which represents one-half of one share of H&CB common stock, will receive one New Kookmin American depositary share for every two American depositary shares they own. As a result, former securityholders of Kookmin Bank will hold approximately 59.98%, and former securityholders of H&CB will hold approximately 40.02%, of the outstanding common stock of New Kookmin after the merger. If outstanding convertible bonds of Kookmin Bank are fully converted into shares of Kookmin Bank common stock before the completion of the merger, former securityholders of Kookmin Bank will hold approximately 61.28%, and former securityholders of H&CB will hold approximately 38.72%, of the outstanding common stock of New Kookmin after the merger. We expect that the merger will qualify as a tax-free reorganization for U.S. federal income tax purposes. New Kookmin is expected to apply to list its common stock on the Korea Stock Exchange and to list its American depositary shares on the New York Stock Exchange.

The boards of directors of both Kookmin Bank and H&CB have approved the merger agreement. Each bank is convening an extraordinary general meeting of its stockholders for the purpose of approving the merger agreement, appointing the incorporators of New Kookmin, electing the directors of New Kookmin and approving certain other matters as described in this prospectus.

The dates, times and places of the extraordinary general meetings are as follows:

For Kookmin Bank stockholders:	For H&CB stockholders:
September 29, 2001 at 10:00 a.m.	September 29, 2001 at 10:00 a.m.
Conference Room	4th Floor Auditorium
Korea Chamber of Commerce & Industry	H&CB Headquarters
Main Office Building	36-3, Yoido-dong, Youngdeungpo-gu
45, 4-ga, Namdaemoon-ro, Jung-gu	Seoul, Korea
Seoul, Korea	

This prospectus has been prepared for stockholders of Kookmin Bank and H&CB residing in the United States and for holders of Kookmin Bank global depositary shares and H&CB American depositary shares to provide information about the merger and the extraordinary general meeting of stockholders of each bank. **We encourage you to read this document in its entirety, including the section describing risk factors that begins on page 10.**

Common stockholders of each bank will be entitled to attend and vote, either in person or by proxy, at the extraordinary general meeting of stockholders of that bank if they were recorded on the bank's stockholder register on August 8, 2001, which is 52 days prior to the date of each bank's meeting. Pursuant to the terms of the Kookmin Bank global depositary shares, holders of Kookmin Bank global depositary shares will not be entitled to instruct the depositary as to how to vote their underlying shares of Kookmin Bank common stock at the extraordinary general meeting for Kookmin Bank stockholders. The holders of H&CB American depositary shares will be entitled to instruct The Bank of New York, as depositary, as to how to vote their underlying shares of H&CB common stock at the extraordinary general meeting of H&CB stockholders in accordance with the procedures set forth in this prospectus, if those holders were recorded on such depositary's register on August 8, 2001.

Your vote is very important, regardless of the number of shares you own. On behalf of our boards of directors, we urge you to vote in favor of the merger.

Sang-Hoon Kim	Jung Tae Kim
Chairman, President and Chief Executive Officer	Chairman, President and Chief Executive Officer
Kookmin Bank	H&CB

WE ARE NOT ASKING YOU FOR A PROXY AND YOU ARE REQUESTED NOT TO SEND US A PROXY.

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

This prospectus is dated September 10, 2001 and is expected to be first mailed to securityholders on or about such date.

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NOTES

The fiscal years of Kookmin Bank and H&CB end 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, the financial information presented in this document has been prepared in accordance with accounting principles generally accepted in the United States, which are known as "US GAAP".

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

CURRENCIES AND EXCHANGE RATES

All references to "Won" or "₩" in this prospectus are to the currency of Korea, and all references to "Dollars", "U.S. Dollars", "$" or "US$" are to the currency of the United States of America.

The tables below set forth, for the periods and dates indicated, information concerning the noon buying rate for Won, expressed in Won per one U.S. Dollar. The "noon buying rate" is the rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York. Unless otherwise stated, translations of Won amounts into U.S. Dollars in this prospectus were made at the noon buying rate in effect on December 31, 2000, which was ₩1,267.00 to US$1.00. We do not intend to imply that the Won or U.S. Dollar amounts referred to herein could have been or could be converted into U.S. Dollars or Won, as the case may be, at any particular rate, or at all. On September 7, 2001, the noon buying rate was ₩1,290.0 = US$1.00.

	Won per U.S. Dollar (noon buying rate)			
	Average (of month end rates)	High	Low	Period-End
1996	₩ 807.7	₩ 849.0	₩ 775.8	₩ 847.5
1997	988.1	1,960.0	845.5	1,695.0
1998	1,368.2	1,812.0	1,196.0	1,206.0
1999	1,187.8	1,243.0	1,125.0	1,136.0
2000	1,140.3	1,267.0	1,105.5	1,267.0
2001 (through September 7)	1,291.8	1,369.0	1,234.0	1,290.0
January	—	1,286.0	1,253.3	1,258.0
February	—	1,267.0	1,234.0	1,254.8
March	—	1,332.0	1,253.1	1,332.0
April	—	1,369.0	1,299.0	1,319.0
May	—	1,319.0	1,282.0	1,282.0
June	—	1,305.0	1,285.0	1,303.0
July	—	1,316.0	1,295.0	1,303.0
August	—	1,297.0	1,281.0	1,284.0
September (through September 7)	—	1,290.0	1,281.0	1,290.0

SUMMARY

This summary highlights selected information in this prospectus and may not contain all of the information that is important to you. You should carefully read the entire prospectus for a complete understanding of the merger. In particular, you should read the documents attached to this prospectus, including the merger agreement.

Kookmin Bank **(see page 63)**
9-1, 2-ga, Namdaemoon-ro, Jung-gu
Seoul, Korea 100-703
Telephone: 822-317-2161

Kookmin Bank is the largest commercial bank in Korea in terms of total assets and deposits calculated under Korean generally accepted accounting principles, known as "Korean GAAP". As of June 30, 2001, Kookmin Bank had developed one of the most extensive branch networks in Korea, with 575 domestic branches. Kookmin Bank is principally engaged in providing banking services to retail customers and small- and medium-size enterprises. Kookmin Bank also provides a wide range of other financial services, such as credit card, corporate and international banking and trust account management services, and engages in capital markets activities.

H&CB **(see page 162)**
36-3, Yoido-dong, Youngdeungpo-gu
Seoul, Korea 150-758
Telephone: 822-769-7256

H&CB is a Korean commercial bank principally engaged in mortgage lending and retail banking. As of December 31, 2000, H&CB was the third largest bank in Korea in terms of total assets calculated under Korean GAAP, and was Korea's largest private sector mortgage lender during 2000. H&CB operates an extensive branch network which consisted of 546 domestic branches as of June 30, 2001 and provides a broad range of financial services, including retail, corporate and international banking services and capital markets activities. In addition, H&CB provides trust management services and manages the National Housing Fund, 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.

The Merger and New Kookmin **(see page 37)**

On April 23, 2001, Kookmin Bank and H&CB entered into a merger agreement pursuant to which the two banks agreed to merge by combining into a new corporation to be named "Kookmin Bank", which we refer to as "New Kookmin". New Kookmin has not yet been formed. At their respective extraordinary general meetings, the Kookmin Bank and H&CB stockholders will appoint six incorporators who will be responsible for forming New Kookmin as a new Korean corporation. In connection with the merger, New Kookmin will be formed and Kookmin Bank and H&CB will each be merged simultaneously into New Kookmin. New Kookmin will remain as the surviving bank, and its business will be the combined businesses currently conducted by Kookmin Bank and H&CB. The merger has been structured as a merger of the two banks into a new entity in order to ensure that the transaction is properly understood by the stockholders and customers of the two banks, as well as their employees, as a merger of equals rather than an absorption of one bank by the other.

Securityholders of Kookmin Bank will receive the following in the merger:

- Holders of Kookmin Bank common stock will receive one share of New Kookmin common stock for every 1.688346 shares of common stock they own; and
- Holders of Kookmin Bank global depositary shares will receive one New Kookmin American depositary share for every 1.688346 global depositary shares they own.

Securityholders of H&CB will receive the following in the merger:

- Holders of H&CB common stock will receive one share of New Kookmin common stock for every share of common stock they own; and
- Holders of H&CB American depositary shares will receive one New Kookmin American depositary share for every two American depositary shares they own.

New Kookmin will not issue any fractional shares of common stock or fractional American depositary shares in connection with the merger. Securityholders of Kookmin Bank and H&CB who are entitled to receive fractional shares of New Kookmin common stock or fractional New Kookmin American depositary shares in the merger will instead receive a cash payment in the amount of the net proceeds from the sale of such fractional shares or depositary shares in the market. Holders of Kookmin Bank global depositary shares or H&CB American depositary shares will be required to pay The Bank of New York, as depositary, a fee of up to $.05 per depositary share upon surrender of their depositary shares for exchange into New Kookmin American depositary shares.

Ownership of New Kookmin after the Merger

In connection with the merger, New Kookmin will issue approximately 179,812,925 shares of its common stock to Kookmin Bank common stockholders and approximately 119,968,809 shares of its common stock to H&CB common stockholders. As a result, former stockholders of Kookmin Bank will hold approximately 59.98%, in the aggregate, and former stockholders of H&CB will hold approximately 40.02%, in the aggregate, of the outstanding common stock of New Kookmin immediately after the merger. If outstanding convertible bonds of Kookmin Bank are fully converted into shares of Kookmin Bank common stock before the completion of the merger, former securityholders of Kookmin Bank would hold approximately 61.28%, in the aggregate, and former securityholders of H&CB would hold approximately 38.72%, in the aggregate, of New Kookmin after the merger is completed.

Dissent and Appraisal Rights (see page 43)

Under Korean law, holders of shares of Kookmin Bank common stock and holders of shares of H&CB common stock who oppose the merger may exercise an appraisal right and require us to purchase their shares if the merger is completed. However, holders of Kookmin Bank global depositary shares or H&CB American depositary shares opposing the merger will not have any appraisal rights. In order for stockholders to exercise such right, dissenting stockholders must submit to either Kookmin Bank or H&CB, as the case may be, written notice of their intention to dissent prior to the relevant bank's extraordinary general meeting, must not vote to approve the merger agreement at such meeting and, within ten days of such meeting, must request that their shares be repurchased.

If the merger is completed, we expect to pay ₩13,968 for each share of Kookmin Bank common stock and ₩22,441 for each share of H&CB common stock properly submitted to us for appraisal. If more than 30% of either bank's stockholders requesting appraisal reject the applicable appraisal price, the Korean Financial Supervisory Commission will review, and may adjust, the price to be paid in respect of such bank's shares. For a more complete description of the appraisal rights, see "The Merger—Dissent and Appraisal Rights".

The Extraordinary General Meetings (see page 32)

The Kookmin Bank extraordinary general meeting will be held at the main office building of the Korea Chamber of Commerce & Industry in Seoul, Korea on September 29, 2001, starting at 10:00 a.m., local time.

The H&CB extraordinary general meeting will be held at H&CB's headquarters in Seoul, Korea on September 29, 2001, starting at 10:00 a.m., local time.

The agenda for both meetings is the approval of the merger agreement (including the directors of New Kookmin), the appointment of the incorporators of New Kookmin, the determination of the maximum amount of compensation that can be paid by New Kookmin to its directors in each fiscal year, the approval of New Kookmin's internal regulations relating to severance pay for directors, and the conversion of outstanding stock options into corresponding options to purchase New Kookmin common stock. The agenda for the Kookmin Bank extraordinary general meeting will also include the ratification of the grant by Kookmin Bank of stock options that were granted to certain of its directors and officers in March 2000 and were subsequently invalidated by the Seoul Court of Appeals. See "Kookmin Bank—Compensation of Directors and Officers".

The approval of the merger agreement, the appointment of the incorporators of New Kookmin and the election of the directors of New Kookmin at each meeting will require a special resolution adopted by the affirmative vote of at least two-thirds of the shares of common stock present or represented at the meeting. The shares voting affirmatively on each such matter must also represent at least one-third of the total issued and outstanding shares of common stock of the relevant bank. Approval of the other items on the agenda for each meeting will require an ordinary resolution adopted by the affirmative vote of a majority of the shares of common stock present or represented at the meeting. The shares voting affirmatively on each such agenda item must also represent at least one-fourth of the total issued and outstanding shares of common stock of the relevant bank. Each share of common stock present or represented at the meeting will be entitled to one vote.

Interests of Directors and Executive Officers in the Merger **(see page 39)**

Some of the directors and executive officers of Kookmin Bank and H&CB may have interests in the merger that are different from, or in addition to, the interests of their bank's securityholders. 12 members of the board of directors and two executive officers of Kookmin Bank, and 15 members of the board of directors and one executive officer of H&CB, have been nominated to serve on New Kookmin's board of directors, which will be initially comprised of 30 individuals. In addition, we expect that the current executive officers of Kookmin Bank and of H&CB will be appointed as executive officers of New Kookmin. Jung Tae Kim, H&CB's Chairman, President and Chief Executive Officer, has been nominated to serve as the Chief Executive Officer of New Kookmin. As of August 8, 2001, the directors and executive officers of Kookmin Bank, together with their respective affiliates, beneficially owned approximately 0.81% of the outstanding shares of Kookmin Bank common stock. As of that date, the directors and executive officers of H&CB, together with their respective affiliates, beneficially owned approximately 0.06% of the outstanding shares of H&CB common stock.

Accounting Treatment **(see page 42)**

Under US GAAP, Kookmin Bank will be deemed the accounting acquiror of H&CB in the merger, and intends to account for the acquisition using the purchase method of accounting.

Income Tax Consequences of the Merger **(see page 282)**

Kookmin Bank Merger. Kookmin Bank has received an opinion from Simpson Thacher & Bartlett to the effect that, if the merger of Kookmin Bank into New Kookmin is completed as contemplated, the merger of Kookmin Bank into New Kookmin will qualify as a tax-free reorganization for U.S. federal income tax purposes, and that in general, holders of Kookmin Bank common stock or global depositary shares will not recognize any gain or loss on the exchange of their common stock and global depositary shares for New Kookmin common stock or American depositary shares in the merger, except to the extent they receive cash in lieu of fractional shares. This opinion is subject to certain assumptions and qualifications, as described under "Tax Considerations—Material U.S. Federal Income Tax Consequences of the Merger—Consequences of the Merger—Consequences to U.S. Holders of Kookmin Bank Common Stock and Global Depositary Shares".

H&CB Merger. H&CB has received an opinion from Cleary, Gottlieb, Steen & Hamilton to the effect that, if the merger of H&CB into New Kookmin is completed as contemplated and H&CB repurchases prior to the merger all of its preferred stock owned by the Korea Deposit Insurance Corporation, the merger of H&CB into New Kookmin will qualify as a tax-free reorganization for U.S. federal income tax purposes, and that in general, holders of H&CB common stock or American depositary shares will not recognize any gain or loss on the exchange of their common stock and American depositary shares for New Kookmin common stock or American depositary shares in the merger, except to the extent they receive cash in lieu of fractional shares. This opinion is subject to certain assumptions and qualifications, as described under "Tax Considerations—Material U.S. Federal Income Tax Consequences of the Merger—Consequences of the Merger—Consequences to U.S. Holders of H&CB Common Stock and American Depositary Shares".

H&CB intends to repurchase prior to the merger all of its preferred stock owned by the Korea Deposit Insurance Corporation. However, if H&CB does not repurchase prior to the merger all of its preferred stock owned by the Korea Deposit Insurance Corporation, then the merger of H&CB into New Kookmin will not constitute a tax-free reorganization. In this case, holders of H&CB common stock or American depositary shares will recognize taxable gain to the extent that the fair market value of the New Kookmin common stock or American depositary shares they receive in the merger (including any cash received in lieu of fractional shares) exceeds their tax basis in the H&CB common stock or American depositary shares they hold.

Opinion of UBS Warburg to the Board of Directors of H&CB (see page 50)

In connection with the proposed merger, the board of directors of H&CB received a written opinion, dated August 14, 2001, from UBS AG, acting through its business group UBS Warburg, to the effect that, as of that date and based on and subject to various assumptions, matters considered and limitations described in the opinion, the exchange ratio provided for in the merger was fair, from a financial point of view, to the holders of H&CB common stock. Representatives of H&CB advised UBS Warburg that the conversion ratio in the merger for each outstanding share of H&CB common stock was structured such that, as a result of the merger, each outstanding share of H&CB common stock would effectively be converted into the right to receive 1.688346 shares of Kookmin Bank common stock, in the form of one share of New Kookmin common stock. For purposes of UBS Warburg's analysis, the conversion ratio of 1.688346 is referred to as the exchange ratio.

The full text of UBS Warburg's written opinion is attached to this prospectus as Annex VII. We encourage you to read this opinion carefully in its entirety for a description of the assumptions made, matters considered and limitations on the review undertaken. **UBS Warburg's opinion is directed only to the fairness, from a financial point of view, of the exchange ratio provided for in the merger and does not address any other aspect of the merger or any related transaction. The opinion does not address H&CB's underlying business decision to effect the merger or constitute a recommendation to any holder of H&CB common stock as to how to vote with respect to any matters relating to the proposed merger.**

Conditions to the Completion of the Merger (see page 46)

Each of Kookmin Bank's and H&CB's obligation to complete the merger is subject to the satisfaction or waiver of specified conditions, including those listed below:

- we must obtain regulatory approvals and other consents from Korean governmental entities;
- we must have performed our respective covenants and other obligations in the merger agreement;
- our respective representations and warranties in the merger agreement must be true and correct as of the date of the merger; and
- New Kookmin's common stock and American depositary shares must have satisfied the listing requirements of, and be approved for trading on, the Korea Stock Exchange and the New York Stock Exchange, respectively.

Termination of the Merger Agreement (see page 47)

Kookmin Bank and H&CB can jointly agree to terminate the merger agreement at any time. Either bank may terminate the merger agreement if, among other things:

- any necessary governmental approval or consent in respect of the merger is not granted; or
- New Kookmin's common stock or American depositary shares have not satisfied the listing requirements of, or are otherwise not approved for trading on, the Korea Stock Exchange and the New York Stock Exchange, respectively, prior to December 31, 2001.

Creditor Protection Procedures (see page 40)

Under Korean law, Kookmin Bank and H&CB are required to implement creditor protection procedures in connection with the merger. After the merger agreement is approved at each bank's extraordinary general meeting, creditors of either bank that are opposed to the merger may require the relevant bank to perform its payment obligations to such creditors on an accelerated basis or provide collateral or property in trust to secure such payment.

Regulatory Matters (see page 42)

We are working to obtain all necessary regulatory approvals required under Korean and other laws and regulations. Kookmin Bank and H&CB submitted a report regarding the proposed merger to the Korean Financial Supervisory Commission and the Korea Stock Exchange on April 23, 2001, the date of execution of the merger agreement. We have also submitted an application for preliminary approval of the merger, pursuant to the Act on Structural Improvement of the Financial Industry of Korea, to the Financial Supervisory Commission on May 18, 2001. The requirement for us to file a business combination report to the Korean Fair Trade Commission has been waived. Kookmin Bank and H&CB have undertaken in the merger agreement to use their best efforts to obtain all necessary Korean or non-Korean approvals required to complete the merger.

Completion and Effectiveness of the Merger

We will complete the merger when all the conditions to completion of the merger are satisfied or waived in accordance with the merger agreement, including the approval of the merger agreement by the stockholders of Kookmin Bank and H&CB. The merger will become effective when we register the incorporation of New Kookmin and the dissolution of Kookmin Bank and H&CB with the commercial registry office of the Seoul District Court, pursuant to the applicable requirements of Korean law. We expect to complete the merger during the fourth quarter of 2001.

Stock Exchange Listings

It is expected that New Kookmin will apply to list the New Kookmin common stock on the Korea Stock Exchange and to list the New Kookmin American depositary shares on the New York Stock Exchange. It is expected that the listing of the New Kookmin common stock on the Korea Stock Exchange will not occur until approximately three weeks after the merger is completed. Securityholders will not be able to trade their shares of New Kookmin common stock until such listing occurs.

Summary Market Price Information

Shares of Kookmin Bank and H&CB common stock are traded on the Korea Stock Exchange. Kookmin Bank global depositary shares are traded on the London Stock Exchange and H&CB American depositary shares are traded on the New York Stock Exchange. The table below lists the closing prices of Kookmin Bank's and H&CB's common stock and depositary shares, and the respective equivalent values of Kookmin Bank's and H&CB's common stock and depositary shares based upon the merger ratio, on

December 21, 2000, the last trading day before the public announcement of the proposed merger, and on September 7, 2001:

	December 21, 2000	September 7, 2001
Kookmin Bank common stock	₩15,200	₩17,900
H&CB common stock	28,700	30,100
Pro forma equivalent per share value of Kookmin Bank common stock(1)	16,999	17,828
Pro forma equivalent per share value of H&CB common stock(2)	25,663	30,221
Kookmin Bank global depositary share	US$ 12.38	US$ 13.50
H&CB American depositary share	11.31	11.55
Pro forma equivalent per share value of Kookmin Bank global depositary share(3)	13.40	13.68
Pro forma equivalent per share value of H&CB American depositary share(4)	10.45	11.40

(1) Calculated by dividing the H&CB common stock closing price by 1.688346.

(2) Calculated by multiplying the Kookmin Bank common stock closing price by 1.688346.

(3) Calculated by dividing the H&CB American depositary share closing price by 1.688346, then multiplying such amount by 2 to reflect the fact that each H&CB American depositary share represents one-half of one share of H&CB common stock.

(4) Calculated by multiplying the Kookmin Bank global depositary share closing price by 1.688346, then dividing such amount by 2 to reflect the fact that each H&CB American depositary share represents one-half of one share of H&CB common stock.

Summary Historical and Pro Forma Per Share Data

We present below per common share data on a US GAAP basis regarding the income, cash dividends declared and book value of Kookmin Bank and H&CB on both historical and unaudited pro forma combined bases and on a per share equivalent pro forma basis for Kookmin Bank based on the merger ratio. We have derived the unaudited pro forma combined information appearing below from the unaudited pro forma combined condensed financial statements presented elsewhere in this prospectus.

You should read the information below in conjunction with the historical and pro forma combined financial statements and accompanying notes of Kookmin Bank and H&CB included elsewhere in this prospectus. The unaudited pro forma data appearing below is for illustrative purposes only. The banks may have performed differently had they always been a combined entity. You should not rely on this information as being indicative of the actual results that the combined bank will experience after the merger.

	Year Ended December 31, 2000				
	Kookmin Bank (Historical)	H&CB (Historical)	New Kookmin (Pro Forma)		Kookmin Bank Per Share Equivalent (Pro Forma)[1]
	₩	₩	₩	US$	₩
Earnings per share					
Basic	3,096	4,218	4,490	3.55	2,659
Diluted	2,641	3,569	3,682	2.91	2,181
Dividends per share	50	150	—[2]	—[2]	—[2]
Book value per share	12,500	19,638	22,337	17.66	13,230

(1) The Kookmin Bank per share equivalent pro forma data are calculated by dividing the New Kookmin per share amounts by 1.688346. This information is presented to reflect the fact that Kookmin Bank stockholders will exchange more than one share of Kookmin Bank common stock for each share of New Kookmin common stock received in the merger. The H&CB per share equivalents remain unchanged, as the exchange ratio to New Kookmin common stock is one-to-one.

(2) New Kookmin intends to pay dividends in the future, but a dividend policy has not yet been established.

Questions About the Merger

If you have any questions about the merger or the voting procedures in connection with the extraordinary general meeting of Kookmin Bank or H&CB, you may contact:

- if you are a holder of Kookmin Bank common stock:

  Kookmin Bank
  Investor Relations
  9-1, 2-ga, Namdaemoon-ro, Jung-gu
  Seoul 100-703, Korea
  Telephone: 822-317-2161
  Facsimile: 822-317-2885
  e-mail: shkim@kookminbank.com

- if you are a holder of H&CB common stock:

  H&CB
  Investor Relations Team
  36-3 Yoido-dong, Youngdeungpo-gu
  Seoul 150-758, Korea
  Telephone: 822-769-7256
  Facsimile: 822-782-8058
  e-mail: hcbir@hcb.co.kr

- if you are a holder of Kookmin Bank global depositary shares or H&CB American depositary shares:

  The Bank of New York
  Depositary Receipts Division
  101 Barclay Street, 22nd Floor
  New York, NY 10286
  Telephone: (212) 815-2345
  Facsimile: (212) 571-3050

RISK FACTORS

You should carefully consider the following risk factors as well as the other information contained in this prospectus in deciding whether to vote in favor of the merger.

Risks relating to the merger

The merger ratios are fixed and will not reflect market fluctuations; as a result, the value of the New Kookmin common stock or American depositary shares you receive in the merger may be less than when you vote.

Upon completion of the merger, all shares of Kookmin Bank and H&CB common stock will be converted into shares of New Kookmin common stock, and all Kookmin Bank global depositary shares and H&CB American depositary shares will be converted into New Kookmin American depositary shares. The ratios at which each bank's common stock and depositary shares will be converted are fixed, and there will be no adjustment for changes in the market prices of either bank's common stock or depositary shares. Any change in the prices of either bank's common stock or depositary shares occurring prior to the effective date of the merger will affect the value that the holders of shares of Kookmin Bank and H&CB common stock, Kookmin Bank global depositary shares and H&CB American depositary shares will receive in the merger. The value of the New Kookmin common stock or New Kookmin American depositary shares received in the merger may be higher or lower than the value calculated as of the date of the extraordinary general meeting of stockholders of each bank, depending on whether the market price of Kookmin Bank common stock or global depositary shares, or H&CB common stock or American depositary shares, goes up or down. Stock price changes may result from a variety of factors that are beyond our control, including changes in our businesses, operations and prospects, regulatory considerations and general market and economic conditions. Neither bank is permitted to "walk away" from the merger or resolicit the vote of its stockholders solely because of changes in the market prices of either bank's common stock or depositary shares.

If you are a holder of Kookmin Bank global depositary shares or H&CB American depositary shares, you will not have any dissent and appraisal rights in respect of the merger.

Under Korean law, holders of shares of Kookmin Bank common stock and holders of shares of H&CB common stock who oppose the merger may exercise an appraisal right and require us to purchase their shares if the merger is completed. See "The Merger—Dissent and Appraisal Rights". However, if you are a holder of Kookmin Bank global depositary shares or a holder of H&CB American depositary shares, you will not have any appraisal rights in respect of the merger even if you oppose it.

New Kookmin may fail to realize the anticipated benefits of the merger.

The success of the merger will depend, in part, on the ability of New Kookmin to realize the anticipated synergies, growth opportunities and cost savings from combining the businesses of Kookmin Bank and H&CB. The realization of these anticipated benefits of the merger may be blocked, delayed or reduced as a result of numerous factors, some of which will be outside our control. These factors include:

- difficulties in integrating the existing operations of Kookmin Bank and H&CB, including personnel, policies and procedures, overlapping branch and subsidiary networks, information systems and management and administrative functions;
- unforeseen contingent risks or latent liabilities relating to the merged entity that may only become apparent after the merger is completed;
- difficulties in managing a much larger business;
- loss of key personnel; and
- labor unrest.

Accordingly, we cannot assure you that New Kookmin will realize the anticipated benefits of the merger or that the merger will not harm the combined business, financial condition and results of operations of the two banks.

In particular, since Kookmin Bank and H&CB have operated and will continue to operate independently until the completion of the merger, the integration of the operations of the two banks is likely to require significant amounts of time, financial resources and management attention. To realize the anticipated benefits of the merger, New Kookmin's management must implement a business plan that will effectively combine operations that are diverse in terms of management, compensation and business culture, as well as in terms of some of the products and services they offer and the customers they serve. If New Kookmin's management is not able to implement a business plan that effectively integrates the operations of Kookmin Bank and H&CB, New Kookmin may not realize the anticipated benefits of the merger. Moreover, the integration process could result in the disruption of New Kookmin's ongoing businesses and information systems, or inconsistencies in standards, controls, procedures and policies and a reduction in employee morale, each of which may adversely affect New Kookmin's ability to maintain relationships with customers and to retain key personnel.

Labor unrest by the labor unions for Kookmin Bank and H&CB may disrupt the merger process and operations of New Kookmin which may hinder New Kookmin's ability to realize the benefits of the merger.

Kookmin Bank and H&CB each experienced a period of labor unrest in connection with the announcement of their proposed merger. See "—Risks Relating to Korea—Labor unrest may adversely affect New Kookmin's operations". The Korea Financial Industry Union, which represents a majority of the banks' combined workforce, has opposed the merger and any reductions in overlapping personnel that may result from combining the two banks' businesses. On August 2, 2001, the representatives of Kookmin Bank's labor union adopted a resolution to commence acts of labor dispute and the members of the labor union voted to oppose the appointment of Mr. Jung Tae Kim, the current Chief Executive Officer of H&CB, as the chief executive officer of New Kookmin. On August 17, 2001, Kookmin Bank's labor union filed a motion with the Seoul District Court seeking a preliminary injunction to prevent Mr. Jung Tae Kim from acting as the appointed chief executive officer of New Kookmin. The labor union alleged that the process for selecting the nominee for the chief executive officer of New Kookmin was in violation of the Bank Act. According to the motion, Kookmin Bank's labor union is contemplating filing a lawsuit to nullify the appointment of Mr. Kim as the chief executive officer of New Kookmin. The first hearing on the motion was held on September 6, 2001 and the next hearing is scheduled for September 20, 2001. In addition, on September 8, 2001, Kookmin Bank's labor union announced that it had filed a lawsuit to nullify the merger agreement.

The labor union of Kookmin Bank and/or H&CB may continue to oppose the merger, particularly in respect of the nominees for the board of directors of New Kookmin, and may continue to engage in acts of labor dispute. In addition, New Kookmin may face continued labor unrest after the merger is completed. The threat of labor unrest or actual labor unrest may hinder New Kookmin's ability to realize cost savings in connection with the merger, and any significant labor action by New Kookmin's workforce could seriously disrupt its operations.

The merger may result in significant adverse Korean tax consequences to New Kookmin.

Kookmin Bank and H&CB are currently in negotiations with officials of the Korean Ministry of Finance and Economy regarding the potential tax effects that the merger will have under Korean law on New Kookmin, as the successor entity of the two banks. Because these negotiations have not been concluded, the pro forma balance sheet giving effect to the merger, included elsewhere in this prospectus, has been prepared based on the assumption that the deferred tax assets of both Kookmin Bank and H&CB will be succeeded to by New Kookmin. In the event that these negotiations are concluded adversely to Kookmin Bank and H&CB, New Kookmin may lose deferred tax assets and benefits in the aggregate amount of approximately ₩200 billion currently held by Kookmin Bank and H&CB. Consequently, the merger may result in significant adverse Korean tax consequences to New Kookmin, which in turn may harm its financial condition and results of operations.

The exercise of appraisal rights in respect of a significant number of shares of Kookmin Bank or H&CB common stock, or the exercise of creditor protection rights in respect of a significant amount of debt of either bank, could increase the costs of the merger, reduce the capital of New Kookmin and hurt its financial condition.

Under Korean law, stockholders of Kookmin Bank or H&CB who oppose the merger may exercise an appraisal right and require us to purchase their shares if the merger is completed. We expect to pay ₩13,968 for each share of Kookmin Bank common stock and ₩22,441 for each share of H&CB common stock properly submitted to us for appraisal. If stockholders exercise appraisal rights in respect of a significant number of shares of Kookmin Bank or H&CB common stock, we will be required to expend a significant amount of funds to purchase such shares, which will reduce our capital and hurt our financial condition.

Under Korean law, Kookmin Bank and H&CB are required to implement creditor protection procedures in connection with the merger. Under these procedures, creditors of either bank that are opposed to the merger may require the relevant bank to perform its payment obligations to such creditors on an accelerated basis or provide collateral or property in trust to secure such payment obligations. If creditors exercise these rights in respect of a significant amount of payment obligations of Kookmin Bank or H&CB, we will be required to expend a significant amount of funds for payments or encumber a significant amount of our assets, which will adversely affect our financial condition.

If H&CB does not repurchase its preferred stock from the Korea Deposit Insurance Corporation prior to the merger, U.S. holders of H&CB common stock or American depositary shares may recognize taxable gain in respect of the merger.

We expect that the merger of H&CB into New Kookmin will constitute a tax-free reorganization for U.S. federal income tax purposes. See "Tax Considerations—Material U.S. Federal Income Tax Consequences of the Merger". However, if H&CB does not repurchase prior to the merger all of the 17,790,000 shares of its preferred stock owned by the Korea Deposit Insurance Corporation, then the merger of H&CB into New Kookmin will not constitute a tax-free reorganization. In this case, holders of H&CB common stock or American depositary shares will recognize taxable gain to the extent that the fair market value of the New Kookmin common stock or American depositary shares they receive in the merger (including any cash they receive in lieu of fractional shares) exceeds their tax basis in the H&CB common stock or American depositary shares they hold. While H&CB intends to repurchase prior to the merger all of its preferred stock owned by the Korea Deposit Insurance Corporation, we cannot assure you that H&CB will be able to do so.

Directors and officers of Kookmin Bank and H&CB may have potential conflicts of interest in supporting the merger.

Some of the directors and executive officers of Kookmin Bank and H&CB may have interests in the merger that are different from, or in addition to, your interests. 12 members of the board of directors and two executive officers of Kookmin Bank, and 15 members of the board of directors and one executive officer of H&CB, have been nominated to serve on New Kookmin's board of directors, which will be initially comprised of 30 individuals. In addition, we expect that the current executive officers of Kookmin Bank and of H&CB will be appointed as executive officers of New Kookmin. Jung Tae Kim, H&CB's Chairman, President and Chief Executive Officer, has been nominated to serve as the Chief Executive Officer of New Kookmin. As of August 8, 2001, the directors and executive officers of Kookmin Bank, together with their respective affiliates, beneficially owned approximately 0.81% of the outstanding shares of Kookmin Bank common stock. As of that date, the directors and executive officers of H&CB, together with their respective affiliates, beneficially owned approximately 0.06% of the outstanding shares of H&CB common stock.

The possibility of receiving compensation or other benefits in or following the merger may have influenced these directors and officers in their support of the merger. See "The Merger—Interests of Certain Kookmin Bank Directors and Executive Officers in the Merger" and "—Interests of Certain H&CB Directors and Executive Officers in the Merger".

The merger is subject to various conditions and may not be completed as scheduled or at all.

Under the merger agreement, the obligation of Kookmin Bank and H&CB to complete the merger is subject to a number of specified conditions, including the obtaining or satisfaction of all regulatory approvals, permits, consents and requirements necessary for the consummation of the merger. Regulatory authorities in Korea or elsewhere may seek to block or delay the merger or may impose conditions that reduce the anticipated benefits of the merger or make it difficult to complete as planned. In addition, the two banks have the right to terminate the merger agreement at any time prior to the completion of the merger, upon mutual written consent. Either bank may also terminate the merger agreement upon a continuing breach of the agreement by the other bank that has a material adverse effect on either bank or the ability of either bank to perform its obligations under the agreement. Accordingly, even if the merger agreement is approved at the extraordinary general meetings of stockholders of Kookmin Bank and H&CB, we cannot assure you that the merger will be completed as scheduled or at all.

Risks relating to the combined business of Kookmin Bank and H&CB

Kookmin Bank and H&CB have exposure to the largest Korean commercial conglomerates known as "chaebols" and, as a result, recent and any future financial difficulties of chaebols may have an adverse impact on us.

As a result of the unfavorable financial and economic conditions in Korea, a number of chaebols have experienced financial difficulties. Of Kookmin Bank's 20 largest corporate exposures as of December 31, 2000, 10 are companies that are members of the 30 largest chaebols in Korea. As of that date, the total amount of Kookmin Bank's exposures to the 30 largest chaebols was ₩8,532 billion or 10.4% of Kookmin Bank's total exposures, of which ₩1,679 billion or 2.0% were classified as substandard or below. Similarly, of H&CB's ten largest corporate exposures as of December 31, 2000, seven are companies that are members of the 30 largest chaebols in Korea. As of that date, the total amount of H&CB's exposures to the 30 largest chaebols was ₩1,356 billion or 2.2% of H&CB's total exposures, of which ₩326 billion or 0.5% were classified as substandard or below. If the quality of the exposures extended by either bank to chaebols declines, New Kookmin would require substantial additional allowances, which would adversely affect New Kookmin's results of operations, financial condition and capital adequacy.

In addition, 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 a significant focus of both Kookmin Bank's and H&CB's corporate banking activities, have close business relationships with chaebols, primarily as suppliers. Any difficulties encountered by chaebols would likely have an adverse impact on the financial conditions of small- and medium-sized enterprises with which New Kookmin will do business, which in turn could have an adverse effect on New Kookmin's business.

Korean companies may experience difficulty in repaying corporate debt securities as they mature, which may adversely affect New Kookmin.

Primarily due to the Korean financial and economic crisis starting from late 1997, Korean companies increased the issuance of corporate debt securities to resolve liquidity problems. As a result, Korean companies may be faced with liquidity difficulties in 2001 when these corporate debt securities mature. According to the Financial Supervisory Service of Korea, the amount of corporate debt securities maturing in 2001 for Korean companies is estimated to be approximately ₩65 trillion. Excluding the exposures to

(1) companies under workouts, corporate reorganizations or compositions to which alternative relief and remedies, as supervised by the creditors and/or the courts, are available, and (2) companies whose debt securities have domestic credit ratings of A or above, which the Korean government believes will not experience difficulties in rolling over their debt securities, the estimated exposure was ₩25 trillion. In addition, the current corporate debt securities market is not as liquid as it used to be. Any difficulties experienced by Korean issuers during the second half of 2001 or at any future time in repaying maturing debt securities could result in increased defaults and, accordingly, may have a material impact on New Kookmin's financial condition or results of operations.

Competition in the Korean banking industry is intense, and New Kookmin may experience declining margins on its business as a result.

Kookmin Bank and H&CB compete principally with other financial institutions in Korea, including Korean banks and branches of foreign banks operating in Korea. In the retail and small- and medium-sized enterprise lending business, which has been the traditional core business of both Kookmin Bank and H&CB and which New Kookmin is expected to target for increased growth, competition has increased significantly. In light of recent adverse economic and financial developments in Korea, many Korean banks are increasingly targeting retail customers and small- and medium-sized enterprises as they scale back their exposure to large corporate lending. The resulting intense competition may make it more difficult for New Kookmin to secure retail and small- and medium-sized customers with the credit quality and credit terms necessary to achieve its business objectives in a commercially acceptable manner.

In addition, general regulatory reforms in the Korean banking industry have increased competition among banks. 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 Kookmin Bank and H&CB, have entered, and may continue to enter, the Korean market either by themselves or in partnership with existing Korean financial institutions and compete with New Kookmin 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, and we expect that this merger activity will continue. Some of the banks resulting from these other mergers may be significantly larger and may have more financial resources than New Kookmin.

We cannot guarantee that New Kookmin 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 its lending margins, financial condition or operating results. In addition, we cannot assure you that New Kookmin will be able to generate sufficient fee and other income to offset declining margins in its banking business.

Competition in the credit card business is intense and as a result the profitability of New Kookmin's credit card business may decline in the future.

We expect the credit card market to expand as a result of, among other things, various government incentives to promote use of credit cards, including tax deductions for amounts spent using credit cards. Competition in the credit card business has become more intense as existing credit card companies have engaged in aggressive marketing campaigns and made significant investments. We expect that more companies, including those that are member companies of chaebols and foreign companies, will enter this market. Accordingly, we cannot assure you that the profitability of New Kookmin's credit card business will not decline in the future.

New Kookmin may not generate sufficient new fees to achieve its revenue diversification strategy.

An important part of New Kookmin's strategy will be to increase its fee income in order to diversify its revenue base, in anticipation of greater competition and declining lending margins. To date, except for credit card and trust management fees, Kookmin Bank and H&CB have not generated significant fee revenues. Generation of such revenues will require New Kookmin to successfully create and market new products and services. Its failure to do so would adversely affect its future results of operations.

Internet banking may not continue to grow or may grow slower than expected in Korea, which would inhibit the growth of New Kookmin's Internet banking business.

One of the important strategies of both Kookmin Bank and H&CB has been to increase their respective 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 its Internet services, New Kookmin will have to persuade its customers to conduct banking and financial transactions through the Internet. If Internet banking does not continue to grow or grows more slowly than expected, New Kookmin will not be able to meet its projected earnings and growth strategy related to its Internet banking business.

Kookmin Bank and H&CB are highly dependent on short-term funding deposits, which dependence may adversely affect New Kookmin's operations.

A significant amount of the funding requirements of Kookmin Bank and H&CB are met through short-term funding sources, which consist primarily of customer deposits. As of December 31, 2000, approximately 90.3% of Kookmin Bank's deposits and approximately 86.2% of H&CB's deposits had maturities of one year or less or were payable on demand. In the past, a substantial proportion of Kookmin Bank's and H&CB's 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, New Kookmin's liquidity position could be adversely affected, and New Kookmin may be required to seek more expensive sources of short-term and long-term funds to finance its operations.

New Kookmin may be required to raise additional capital to maintain its capital adequacy ratios, which it may not be able to do on favorable terms or at all.

Pursuant to Korean bank regulations, Kookmin Bank and H&CB are, and New Kookmin will be, required to maintain a minimum Tier I and Tier II capital adequacy ratio of 8.0%, of which a minimum of 4.0% must be Tier I capital. Capital adequacy ratios are calculated in accordance with the requirements of the Korean Financial Supervisory Service using a bank's consolidated Korean GAAP financial statements. As of December 31, 2000, Kookmin Bank's Tier I capital adequacy ratio was 6.82% and its combined Tier I and Tier II capital adequacy ratio was 11.18%, and H&CB's Tier I capital adequacy ratio was 5.48% and its combined Tier I and Tier II capital adequacy ratio was 9.92%. We estimate that after giving effect to the merger of Kookmin Bank and H&CB, New Kookmin's pro forma Tier I and Tier II capital adequacy ratio as of December 31, 2000 would have been approximately 10.67%. Kookmin Bank and H&CB intend to repurchase all of the 24,000,000 shares of Kookmin Bank preferred stock and the 17,790,000 shares of H&CB preferred stock, respectively, owned by the Korea Deposit Insurance Corporation, prior to the merger. If the repurchased shares are cancelled, any such repurchase will have the effect of reducing New Kookmin's regulatory capital base and its capital adequacy ratios. In addition, New Kookmin's capital base and its capital adequacy ratios may decrease in the event that New Kookmin is not able to adequately deploy the funds that its customers deposit with it because its deposit base increases rapidly or its results of operations or financial condition deteriorates. Accordingly, New Kookmin may be required to obtain additional capital in the future in order to maintain its capital adequacy ratios above the minimum required levels. If New Kookmin requires additional capital in the future, we cannot guarantee that it will be able to obtain such capital on favorable terms, or at all. In addition, New Kookmin's 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. Depending on the terms and amount of any additional capital obtained, holders of New Kookmin common stock or American depositary shares may experience a significant dilution of their interest.

New Kookmin may be required to make transfers from its general banking operations to cover shortfalls in its guaranteed trust accounts, which could have a material adverse effect on New Kookmin's results of operations.

Kookmin Bank and H&CB manage a number of monetary trust accounts. Under Korean law, trust account assets of each bank are segregated from the assets of the bank's general banking operations and are not available to satisfy the claims of its depositors or other creditors of its general banking operations. For some of these trusts, Kookmin Bank and H&CB guarantee the principal amount of the investor's investment and, in certain cases, they also guarantee a fixed rate of interest. Since January 1999, new legislation prevents either bank from offering new trust accounts for which it guarantees both the principal amount of the investment and a fixed rate of return. However, we expect that New Kookmin, like Kookmin Bank and H&CB, will continue to offer trust accounts which provide only a principal guarantee. If, at any time, the income from New Kookmin's guaranteed trust accounts is not sufficient to pay the guaranteed amount, New Kookmin will have to satisfy the shortfall first from the reserves maintained in New Kookmin's trust accounts, then from its fees from the relevant trust accounts, and finally from funds transferred from New Kookmin's general banking operations. Transfers from Kookmin Bank's general banking operations to cover deficiencies in its guaranteed trust accounts amounted to ₩41 billion in 1999 and ₩158 billion in 2000. Transfers from H&CB's general banking operations to cover deficiencies in its guaranteed trust accounts amounted to ₩206 billion in 1998 and ₩85 billion in 2000. In addition, H&CB paid ₩53 billion in 1999 and ₩10 billion in 2000 for reimbursement of trust losses incurred primarily as a result of holdings in member companies of the former Daewoo Group. New Kookmin may be required to make transfers from its general banking operations to cover shortfalls in its guaranteed trust accounts in the future. Such transfers may adversely impact the results of operations of New Kookmin.

Risks relating to Kookmin Bank's business

Recent economic and financial difficulties in Korea and the financial difficulties of Korean companies have had and may continue to have an adverse impact on the asset quality of Kookmin Bank's loan portfolio.

Korea has experienced unfavorable financial and economic conditions since the middle of 1997. These conditions resulted in a general increase in the level of Kookmin Bank's non-performing loans in 1998. The ratio of Kookmin Bank's non-performing loans to its total loans was 8.2% as of December 31, 1998, 4.7% as of December 31, 1999, and 3.0% as of December 31, 2000. The level of Kookmin Bank's non-performing loans would have been higher as of such dates except that it sold primarily substandard or below loans to the Korea Asset Management Corporation in connection with a government program to assist the Korean banking industry. In December 1997, Kookmin Bank sold an aggregate of ₩234 billion (₩199 billion as of December 31, 2000 after adjustment for cancellation of sales of such loans and Kookmin Bank's repurchase of such loans) of loans from its banking operations to the Korea Asset Management Corporation, and Korea Long Term Credit Bank (which merged into Kookmin Bank in December 1998) sold an aggregate of ₩106 billion (₩17 billion as of December 31, 2000 after adjustment for cancellation and repurchase) of loans from banking operations to the Korea Asset Management Corporation. In September 1998, Kookmin Bank sold an aggregate of ₩756 billion (₩663 billion as of December 31, 2000 after adjustment for cancellation and repurchase) of loans from its banking operations to the Korea Asset Management Corporation, and Korea Long Term Credit Bank sold an aggregate of ₩220 billion (₩87 billion as of December 31, 2000 after adjustment for cancellation and repurchase) of loans from its banking operations to the Korea Asset Management Corporation. In addition, in 1999 and 2000, Kookmin Bank sold an aggregate of ₩48 billion and ₩41 billion, respectively, of substandard or below loans from its banking operations to a purchaser other than the Korea Asset Management Corporation. In October 2001, Kookmin Bank plans to sell an aggregate of ₩440 billion of substandard or below loans from our banking and/or trust account operations to a purchaser.

Any worsening of the Korean economy could lead to an increase in the non-performing loans of New Kookmin, which increase may have a material adverse effect on its financial condition, results of operations and capital adequacy and the price of the New Kookmin common stock and American depositary shares. See "—Risks relating to Korea".

Kookmin Bank has significant exposure to a number of former Hyundai Group companies that have been experiencing financial difficulties, which, if not satisfactorily resolved, may have a material adverse effect on New Kookmin.

Recently, a number of former Hyundai Group companies, one of the largest chaebols in Korea, have been experiencing financial difficulties as a result of, among other things, their liquidity positions. These companies include Hyundai Engineering & Construction, Hynix Semiconductor (formerly known as Hyundai Electronics), Hyundai Petrochemical and Hyundai Merchant Marine.

As of December 31, 2000, Kookmin Bank had outstanding exposure of ₩112 billion to Hyundai Engineering & Construction, ₩423 billion to Hynix, ₩128 billion to Hyundai Petrochemical and ₩258 billion to Hyundai Merchant Marine. As of the same date, the exposure to these companies represented 0.1%, 0.5%, 0.2% and 0.3% of Kookmin Bank's total exposure, respectively. As of the same date, Kookmin Bank had outstanding exposure to companies that comprised the Hyundai Group (including Hyundai Engineering & Construction, Hynix, Hyundai Petrochemical and Hyundai Merchant Marine) of ₩1,621 billion, which represented approximately 2.0% of Kookmin Bank's total exposure. For a detailed breakdown of Kookmin Bank's outstanding exposure as of December 31, 2000 to the companies that comprised the Hyundai Group, see "Kookmin Bank—Assets and Liabilities—Loan Concentrations—Exposure to Chaebols".

As of December 31, 2000, Kookmin Bank made allowance for 18.3% of its loan exposure to certain companies that comprised the Hyundai Group and such allowance amounted to ₩151 billion. These included allowance for loan exposure to Hyundai Construction & Engineering, Hynix, Hyundai Petrochemical and Hyundai Merchant Marine, amounting to allowances of ₩40 billion, ₩74 billion, ₩10 billion and ₩27 billion, respectively. However, we cannot assure you that this amount of loan loss allowance will be sufficient to cover all future losses arising from Kookmin Bank's exposure to the former Hyundai Group companies or Hyundai Construction & Engineering, Hynix, Hyundai Petrochemical or Hyundai Merchant Marine in particular. Approximately 69.6%, 87.5%, 100.0% and 96.1% of Kookmin Bank's exposure to Hyundai Construction & Engineering, Hynix, Hundai Petrochemical and Hyundai Merchant Marine were classified as substandard or below as of December 31, 2000.

Kookmin Bank has significant exposure to the former Daewoo Group companies whose principal creditors have commenced formal workout proceedings. If the creditors do not satisfactorily restructure these companies, such significant exposure may have an adverse effect on New Kookmin.

As of December 31, 2000, Kookmin Bank's loans and guarantees to companies of the former Daewoo Group, which was one of the largest chaebols in Korea, totaled approximately ₩501 billion, which represented approximately 0.8% of Kookmin Bank's total loans and guarantees. As of December 31, 2000, approximately 97.8% of Kookmin Bank's loans and guarantees to such companies were classified as substandard or below. As of December 31, 2000, Kookmin Bank made allowance for 66.5% of such loans and guarantees to former Daewoo Group companies and such allowance amounted to ₩333 billion.

The financial condition of the former 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 companies of the Daewoo Group, including Daewoo Corporation, Daewoo Motors, Daewoo Electronics, Daewoo Heavy Industries, Daewoo Telecom and Ssangyong Motors. Currently, these companies either are subject to liquidation proceedings or have been liquidated, are under workouts or reorganization proceedings, have been split up into more than one company or are looking for purchasers. There is no guarantee that these procedures will result in the successful implementation of workout plans for the companies of the former Daewoo Group to which Kookmin Bank has exposure or that New Kookmin will be able to make any recoveries in respect of Kookmin Bank's total exposures to those companies.

Kookmin Bank has a large portfolio of fixed rate debt securities issued by the Korean government and government agencies, Korean corporations and financial institutions. As a result, New Kookmin will be exposed to interest rate volatility which may affect the price of such debt securities and adversely impact its financial condition and results of operations.

As of December 31, 2000, Kookmin Bank held bonds issued by the Korean government and government agencies, corporate bonds issued by Korean companies and bonds issued by Korean financial institutions, which were classified as trading securities, in the aggregate value of ₩2,444 billion. Securities are classified as trading securities when they are held in anticipation of short-term market movements for the purpose of selling them in the near future. Trading securities are reported at fair value with unrealized gains and losses being recorded in income.

As of December 31, 2000, Kookmin Bank held bonds issued by the Korean government and government agencies, corporate bonds issued by Korean companies and bonds issued by Korean financial institutions, which were classified as available for sale securities, in the aggregate value of ₩6,355 billion. Securities are classified as available for sale securities when management intends to hold them for an indefinite period of time or when the securities may be used in connection with the asset/liability management process to, among other things, manage interest rate exposure. These securities are reported at fair value with unrealized gains and losses being recorded in other comprehensive income within stockholders' equity. Declines in the fair value of available for sale securities below their cost that are not temporary result in write-downs of the securities to their fair value and the write-down amount is included in earnings as realized losses.

Recently, interest rates in Korea have declined considerably. If, in the future, interest rates increase, the value of New Kookmin's debt securities will decline and New Kookmin's financial condition, results of operations and capital adequacy may be adversely affected as a result.

The value of debt securities held by Kookmin Bank has experienced and may continue to experience volatility.

As of December 31, 2000, Kookmin Bank held corporate bonds issued by Korean companies (other than Korea Electric Power Corporation, which is controlled by the Korean government and whose majority equity interest is owned by the government) with a total book value of ₩1,741 billion in its trading and investment portfolio. In addition, as of the same date, Kookmin Bank held bonds issued by Korean financial institutions (other than the Bank of Korea, and The Korea Development Bank and the Industrial Bank of Korea, which are controlled by the Korean government and whose majority equity interest is owned by the government) with a total book value of ₩2,166 billion in its trading and investment portfolio. We cannot assure you that the 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 New Kookmin.

Kookmin Bank's current allowances for losses relating to its loans and guarantees to leasing companies, companies under restructuring programs and construction companies may not be sufficient to cover all future related losses.

As of December 31, 2000, Kookmin Bank had loans and guarantees outstanding to leasing companies in the amount of ₩698 billion or 1.1% of its total loans and guarantees. Of this amount, ₩532 billion was classified as substandard or lower. As of December 31, 2000, Kookmin Bank's allowance for loans and guarantees to leasing companies was ₩170 billion or 24.4% of such loans and guarantees. As a result of recent financial difficulties and restructurings experienced by leasing companies, we cannot assure you that this amount will be sufficient to cover all future losses arising from Kookmin Bank's exposure to leasing companies.

As of December 31, 2000, ₩2,691 billion or 4.3% of Kookmin Bank's total loans and guarantees were in the process of being restructured. As of December 31, 2000, Kookmin Bank's loan loss allowance for its total loans and guarantees to companies under restructuring programs amounted to ₩1,057 billion or

39.3% of its total loans and guarantees to these companies. We cannot assure you that this loan loss allowance will be sufficient to cover all future losses relating to Kookmin Bank's exposure to companies under restructuring programs.

As of December 31, 2000, ₩2,168 billion or 3.5% of Kookmin Bank's total loans and guarantees were extended to construction companies. As of the same date, Kookmin Bank's allowance for loans and guarantees to construction companies was ₩174 billion or 8.0% of such loans and guarantees. Due to recent financial difficulties experienced by construction companies, we cannot assure you that this amount of allowance will be sufficient to cover all future losses arising from Kookmin Bank's exposure to construction companies.

Risks relating to H&CB's business

H&CB now faces full competition in its core mortgage business, which may result in a further decrease of its market share and adversely affect New Kookmin's margins.

Until 1997, by law, H&CB was the only financial institution in Korea that could offer a full range of mortgage products. Among other things it 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 it 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 H&CB's margins. We cannot guarantee that New Kookmin will be able to maintain its market share or margins with respect to mortgage lending at the current levels maintained by H&CB, in the face of increased competition. Any decrease in such market share or margins may adversely affect New Kookmin's 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 H&CB's loan portfolio.

Korea experienced unfavorable financial and economic conditions since the middle of 1997, which resulted in a general increase in the level of H&CB's non-performing loans. The ratio of H&CB's non-performing loans to its total loans was 7.5% as of December 31, 1997, 10.0% as of December 31, 1998, 7.6% as of December 31, 1999 and 4.6% as of December 31, 2000. The level of H&CB's non-performing loans would have been higher as of December 31, 1997, December 31, 1998 and December 31, 1999 except that it sold substandard or below loans to the Korea Asset Management Corporation in connection with a government program to assist the Korean banking industry. In 1997, 1998 and 1999, respectively, H&CB sold an aggregate of ₩34 billion, ₩299 billion and ₩8 billion of substandard or below loans to the Korea Asset Management Corporation. H&CB did not sell any substandard or below loans to the Korea Asset Management Corporation in 2000.

Any deterioration of the Korean economy could lead to an increase in the non-performing loans of New Kookmin, which increase may have a material adverse effect on its financial condition, results of operations and capital adequacy and the price of the New Kookmin common stock and American depositary shares. See "—Risks relating to Korea".

H&CB's 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, H&CB's operations and profitability substantially reflected its lending at interest rates set by the Korean government. Since 1997, H&CB has had the flexibility to set interest rates on virtually all of the loans it extends. These developments have resulted in greater volatility in interest rates and margins for H&CB. Based on H&CB's lending book's asset-liability position as of December 31, 2000 and assuming that its interest rates respond sensitively to fluctuation in general rates, H&CB's net interest income would decrease with a decline in interest rates. The volatility in interest rates could adversely affect New Kookmin's business and future financial performance.

H&CB's largest exposure is to the Korea Housing Guarantee Co., Ltd., which has experienced substantial financial difficulties.

The Korea Housing Guarantee Co., Ltd. takes responsibility for completing construction projects if construction companies become insolvent while their projects are in progress. In addition, the Korea Housing Guarantee Co., Ltd. has assumed the obligations of a predecessor entity to guarantee a number of loans to construction companies. As a result of the large number of insolvencies in the construction industry, the Korea Housing Guarantee Co., Ltd. has recently experienced substantial liquidity problems. Representatives of the Korea Housing Guarantee Co., Ltd., the Ministry of Construction and Transportation and creditor financial institutions of the Korea Housing Guarantee Co., Ltd., including H&CB, held a series of meetings in March and April 2000 and agreed on a basic framework for restructuring part of the debts of the Korea Housing Guarantee Co., Ltd. On June 13, 2001, the Korean government and creditor financial institutions agreed on a capital contribution and debt repayment program to normalize the operation of Korea Housing Guarantee Co., Ltd. Under the terms agreed, in June 2001, the government made a capital contribution of ₩947 billion and purchased convertible bonds of ₩300 billion and bonds with warrants of ₩32 billion issued by the Korea Housing Guarantee Co., Ltd. In addition, ₩504 billion of the creditor financial institutions' outstanding loans to Korea Housing Guarantee Co., Ltd. were converted to equity, including ₩240 billion of H&CB's outstanding loans, while the remaining creditor financial institutions' outstanding loans of ₩1,015 billion, including H&CB's remaining outstanding loans and convertible bonds of ₩281 billion, were repaid in full.

Currently, 49.9% of the outstanding share capital of the Korea Housing Guarantee Co., Ltd. is owned by the Korean government, 20.6% is owned by construction companies, and 20.9% is owned by financial institutions, including 9.7% by H&CB. If the restructuring program for the Korea Housing Guarantee Co., Ltd. fails to resolve the financial problems of the Korea Housing Guarantee Co., Ltd., New Kookmin's financial condition and results of operations may be adversely affected.

H&CB has significant exposure to the companies of the former Daewoo Group, whose principal creditors have commenced formal workout proceedings.

As of December 31, 2000, H&CB's outstanding exposure to companies of the former Daewoo Group, one of the largest chaebols in Korea, totaled approximately ₩339 billion, which represented approximately 0.6% of H&CB's total exposure. As of that date, approximately 91.7% of H&CB's exposures to companies of the former Daewoo Group were classified as substandard or below. The financial condition of the former Daewoo Group has deteriorated over the past several years. See "—Risks relating to Kookmin Bank's business—Kookmin Bank has significant exposure to the companies of the former Daewoo Group whose principal creditors have commenced formal workout proceedings. If the creditors do not satisfactorily restructure these companies, such significant exposure may have an adverse effect on New Kookmin". As of December 31, 2000, H&CB had made provisions for 76.3% of its loans and guarantees with the former Daewoo Group. The allowance for loans and guarantees amounted to ₩212 billion. In addition, H&CB holds securities issued by the former Daewoo Group at their fair value. We cannot guarantee that the procedures will result in the successful implementation of workout plans for the companies of the former Daewoo Group to which H&CB has exposure or that New Kookmin will be able to make any recoveries in respect of H&CB's total exposures to those companies.

H&CB has significant exposure to a number of former Hyundai Group companies, some of which are experiencing financial difficulties.

As of December 31, 2000, H&CB's outstanding exposure to companies that comprised the Hyundai Group (including Hynix Semiconductor, Hyundai Merchant Marine and Hyundai Engineering & Construction) totaled approximately ₩342 billion, which represented approximately 0.6% of H&CB's total exposure. As of that date, approximately 13.8% of H&CB's exposures to these companies were classified as substandard or below. As of December 31, 2000, H&CB had made provisions for 16.9% of its loans and guarantees with these companies. For a detailed breakdown of H&CB's outstanding exposure as of December 31, 2000 to the companies that comprised the Hyundai Group, see "H&CB—Assets and Liabilities—Concentration of Total Exposure".

The former Hyundai Group has been reported to be struggling with its indebtedness, reported to amount to approximately US$30 billion. In particular, Hyundai Engineering & Construction, Hynix Semiconductor, Hyundai Petrochemical and Hyundai Merchant Marine have been reported to be experiencing liquidity problems. In 2001, creditor financial institutions of the former Hyundai Group, including H&CB, agreed to provide financial assistance by way of additional loans, extensions on maturities of various outstanding payment obligations, debt-equity swap transactions, guarantees of repayment obligations of overseas borrowings and injections of additional capital into the former Hyundai Group companies. We cannot assure you that these measures will resolve the liquidity problems of the companies of the former Hyundai Group to which H&CB has exposure or that New Kookmin will be able to make any recoveries in respect of H&CB's total exposures to those companies.

In addition, approximately 80% of the securities held by two trusts which were formed in Korea after the dissolution of the Bond Market Stabilization Fund are securities issued by companies of the former Hyundai Group. As H&CB owns 7.94% of these trusts in total, H&CB is exposed to 7.94% of the potential loss on those securities. See "H&CB—Management's Discussion and Analysis of Financial Condition and Results of Operations—Trend Information—Bond Market Stabilization Fund".

If any of the loans to which H&CB has the largest exposure were to become substandard or below, New Kookmin's results of operations could be adversely affected.

As of December 31, 2000, H&CB's 20 largest loans, based on outstanding balances, totaled approximately ₩1,650 billion, which represented approximately 3.6% of total loans. As of that date, H&CB's largest single outstanding loan balance was to the Korea Deposit Insurance Corporation in the amount of ₩190 billion, representing 0.4% of its total loans. As of December 31, 2000, five of H&CB's 20 largest loans aggregating ₩363 billion (0.8% of its total loans) were classified as substandard. As of that date, none of H&CB's 20 largest loans was classified as doubtful. If any of the remaining loans were to become substandard or below, additional allowances would be required, which could adversely affect New Kookmin's results of operations.

H&CB's current allowances for losses relating to its 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, 2000, H&CB had loans outstanding to leasing companies in the amount of ₩83 billion. Of this amount, ₩77 billion was classified as special mention 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, 2000, H&CB's loan loss allowance for loans to leasing companies was ₩23 billion. However, we cannot assure you that this amount will be sufficient to cover all future losses arising from H&CB's exposure to leasing companies.

As of December 31, 2000, ₩1,316 billion, or 2.8%, of H&CB's total loans were in the process of being restructured. As of December 31, 2000, H&CB's loan loss allowance for its total loans to companies under restructuring programs amounted to ₩499 billion, or 37.9% of its total loans to these companies. We cannot assure you that they will be sufficient to cover all future losses relating to H&CB's exposure to companies under restructuring programs.

A decline in the value of the collateral securing H&CB's loans and New Kookmin's inability to realize full collateral value may adversely affect New Kookmin's credit portfolio.

A substantial portion of H&CB's 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 H&CB's 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 33.9% 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 H&CB's loans exceeding the value of the underlying collateral. Any downturn in the Korean economy, however, could result in shortfalls in collateral values. Any decline in the value of the collateral securing H&CB's loans may require New Kookmin to increase its 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 New Kookmin will be able to realize the full value on H&CB's 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 New Kookmin to a potential loss. Any unexpected losses could reduce New Kookmin's stockholders' equity and adversely affect its business.

If New Kookmin is required to repurchase the substandard or below loans that H&CB sold to the Korea Asset Management Corporation, New Kookmin may need to recognize losses.

In December 1997, September 1998 and December 1999, H&CB 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 the Korea Asset Management Corporation for proceeds of ₩138 billion pursuant to a government program to support financial institutions in Korea. Pursuant to the terms of the sales made in 1998, the Korea Asset Management Corporation has the right, in certain circumstances, to require H&CB to repurchase the loans at their purchase price. See "H&CB—Management's Discussion and Analysis of Financial Condition and Results of Operations—Trend Information—The Acquisition of DongNam Bank—Sales of Substandard or Below Loans to the Korea Asset Management Corporation". As of December 31, 2000, the Korea Asset Management Corporation had required H&CB to repurchase an aggregate of ₩43 billion of substandard loans (₩23 billion net of loan loss allowances).

We are unable to predict when, if at all, New Kookmin will be required to repurchase assets from the Korea Asset Management Corporation. If New Kookmin is required to repurchase loans from the Korea Asset Management Corporation and New Kookmin is unable to recover an amount sufficient to cover the repurchase price, New Kookmin will incur a loss. Any such loss could have a material adverse effect on New Kookmin's results of operations and financial condition.

The value of the securities held by H&CB has experienced and may continue to experience volatility.

As of December 31, 2000, H&CB held corporate bonds issued by Korean companies with a total book value of ₩608 billion in its trading and investment portfolios. In addition, as of that date, H&CB held bonds issued by Korean financial institutions (excluding "monetary stabilization bonds" issued by the Bank of Korea) with a total book value of ₩535 billion in its 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 New Kookmin's results of operations and financial condition.

There have been, and may be in the future, legal challenges to H&CB's acquisition of DongNam Bank.

Following H&CB's acquisition of DongNam Bank, 1,104 former employees of DongNam brought a lawsuit against H&CB seeking to require H&CB 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 H&CB after the acquisition. On May 25, 2000, the Seoul District Court Southern Branch decided the case in H&CB's favor. The former employees of DongNam Bank appealed to the Seoul High Court on June 12, 2000. On February 2, 2001, the Seoul High Court declined to hear the appeal. However, the former employees of DongNam Bank appealed the decision of the Seoul High Court to the Supreme Court on March 13, 2001. If the case is ultimately decided against H&CB, New Kookmin could be forced to employ these former employees of DongNam and pay monetary damages. The amount of monetary damages New Kookmin 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 Financial Supervisory Commission demanding the unwinding of H&CB's acquisition of DongNam on the grounds that the law upon which the Financial Supervisory Commission based its order for the acquisition was unconstitutional. On July 18, 2001, the Seoul Administrative Court decided the case in favor of the Financial Supervisory Commission. Members of DongNam Bank's labor union appealed the case to the Seoul High Court on August 10, 2001. The case is still proceeding. We cannot assure you that other legal actions seeking to unwind H&CB's acquisition of DongNam Bank or other remedies 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 that the acquiring company would be required to purchase shares from these shareholders at a predetermined price. It is unclear whether H&CB's 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 H&CB's 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. H&CB did not obtain shareholder approval for the acquisitions or provide appraisal rights to dissenting shareholders. We cannot assure you that H&CB's acquisition of DongNam will not be challenged in the future because H&CB did not get shareholder approval or provide appraisal rights or that any challenge on these grounds will not be successful.

An unwinding of H&CB's acquisition of DongNam or other remedies resulting from successful legal challenges or otherwise may have an adverse effect on New Kookmin.

Risks relating to government regulation and policy

The Korean government may decide not to continue designating New Kookmin as the sole manager of the National Housing Fund, in which case New Kookmin's fee income from managing the National Housing Fund may be eliminated or reduced.

The National Housing Fund 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, H&CB has been managing the operations of the National Housing Fund and receiving a monthly management fee. In 2000, H&CB received total fees of ₩158 billion for managing the National Housing Fund, which represented approximately 2.7% of H&CB's total interest, dividend and non-interest income for 2000 and approximately 1.1% of New Kookmin's total interest, dividend and non-interest income for 2000 on a pro forma basis after giving effect to the merger as if it had occurred on January 1, 2000.

In January 2000, the relevant law that had specified H&CB as the institution that manages the National Housing Fund 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 Ministry of Construction and Transportation designated H&CB to manage the National Housing Fund. In addition, the Ministry of Construction and Transportation announced in September 2001 that it had formulated a plan to improve the overall management of the National Housing Fund. As part of that plan, the Ministry of Construction and Transportation announced that it intends to retain outside consultants to review the existing management and fee structure for the National Housing Fund, and that it plans to consider various long-term measures for improving the overall management of the fund, including the diversification of the managers of the fund. If the Minister of Construction and Transportation decides to lower existing management fees or to designate another institution instead of New Kookmin or in addition to New Kookmin to manage the National Housing Fund, New Kookmin's fee income from managing the National Housing Fund will be eliminated or reduced compared to current levels, which in turn would have an adverse effect on New Kookmin's results of operations.

As part of its plan to improve the overall management of the National Housing Fund, the Ministry of Construction and Transportation also announced that it intends to strengthen existing regulations to provide for liability on the part of H&CB, as manager of the National Housing Fund, where H&CB has clear responsibility for non-performing National Housing Fund loans or where losses result to the National Housing Fund due to H&CB's negligent management. As a result, New Kookmin may in the future be required to reimburse the National Housing Fund for its losses, including those that relate to the deterioration of the credit quality of National Housing Fund loans, to the extent such losses are deemed to have resulted from H&CB's or New Kookmin's negligence in managing the fund.

New Kookmin will be subject to government review of any decision to change the minimum amount of its lending which is required to be devoted to mortgage lending.

Currently H&CB's articles of incorporation require it to devote at least 50% of its Won currency lending, other than any lending done pursuant to Korean government policies as described below, to mortgage lending. Any change in this minimum amount is subject to prior review by the Financial Supervisory Commission. The proposed articles of incorporation of New Kookmin also provide for the allocation of not less than 20% of its Won currency lending to mortgage lending. This minimum percentage is subject to the review of the Financial Supervisory Commission in connection with its review of the merger. In addition, we expect that New Kookmin will not be able to change its articles of incorporation in the future to reduce or eliminate this minimum mortgage lending allocation if the Financial Supervisory Commission is opposed to the change.

The Korean government promotes lending to certain types of borrowers as a matter of policy, which New Kookmin may feel compelled to follow.

Under applicable guidelines of the Bank of Korea, Kookmin Bank and H&CB, in order to qualify for funding from the Bank of Korea at preferred rates, are required to ensure that a minimum percentage of the amount of any new lending each month consists of loans to small- and medium-sized enterprises. Currently, the minimum percentages applicable to Kookmin Bank and H&CB are 45% and 35%, respectively. We expect that the minimum percentage of 45% will be applied to New Kookmin, unless the Bank of Korea decides to apply the special percentage of 35% after the merger. See "Supervision and Regulation—Principal Regulations Applicable to Banks in Korea—Lending to Small- and Medium-Sized Enterprises". The proposed articles of incorporation of New Kookmin provide for the allocation of not less than 80% of its Won currency lending to individuals and small- and medium-sized enterprises, including not less than 20% to mortgage lending. In addition, the Korean 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. We expect that all loans made pursuant to government policies will be reviewed in accordance with New Kookmin's credit review policies. However, we cannot assure you that government policy will not influence New Kookmin to lend to certain sectors or in a manner in which New Kookmin otherwise would not in the absence of the government policy.

The Korean government may impose burdensome measures on New Kookmin if it deems New Kookmin to be financially unsound.

If the Korean government deems the financial condition of New Kookmin to be unsound or if New Kookmin fails to meet the applicable capital adequacy ratio set forth under Korean law, the government may order capital increases or reductions, stock cancellations or consolidations, transfers of business, sales of assets, closures of branch offices, mergers with other financial institutions, suspensions of a part or all of business operation, or assignments of contractual rights and obligations relating to financial transactions. If any of such measures are imposed on New Kookmin by the government, it may harm New Kookmin's business and adversely affect the prices of New Kookmin common stock and American depositary shares.

Risks relating to Korea

Adverse economic and financial developments in Korea in 1997 and 1998 have had an adverse effect on Kookmin Bank and H&CB, and future adverse economic developments in Korea will likely have an adverse effect on New Kookmin.

New Kookmin will be incorporated in Korea, and substantially all of its operations will be located in Korea. As a result, New Kookmin will be 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 yet to fully recover. The downturn resulted in, among other things, an increase in the number and size of companies filing for corporate reorganization and protection from their creditors. As a result of these corporate failures, Kookmin Bank and H&CB experienced a sharp increase in non-performing loans and a deterioration in their capital adequacy ratios.

Although the Korean economy began to experience a recovery in 1999, the pace of the recovery slowed in 2000, particularly in the fourth quarter of 2000. The economic indicators in the first half of 2001 have been mixed, and it is uncertain how the Korean economy will perform in the near term. A deterioration of the Korean economy could adversely affect New Kookmin's financial condition and results of operations.

Developments that could hurt Korea's economy in the future include:

- further deterioration of the Korean corporate sector, which could in turn result in government requests for Korean banks to participate in remedial programs to assist the corporate sector, which deterioration and programs may adversely affect the quality of New Kookmin's asset portfolio;
- current financial problems in a number of companies in the former Hyundai Group and companies in the former Daewoo Group and similar difficulties in other chaebols or their suppliers, and their potential adverse impact on Korea's financial sector;
- failure of restructuring of large troubled companies;
- volatility in foreign currency reserve levels, commodity prices, exchange rates, interest rates and stock markets;
- increased reliance on exports to service foreign currency debts, which could cause friction with Korea's trading partners;
- adverse developments in the economies of countries such as the United States to which Korea exports, or in emerging market economies in Asia or elsewhere that result in a loss of confidence in the Korean economy;
- social and labor unrest resulting from lay-offs, increasing unemployment and lower levels of income; and
- a decrease in tax revenues and a substantial increase in the Korean government's expenditures for unemployment compensation and other social programs that together lead to an increased government budget deficit.

Structural reforms occurring in the Korean economy and financial sector may have a substantial impact on the business of New Kookmin.

In response to the financial and economic downturn in Korea in 1997 and 1998, the Korean government announced and implemented a series of comprehensive policy packages to address structural weaknesses in the Korean economy and the financial sector, which included the mergers and restructurings of a number of banks. We expect that these comprehensive policy packages will continue to have a substantial impact on New Kookmin's business. The government has indicated that it may advocate further mergers or restructurings in the Korean financial sector. Such mergers or restructurings may involve New Kookmin or its competitors and may have an adverse impact on its business, financial condition or results of operations.

Labor unrest may adversely affect New Kookmin's 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 expenditures for unemployment compensation and other costs for social programs. During 1998 and 1999, there were large-scale protests and labor strikes in Korea. On July 11, 2000, the Korea Financial Industry Union, which represents the employees of 30 financial institutions, urged its members to participate in a strike to express their opposition to the increase in bank mergers and the promulgation of the Financial Holding Company Act of Korea. This strike was motivated by a fear that these mergers and the Financial Holding Company Act would lead to large scale layoffs of bank employees. On July 12, 2000, the Korean government and this union reached an agreement whereby the government would not require mandatory bank mergers. Following the announcement of the merger between Kookmin Bank and H&CB, there was a seven-day strike of the members of the chapter of the Korea Financial Industry Union which represents the two banks' employees to express their opposition to the merger.

We cannot guarantee that labor unrest will not continue or escalate further. Increasing unemployment and continuing labor unrest could adversely affect the operations of New Kookmin, as well as the operations of many of its customers and their ability to repay their loans, and could affect the financial conditions of Korean companies in general, depressing the price of securities on the Korea Stock Exchange and the value of the Won relative to other currencies. Such developments would likely have an adverse effect on New Kookmin's financial condition, results of operations and capital adequacy.

Tensions with North Korea could have an adverse effect on New Kookmin and the prices of New Kookmin common stock and 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 tension, which may occur, for example, if these contacts break down or military hostilities occur, could have a serious adverse effect on the operations of New Kookmin and the prices of New Kookmin common stock and American depositary shares.

Financial instability in other countries, particularly emerging market countries in Asia, could adversely impact New Kookmin's business and cause the price of New Kookmin's securities 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 that occurred in emerging markets in Asia in 1997 and 1998 will not happen again or will not have an adverse effect on New Kookmin's business.

Risks relating to the common stock and American depositary shares of New Kookmin

There has been no prior market for the common stock or American depositary shares of New Kookmin, and the merger may not result in an active or liquid market for New Kookmin common stock or American depositary shares.

New Kookmin will be formed as a new entity in connection with the merger. Accordingly, there will be no public market for New Kookmin common stock or New Kookmin American depositary shares prior to their issuance in connection with the merger. We expect that New Kookmin will apply to list its common stock on the Korea Stock Exchange and to list its American depositary shares on the New York Stock Exchange. However, we expect that the listing of the New Kookmin common stock on the Korea Stock Exchange will not occur until approximately three weeks after the merger is completed. If you hold shares of New Kookmin common stock, you will not be able to trade such shares until such listing occurs. Furthermore, an active public market in New Kookmin common stock or American depositary shares may not develop or be sustained after their issuance. In addition, if a significant number of New Kookmin American depositary share holders withdraw the underlying shares of New Kookmin common stock from New Kookmin's American depositary share facility and no additional New Kookmin American depositary shares are issued, the liquidity of New Kookmin American depositary shares would be adversely affected.

The initial market price of New Kookmin common stock and New Kookmin American depositary shares immediately after their issuance is expected to be determined, among other things, by the market prices of the Kookmin Bank and H&CB common stock and depositary shares prior to the merger and the applicable merger ratios. The initial market price of New Kookmin common stock and New Kookmin American depositary shares may not be indicative of prices that will prevail in the trading market. You may not be able to resell your New Kookmin common stock or New Kookmin American depositary shares at or above the initial market price. Market prices of Korean companies' stock have been and continue to be extremely volatile. Volatility in the price of New Kookmin common stock and New Kookmin American depositary shares may be caused by factors outside of our control and may be unrelated or disproportionate to New Kookmin's operating results.

Your interest in New Kookmin may be diluted or otherwise adversely affected as a result of existing contractual rights of major stockholders of Kookmin Bank and H&CB.

Under the terms of an investment agreement between Kookmin Bank and Goldman Sachs Capital Koryo, L.P., New Kookmin, as the successor entity to Kookmin Bank, will be required to use its best efforts to cause at least one nominee of Goldman Sachs Capital Koryo to be appointed as a director of New Kookmin. In addition, New Kookmin will effectively be required to obtain the consent of Goldman Sachs Capital Koryo to enter into any agreement or understanding with respect to a merger, share exchange or consolidation involving any financial institution or the acquisition of a substantial portion of the assets of any financial institution. See "Kookmin Bank—Major Stockholders". Similarly, under the terms of an investment agreement between ING Insurance International B.V. and H&CB, New Kookmin, as the successor entity to H&CB, will be required to use its best efforts to cause two nominees of ING Insurance International to be appointed as directors of New Kookmin. In addition, following the merger, ING Insurance International will have the right to require New Kookmin to issue additional shares of its common stock to ING Insurance International so as to maintain the latter's ownership interest in New Kookmin at or above 9.99%, subject to adjustment under certain circumstances. As a result of the existence of such rights, your ownership interest in New Kookmin, including your voting power with respect to the election of directors of New Kookmin, may be diluted or otherwise adversely affected. While Kookmin Bank and H&CB prior to the merger or New Kookmin after the merger may attempt to amend these investment agreements to limit such rights, we cannot assure you that Goldman Sachs

Capital Koryo or ING Insurance International will agree to any such amendments on commercially reasonable terms or at all.

The value of your investment may be reduced by future sales of New Kookmin common stock or New Kookmin American depositary shares by the Korean government, by other stockholders or holders of American depositary shares or by New Kookmin.

Upon completion of the merger, the Korean government will own approximately 9.64% of the outstanding shares of New Kookmin common stock. If outstanding convertible bonds of Kookmin Bank are fully converted into shares of Kookmin Bank common stock before completion of the merger, the government would own approximately 9.32% of the outstanding shares of New Kookmin common stock after the merger. Upon completion of the merger, Goldman Sachs Capital Koryo and ING Insurance International will own approximately 6.52% and 4.00%, respectively, of the outstanding shares of New Kookmin common stock. If outstanding convertible bonds of Kookmin Bank are fully converted into shares of Kookmin Bank common stock before completion of the merger, such stockholders would own approximately 9.87% and 3.87%, respectively, of the outstanding shares of New Kookmin common stock after the merger.

Currently, we do not know when, how, or what percentage of, New Kookmin shares owned by the Korean government or by Goldman Sachs Capital Koryo or ING Insurance International would be disposed of, or to whom such shares will be sold. As a result, we cannot currently predict the impact on New Kookmin of such sales. Sales of substantial numbers of shares of New Kookmin common stock, New Kookmin preferred stock or New Kookmin American depositary shares in the public market or otherwise by the government, other stockholders such as Goldman Sachs Capital Koryo or ING Insurance International or holders of American depositary shares or by New Kookmin, or the perception that such sales may occur, could depress the prevailing market price of New Kookmin common stock and New Kookmin American depositary shares.

Ownership of New Kookmin common stock is restricted under Korean law.

Under Korean law, a single stockholder, 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 New Kookmin. The Korean government and the Korea Deposit Insurance Corporation 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 Korean Financial Supervisory Commission. See "Supervision and Regulation—Principal Regulations Applicable to Banks in Korea—Restrictions on Bank Ownership". To the extent that the total number of shares of New Kookmin 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 Korean Financial Supervisory Commission 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 on you of up to ₩20 million.

Holders of New Kookmin American depositary shares will not be able to exercise dissent and appraisal rights unless they have withdrawn the underlying New Kookmin common stock and become direct stockholders of New Kookmin.

In some limited circumstances, including the transfer of the whole or any significant part of New Kookmin's business and the merger or consolidation of New Kookmin with another company, dissenting stockholders have the right to require New Kookmin to purchase their shares under Korean law. See "Description of New Kookmin's Capital Stock—Proposed Articles of Incorporation—Rights of Dissenting Stockholders". However, if you hold New Kookmin American depositary shares, you will not be able to exercise such dissent and appraisal rights unless you have withdrawn the underlying New Kookmin common stock and become a direct stockholder of New Kookmin prior to the record date for the stockholders' meeting at which the relevant transaction is to be approved.

You will not have preemptive rights in some circumstances.

The Korean Commercial Code and New Kookmin's articles of incorporation will require New Kookmin, with some exceptions, to offer stockholders the right to subscribe for new shares of New Kookmin common stock in proportion to their existing shareholding ratio whenever new shares are issued. If New Kookmin offers any right to subscribe for additional shares of New Kookmin common stock or any rights of any other nature, the depositary, after consultation with New Kookmin, may make the rights available to holders of New Kookmin American depositary shares or use reasonable efforts to dispose of the rights on behalf of such holders and make the net proceeds available to such holders. The depositary, however, is not required to make available to holders any rights to purchase any additional shares of New Kookmin common stock unless it deems that doing so is lawful and feasible and:

- a registration statement filed by New Kookmin under the U.S. 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 U.S. Securities Act.

Similarly, holders of New Kookmin common stock located in the U.S. may not exercise any such rights they receive absent registration or an exemption from the registration requirements under the Securities Act.

New Kookmin is under no obligation to file any registration statement with the U.S. Securities and Exchange Commission or to endeavor to cause such a registration statement to be declared effective. Moreover, New Kookmin may not be able to establish an exemption from registration under the U.S. Securities Act. Accordingly, you may be unable to participate in New Kookmin rights offerings and may experience dilution in your holdings. If a registration statement is required for you to exercise preemptive rights but is not filed by New Kookmin or is not declared effective, you will not be able to exercise your preemptive rights for additional New Kookmin American depositary shares and you will suffer dilution of your equity interest in New Kookmin. If the depositary is unable to sell rights that are not exercised or not distributed or if the sale is not lawful or feasible, it will allow the rights to lapse, in which case you will receive no value for these rights.

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

We expect that the New Kookmin common stock will be listed on the Korea Stock Exchange and quoted and traded in Won. Cash dividends, if any, in respect of the shares represented by the New Kookmin American depositary shares will be paid to the depositary in Won and then converted by the depositary 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 New Kookmin American depositary shares will receive from the depositary in respect of dividends, the Dollar value of the proceeds which a holder or owner would receive upon sale in Korea of the shares of New Kookmin common stock obtained upon surrender of New Kookmin American depositary shares and the secondary market price of New Kookmin American depositary shares. Such fluctuations will also affect the Dollar value of dividends and sales proceeds received by holders of New Kookmin common stock.

If the Korean government deems that emergency circumstances are likely to occur, it may restrict you and the depositary from converting and remitting dividends and other amounts in Dollars.

If the Korean government deems that 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 the following:

- serious difficulty in stabilizing the balance of payments; and
- serious obstacles in carrying out currency policies, exchange rate policies or other macroeconomic policies, caused by the movement of capital between Korea and abroad.

The depositary 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. Similarly, holders of New Kookmin common stock may not be able to secure such prior approval from the government for the repatriation of dividends or sales proceeds when the government deems that such emergency circumstances exist.

The market value of your investment may fluctuate due to the volatility of, and government intervention in, the Korean securities market.

We expect that New Kookmin will apply to list its common stock on the Korea Stock Exchange, which has a smaller market capitalization and is more volatile than the securities markets in the United States and many European countries. The market value of New Kookmin American depositary shares may fluctuate in response to the fluctuation of the trading price of shares of New Kookmin common stock on the Korea Stock Exchange. The Korea Stock Exchange has experienced substantial fluctuations in the prices and volumes of sales of listed securities and the Korea Stock Exchange restricts share price movements. In the past decade, the Korea Composite Stock Price Index, known as "KOSPI", reached a peak of 1138.75 in 1994 and subsequently fell to a low of 280.00 in 1998. On April 17, 2000, the KOSPI experienced a 93.17 point drop, which represented the single largest decrease in the history of the KOSPI. From January 2, 2001 to May 29, 2001, when the KOSPI reached its peak in 2001 to date of 632.05, the KOSPI increased by 111.1 points. On September 7, 2001, the KOSPI closed at 555.08. Like other securities markets, the Korean securities market has experienced problems including market manipulation, insider trading and settlement failures. The recurrence of these or similar problems could have a material adverse effect on the market price and liquidity of the securities of Korean companies, including New Kookmin's common stock and American depositary shares, in both the domestic and the international markets.

The Korean 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 Korean securities 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. As a result of these activities, the price of the common stock of Korean companies may have been and may currently be higher or lower than the prices that would otherwise prevail in the open market. In the future, market intervention by the government, or the perception that such activity is taking place, may take place or has ceased, may cause sudden movements in the market prices of the common stock and American depositary shares of Korean companies, which may affect the market price and liquidity of New Kookmin common stock and New Kookmin American depositary shares.

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

Kookmin Bank and H&CB are each, and New Kookmin will be, a corporation with limited liability organized under the laws of Korea. Substantially all of our directors and officers and other persons named in this document reside in Korea, and all or a significant portion of the assets of our directors and officers and 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 holders of New Kookmin common stock or New Kookmin 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.

FORWARD-LOOKING INFORMATION

The Securities and Exchange Commission encourages companies to disclose forward-looking information so that investors can better understand a company's future prospects and make informed investment decisions. This prospectus contains forward-looking statements, which may include statements regarding the period following completion of the merger.

Words such as "anticipate", "estimate", "expect", "project", "intend", "plan", "believe" and words and terms of similar substance used in connection with any discussion of future operating or financial performance, or the merger of Kookmin Bank and H&CB, identify forward-looking statements. All forward-looking statements are management's present expectations of future events and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. In addition to the risks related to the businesses of Kookmin Bank and H&CB, the factors relating to the merger discussed under "Risk Factors", among others, could cause actual results to differ materially from those described in the forward-looking statements. These factors include, but are not limited to, any downward adjustment of the value of New Kookmin stock relative to Kookmin Bank's and H&CB's stock, the failure to realize the anticipated benefits of the merger, conflicts of interest of directors and adverse regulatory conditions. We caution you not to place undue reliance on the forward-looking statements, which speak only as of the date of this prospectus. Except as required by law, none of New Kookmin, Kookmin Bank or H&CB is under any obligation, and each expressly disclaims any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise.

All subsequent forward-looking statements attributable to New Kookmin, Kookmin Bank or H&CB or any person acting on their behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section.

THE EXTRAORDINARY GENERAL MEETINGS

Date, Time and Place

The extraordinary general meetings of stockholders of Kookmin Bank and H&CB are scheduled to be held as follows:

For Kookmin Bank stockholders:
September 29, 2001
10:00 a.m., local time
Korea Chamber of Commerce & Industry
Main Office Building
45, 4-ga, Namdaemoon-ro, Jung-gu
Seoul, Korea

For H&CB stockholders:
September 29, 2001
10:00 a.m., local time
4th Floor Auditorium
H&CB Headquarters
36-3, Yoido-dong, Youngdeungpo-gu
Seoul, Korea

Agenda

The extraordinary general meetings are being held so that common stockholders of each of Kookmin Bank and H&CB can consider and vote upon a merger proposal pursuant to which Kookmin Bank and H&CB will each be merged into New Kookmin, with New Kookmin continuing as the surviving corporation. Specifically, common stockholders of each bank will be asked to vote on:

- special resolutions:
  - approving the merger agreement between Kookmin Bank and H&CB (including the directors of New Kookmin nominated jointly by the two banks), and
  - appointing the incorporators of New Kookmin nominated jointly by the two banks; and
- ordinary resolutions:
  - electing the executive directors of New Kookmin nominated jointly by the two banks who will also serve as standing members of the audit committee of the board of directors of New Kookmin,
  - electing the non-executive directors of New Kookmin nominated jointly by the two banks who will also serve as non-standing members of the audit committee of the board of directors of New Kookmin,
  - approving ₩8 billion as the maximum amount of compensation (excluding severance pay) that may be paid to the directors of New Kookmin in the aggregate in each fiscal year,
  - approving the internal regulations of New Kookmin relating to severance pay for directors,
  - in the case of Kookmin Bank common stockholders:
    - — approving the conversion, in connection with the merger, of all outstanding Kookmin Bank stock options into corresponding options to purchase one share of New Kookmin common stock for every 1.688346 shares of Kookmin Bank common stock that an option holder is entitled to purchase under the outstanding Kookmin Bank stock options, and
    - — ratifying the grant by Kookmin Bank of options to purchase an aggregate of 155,000 shares of Kookmin Bank common stock to certain directors and officers of Kookmin Bank, which grant was made pursuant to a stockholders' resolution adopted on March 18, 2000 and was subsequently invalidated by the Seoul Court of Appeals (as described in "Kookmin Bank—Compensation of Directors and Officers"), and
  - in the case of H&CB common stockholders, approving the conversion, in connection with the merger, of all outstanding H&CB stock options into corresponding options to purchase one share of New Kookmin common stock for every share of H&CB common stock that an option holder is entitled to purchase under the outstanding H&CB stock options.

An English translation of the merger agreement is attached to this prospectus as Annex I. The lists of Kookmin Bank's and H&CB's joint nominees for the directors of New Kookmin (including those who will also serve as standing and non-standing members of the audit committee of the board of directors) and of the two banks' joint nominees for the incorporators of New Kookmin are attached to this prospectus as Annex II. An English translation of the proposed internal regulations of New Kookmin relating to severance pay for directors is attached to this prospectus as Annex III. A list describing the stock option grants by Kookmin Bank on March 18, 2000 that are to be ratified at the Kookmin Bank extraordinary general meeting is attached to this prospectus as Annex IV. All such options will be exercisable at any time during the two-year period commencing on March 19, 2003, at an exercise price of ₩13,900 per share.

Record Date and Outstanding Capital Stock

The board of directors of each of Kookmin Bank and H&CB has fixed the close of business on August 8, 2001 as the record date for determination of such bank's common stockholders entitled to notice of and to vote at the extraordinary general meeting. On the record date, there were:

- 303,586,433 shares of Kookmin Bank common stock outstanding, 19,992,623 of which were represented by 19,992,623 outstanding global depositary shares; and
- 119,968,809 shares of H&CB common stock outstanding, 16,192,345 of which were represented by 32,384,690 outstanding American depositary shares.

Voting Rights and Votes Required

Common stockholders of Kookmin Bank and H&CB recorded on the stockholder register of the relevant bank as of the record date will be entitled to attend and vote, either in person or by proxy, at the extraordinary general meeting of that bank. Each share of common stock present or represented at the meeting will be entitled to one vote.

The adoption of any special resolution at either extraordinary general meeting requires the affirmative vote of at least two-thirds of the shares of common stock present or represented at the meeting. The shares voting affirmatively must also represent at least one-third of the total issued and outstanding shares of common stock of the relevant bank. The adoption of any ordinary resolution at either extraordinary general meeting requires the affirmative vote of a majority of the shares of common stock present or represented at the meeting. The shares voting affirmatively must also represent at least one-fourth of the total issued and outstanding common stock of the relevant bank.

With respect to the ordinary resolution to elect the executive directors of New Kookmin who will also serve as standing members of the audit committee of the board of directors of New Kookmin, the largest holder of common stock, including depositary shares, of each of Kookmin Bank and H&CB (to the extent such holder, together with its specially related persons (as defined under Korean law), holds an aggregate number of shares representing in excess of 3% of the total issued and outstanding common stock of the relevant bank) will not be allowed to vote the shares representing such excess.

With respect to the ordinary resolution to elect the non-executive directors of New Kookmin who will also serve as non-standing members of the audit committee of the board of directors of New Kookmin, any holder of common stock and/or depositary shares of Kookmin Bank or H&CB who holds an aggregate number of shares representing in excess of 3% of the total issued and outstanding common stock of the relevant bank will not be allowed to vote the shares representing such excess.

As of August 8, 2001, the directors and executive officers of Kookmin Bank, and their affiliates, owned, in the aggregate, 2,460,390 shares of Kookmin Bank common stock, or approximately 0.81% of the shares of Kookmin Bank common stock outstanding on that date. To Kookmin Bank's knowledge, the directors and executive officers of Kookmin Bank intend to vote "FOR" approval of the merger agreement.

As of August 8, 2001, the directors and executive officers of H&CB, and their affiliates, owned, in the aggregate, 66,062 shares of H&CB common stock, or approximately 0.06% of the shares of H&CB common stock outstanding on that date. To H&CB's knowledge, the directors and executive officers of H&CB intend to vote "FOR" approval of the merger agreement.

Voting by Proxy

Common stockholders of Kookmin Bank and H&CB may vote either in person at the relevant bank's extraordinary general meeting or by proxy. Common stockholders who wish to vote their shares of Kookmin Bank or H&CB common stock by proxy can do so through one of the following methods:

- *Voting through the Korea Securities Depository.* Common stockholders will be entitled to instruct the Korea Securities Depository, as depositary for the Kookmin Bank and H&CB common stock issued in book-entry form, as to how to vote their shares of Kookmin Bank or H&CB common stock at the relevant bank's extraordinary general meeting. A stockholder wishing to provide voting instructions to the Korea Securities Depository must:

  - if it has not received from its standing proxy in Korea a voting instruction form prepared by the Korea Securities Depository, ask the standing proxy to obtain and send the voting instruction form to the stockholder; and

  - complete the voting instruction form and return it to the stockholder's standing proxy in Korea **by no later than September 22, 2001 (Seoul time)**, with instructions for the standing proxy to submit the voting instruction form to the Korea Securities Depository by the end of business on September 24.

  Although there is no guarantee, if the Korea Securities Depository receives a completed voting instruction form from a stockholder through its standing proxy on or prior to September 24, 2001, the Korea Securities Depository will try to vote the stockholder's shares in accordance with the instructions of the stockholder, as far as practical and subject to the requirements of Korean law. Stockholders will be able to change their vote after they send in their voting instruction forms to the Korea Securities Depository, by attending the meeting and voting their shares in person or, if available, by requesting their respective standing proxies to attend the meeting and vote the shares by proxy as described below.

  In the case of any shares of common stock as to which the Korea Securities Depository does not receive voting instructions from the stockholder in a timely manner, the Korea Securities Depository will vote the shares in the same manner and same proportion on each matter as all the other shares of common stock present or represented at the relevant extraordinary general meeting are voted, unless the stockholder or its standing proxy attends the meeting and votes the shares.

- *Voting through a Standing Proxy in Korea.* Depending on the terms of its agreement with its standing proxy in Korea, a common stockholder of Kookmin Bank or H&CB may also be entitled to request the standing proxy to attend the relevant extraordinary general meeting on behalf of the stockholder and vote the stockholder's shares by proxy in accordance with the stockholder's instructions. **Stockholders who wish to vote their shares of Kookmin Bank or H&CB common stock in this manner should consult with their respective standing proxies.** Among other things, in order to vote its shares by proxy in this manner, a stockholder must deliver a power of attorney to its standing proxy authorizing it to vote the shares on behalf of the stockholder at the relevant extraordinary general meeting. The standing proxy will be required to produce the power of attorney at the meeting.

  A stockholder may revoke a power of attorney after it is delivered and provide a different power of attorney to its standing proxy at any time prior to the relevant extraordinary general meeting. A stockholder may also revoke any power of attorney and attend and vote directly at the relevant extraordinary general meeting.

If you are a common stockholder of Kookmin Bank and have further questions regarding your voting rights, you should contact your standing proxy in Korea, or Kookmin Bank at:

Kookmin Bank
Investor Relations
9-1, 2-ga, Namdaemoon-ro, Jung-gu
Seoul 100-703, Korea
Telephone: 822-317-2161
Facsimile: 822-317-2885
e-mail: shkim@kookminbank.com

If you are common stockholder of H&CB and have further questions regarding your voting rights, you should contact either your standing proxy in Korea, or H&CB at:

H&CB
Investor Relations Team
36-3 Yoido-dong, Youngdeungpo-gu
Seoul 150-758, Korea
Telephone: 822-769-7256
Facsimile: 822-782-8058
e-mail: hcbir@hcb.co.kr

Voting Rights of Holders of Kookmin Bank Global Depositary Shares

Holders of Kookmin Bank global depositary shares will not be entitled to instruct The Bank of New York, as depositary, as to how to vote the shares of Kookmin Bank common stock represented by such holders' global depositary shares at Kookmin Bank's extraordinary general meeting.

The depositary will, to the extent practicable, vote the shares of Kookmin Bank common stock represented by Kookmin Bank global depositary shares in the same manner and in the same proportion as the other stockholders of Kookmin Bank exercising voting rights in favor of or against the resolutions under consideration before the extraordinary general meeting of the stockholders of Kookmin Bank vote their shares, subject to its receipt of an opinion from Kookmin Bank's Korean counsel that such action is in conformity with all applicable Korean laws and regulations and with Kookmin Bank's articles of incorporation. If the depositary does not receive such an opinion, the depositary will not, and will ensure that the custodian does not, vote any shares of Kookmin Bank common stock represented by Kookmin Bank global depositary shares. Kookmin Bank will take all steps reasonably necessary to ensure that the depositary is able to vote the shares of Kookmin Bank common stock represented by Kookmin Bank global depositary shares as described above.

If you are a holder of Kookmin Bank global depositary shares and have further questions regarding voting rights, you should contact the depositary at:

The Bank of New York
Depositary Receipts Division
101 Barclay Street, 22nd Floor
New York, NY 10286
Telephone: (212) 815-2345
Facsimile: (212) 571-3050

Voting Rights of Holders of H&CB American Depositary Shares

Holders of H&CB American depositary shares recorded on the register of The Bank of New York, as depositary, as of the record date will be entitled to instruct the depositary as to how to vote the shares of

H&CB common stock represented by such holders' American depositary shares at H&CB's extraordinary general meeting.

Holders of H&CB American depositary shares wishing to provide voting instructions to the depositary must complete the voting instruction card provided by the depositary. For a holder's voting instructions to be valid, the depositary must receive the voting instruction card **by no later than September 27, 2001**. Although there is no guarantee, the depositary will try to vote the shares of common stock represented by a holder's American depositary shares in accordance with the instructions of the holder, as far as practical and subject to the requirements of Korean law. Holders of H&CB American depositary shares will be able to change their voting instructions after they send their voting instruction cards to the depositary, by completing and sending in a new voting instruction card with revised voting instructions to the depositary. However, such revised voting instructions will not be valid unless the depositary receives the new voting instruction card by September 27, 2001.

In the case of any American depositary shares as to which the depositary does not receive voting instructions from the holder in a timely manner, the depositary will vote the shares of common stock represented by such American depositary shares in the same manner and same proportion on each matter as all the other shares of common stock present or represented at the extraordinary general meeting are voted on that matter.

If you are a holder of H&CB American depositary shares and have further questions as to how to exercise your voting rights, you should contact the depositary at:

The Bank of New York
Depositary Receipts Division
101 Barclay Street, 22nd Floor
New York, NY 10286
Telephone: (212) 815-2345
Facsimile: (212) 571-3050

Approval of Preferred Stockholder

As of the date of this prospectus, there are 32,000,000 shares of Kookmin Bank preferred stock and 59,300,000 shares of H&CB preferred stock outstanding. Of such shares, 24,000,000 shares of Kookmin Bank preferred stock and 17,790,000 shares of H&CB preferred stock are owned by the Korea Deposit Insurance Corporation and the remainder are owned by each bank as treasury shares. Prior to the merger, each of Kookmin Bank and H&CB plans to repurchase all of the outstanding shares of its preferred stock owned by the Korea Deposit Insurance Corporation at their par value, which in each case is ₩5,000 per share. Accordingly, we do not expect that the approval of the Korea Deposit Insurance Corporation, in its capacity as preferred stockholder of Kookmin Bank and H&CB, will be required for the merger.

THE MERGER

Background of the Merger

Following the financial and economic downturn in Korea commencing in 1997, the Korean commercial banking sector has been undergoing significant change. The downturn resulted in, among other things, a deterioration in the financial health of the Korean corporate sector, which in turn led to a sharp increase in non-performing loans and a weakening of the capital structure of Korean financial institutions. Korea's economic difficulties and the Korean government's commitments to the International Monetary Fund in connection with the financial crisis have accelerated regulatory reforms in and liberalization of the Korean banking industry. In addition, a number of significant mergers and acquisitions in the industry have taken place in Korea in recent 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, 2000. These and other developments have led to increasing competition among commercial banks in Korea.

The management of each of Kookmin Bank and H&CB continually reviews its bank's position in light of the changing competitive environment of the Korean banking industry, with the objective of determining what alternatives are available to further enhance shareholder value. While both banks believe they have positive future prospects on a stand-alone basis, recently, both Kookmin Bank and H&CB have considered a range of options to improve their competitive positions, including acquisitions or dispositions of assets, possible partnerships, alliances or other significant transactions.

In November 2000, the management of Kookmin Bank and the management of H&CB commenced discussions regarding a possible combination of the two banks. These discussions, which continued through the fourth quarter of 2000, were centered on the comparative strengths that each bank could contribute to the combination in both short and long term, including areas where the banks' businesses are complementary or redundant, and the leading position that a combined bank could achieve in the Korean banking industry, to the benefit of the shareholders of both banks. On December 22, 2000, the two banks entered into a memorandum of understanding regarding a possible merger. The proposed merger was publicly announced in Korea by the two banks on that date.

Pursuant to the terms of the memorandum of understanding, Kookmin Bank and H&CB formed a merger steering committee in January 2001 to review, negotiate and agree on various aspects of the proposed merger. The merger steering committee is composed of a chairman, Pyung Joo Kim, a secretary, Buhmsoo Choi, and four other committee members, Ji Hong Kim (Non-Executive Director, Kookmin Bank), Yoo-Hwan Kim (Executive Vice President, Head of Strategic Management Group and Compliance Officer, Kookmin Bank), Woon Youl Choi (Non-Executive Director, H&CB) and Young Il Kim (Executive Vice President, Head of Strategic Planning Division and Head of New Economy Business Unit, H&CB). With the assistance of external advisors, the merger steering committee conducted a due diligence review with respect to certain aspects of the two banks' operations, and prepared a merger agreement in draft form setting forth the structure and principal terms and conditions of a merger between the two banks.

On April 23, 2001, the board of directors of each of Kookmin Bank and H&CB approved the draft merger agreement and the presidents of the two banks executed the merger agreement on behalf of their banks.

Reasons for the Merger

The purpose of the merger between Kookmin Bank and H&CB is to combine the strengths of each bank, such that the merged bank will grow to become a premier world-class bank that represents Korea in the global banking market. In order to achieve this end, we plan to utilize Kookmin Bank's and H&CB's existing retail banking business in Korea, including banking services to individuals and small- and medium-sized enterprises, as a solid base from which to grow. We plan to focus our growth in selected areas, including corporate banking, international finance and capital markets activities, where we believe we can achieve a competitive advantage. Through these efforts, we believe we can increase shareholder value, offer enhanced service to customers and maximize opportunities and rewards for our employees.

In particular, we believe the merger of Kookmin Bank and H&CB will allow us to:

- strengthen our leading position in the retail and small- and medium-sized enterprise segment, and increase our competitiveness in the corporate, international and other segments, of the Korean banking market;
- reduce our costs by consolidating certain operations and eliminating redundancies, and thereby improve our productivity and operating efficiency;
- achieve an asset scale and capital size capable of absorbing further deteriorations in asset quality, if any, that may result from continuing economic difficulties in Korea;
- achieve economies of scale in making investments to upgrade our infrastructure and services, including our information technology systems and our Internet banking services; and
- improve our access to the capital markets as a result of our increased market presence.

In addition, we believe that the merger of Kookmin Bank and H&CB will result in a stronger combined entity with greater financial and managerial resources. Upon completion of the merger, we expect to be the largest bank in Korea in terms of total assets and retail customer base.

Structure of the Merger and Conversion of Kookmin Bank and H&CB Common Stock

Structure. To accomplish the combination of our businesses, Kookmin Bank and H&CB will jointly form a new Korean corporation, New Kookmin. Simultaneously, each of Kookmin Bank and H&CB will be merged into New Kookmin, and New Kookmin will remain as the surviving corporation. The merger has been structured as a merger of the two banks into a new entity in order to ensure that the transaction is properly understood by the stockholders and customers of the two banks, as well as their employees, as a merger of equals rather than an absorption by one bank of the other.

Conversion of Kookmin Bank and H&CB Stock. When the merger is completed:

- Kookmin Bank common stockholders will receive one share of New Kookmin common stock for every 1.688346 shares of Kookmin Bank common stock they own;
- Holders of Kookmin Bank global depositary shares will receive one New Kookmin American depositary share for every 1.688346 global depositary shares they own;
- H&CB common stockholders will receive one share of New Kookmin common stock for every share of H&CB common stock they own; and
- Holders of H&CB American depositary shares will receive one New Kookmin American depositary share for every two American depositary shares they own.

New Kookmin will not issue any fractional shares of common stock or fractional American depositary shares in connection with the merger. To the extent common stockholders of Kookmin Bank or H&CB are entitled to receive fractional shares of New Kookmin common stock in the merger, New Kookmin will take such fractional shares into custody on behalf of the stockholders and sell the fractional shares on the Korea Stock Exchange at the prevailing market price. New Kookmin will then distribute the proceeds of such sale to the relevant stockholders in proportion to their entitlement to the fractional shares.

To the extent holders of Kookmin Bank global depositary shares or H&CB American depositary shares are entitled to receive fractional New Kookmin American depositary shares in the merger, The Bank of New York, as depositary, will use reasonable efforts to sell such fractional American depositary shares at the prevailing market price. The depositary will then distribute the proceeds of such sale (after deducting its costs) to the relevant holders in proportion to their entitlement to the fractional American depositary shares.

Interests of Certain Kookmin Bank Directors and Executive Officers in the Merger

Stockholders of Kookmin Bank should be aware that a number of directors and officers of Kookmin Bank may have agreements or arrangements that provide them with interests in the merger that differ from those of Kookmin Bank stockholders. The Kookmin Bank board of directors was aware of these agreements and arrangements during its deliberations of the merits of the merger.

Governance Structure and Management Positions. Pursuant to the terms of the merger agreement, upon completion of the merger the board of directors of New Kookmin will be initially comprised of 30 individuals. 12 members of the board of directors and two executive officers of Kookmin Bank have been nominated to serve on New Kookmin's board of directors. In addition, we expect that the current executive officers of Kookmin Bank will be appointed as executive officers of New Kookmin.

Stock Ownership. As of August 8, 2001, the directors and executive officers of Kookmin Bank, together with their respective affiliates, beneficially owned 2,460,390 shares representing approximately 0.81% of the outstanding shares of Kookmin Bank common stock.

Indemnification and Insurance. Kookmin Bank's directors, executive officers and the members of its audit committee are insured against liability relating to the performance of their duties under a directors' and officers' insurance policy. The policy provides coverage of up to ₩20 billion in the aggregate for all insured persons, with respect to each incident triggering liability.

Interests of Certain H&CB Directors and Executive Officers in the Merger

Stockholders of H&CB should be aware that a number of directors and officers of H&CB may have agreements or arrangements that provide them with interests in the merger that differ from those of H&CB stockholders. The H&CB board of directors was aware of these agreements and arrangements during its deliberations of the merits of the merger.

Governance Structure and Management Positions. Pursuant to the terms of the merger agreement, upon completion of the merger the board of directors of New Kookmin will be initially comprised of 30 individuals. 15 members of the board of directors and one executive officer of H&CB have been nominated to serve on New Kookmin's board of directors. In addition, we expect that the current executive officers of H&CB will be appointed as executive officers of New Kookmin.

Pursuant to the terms of the merger agreement and the recommendation of the merger steering committee, Jung Tae Kim, the Chairman, President and Chief Executive Officer of H&CB, has been nominated to serve as Chief Executive Officer of New Kookmin.

Stock Ownership. As of August 8, 2001, the directors and executive officers of H&CB beneficially owned 66,062 shares of H&CB common stock, representing approximately 0.06% of the outstanding shares of H&CB common stock.

Indemnification and Insurance. Under its internal regulations, H&CB is required, to the maximum extent and in the manner permitted by applicable law, to indemnify its former and current directors against expenses and other losses actually and reasonably incurred in connection with any proceeding, arising out of the fact that such person is or was a director of H&CB. In addition, the directors of H&CB, its executive vice presidents and the members of its audit committee are insured against liability relating to the performance of their duties, under a directors' and officers' liability insurance policy. The policy provides coverage of up to ₩20 billion in the aggregate for all insured persons, with respect to each incident triggering liability.

Completion and Effectiveness of the Merger

The merger will be complete when all of the conditions to completion of the merger are satisfied or waived, including the approval of the merger agreement by the stockholders of Kookmin Bank and H&CB. The merger will become effective when we register the incorporation of New Kookmin and the dissolution of Kookmin Bank and H&CB with the commercial registry office of the Seoul District Court, pursuant to the applicable requirements of Korean law.

We are working on completing the merger as quickly as possible. We expect to complete the merger during the fourth quarter of 2001.

Exchange of Kookmin Bank and H&CB Common Stock and Depositary Shares for New Kookmin Common Stock and Depositary Shares

When the merger becomes effective or shortly thereafter, the Korea Securities Depository, which is the clearing agency for the Kookmin Bank and H&CB common stock, will register the newly issued New Kookmin common stock in book-entry form in the names of the common stockholders of record of Kookmin Bank and H&CB as of the effective date of the merger, in exchange for the Kookmin Bank and H&CB common stock so registered as of such date.

When New Kookmin common stock issued in respect of the Kookmin Bank common stock and the H&CB common stock underlying the Kookmin Bank global depositary shares and the H&CB American depositary shares is credited to the account of The Bank of New York, as depositary, at the Korea Securities Depository, the Korea Securities Depository will notify The Bank of New York of that deposit. When The Bank of New York receives that notice, the respective deposit agreements under which Kookmin Bank global depositary shares and the H&CB American depositary shares are issued will be amended and restated to combine the two agreements into one agreement. We describe that amended and restated deposit agreement under "Description of New Kookmin's American Depositary Shares". The Bank of New York will then call for surrender of the Kookmin Bank global depositary receipts and the H&CB American depositary receipts to be exchanged for New Kookmin American depositary receipts. The Depository Trust Company, which is the clearing agency for the Kookmin Bank global depositary shares and the H&CB American depositary shares, will surrender the outstanding Kookmin Bank global depositary shares and H&CB American depositary shares to The Bank of New York. In exchange, The Bank of New York will deliver New Kookmin American depositary shares to The Depository Trust Company, which will credit the newly issued New Kookmin American depositary shares to the accounts of its participants to which such Kookmin Bank and H&CB depositary shares are credited as of the close of business on the day prior to the effective date of the merger. As provided in the amended and restated deposit agreement referred to above, The Bank of New York will charge a fee of up to $.05 per depositary share surrendered for exchange into New Kookmin American depositary shares. The Depository Trust Company will collect that fee from its participants to the extent that depositary shares surrendered in that exchange were credited to their accounts.

Creditor Protection Procedures

Under the Korean Commercial Code and the Act on Structural Improvement of the Financial Industry of Korea, Kookmin Bank and H&CB are required to implement the following creditor protection procedures in connection with the merger:

- Within two weeks of the approval of the merger agreement by each bank's stockholders at their respective extraordinary general meetings, Kookmin Bank and H&CB must each provide a public notice to their respective creditors providing the creditors with a specified amount of time, not less than 10 days, to raise any objection to the merger.
- Any creditor failing to raise an objection during the specified period of time shall be deemed to have approved the merger.
- If a creditor raises an objection to the merger, Kookmin Bank or H&CB, as the case may be, will be required to perform its payment obligation to such creditor on an accelerated basis, to provide such creditor with collateral, or to deposit property with a trust company for the benefit of such creditor.

Treatment of Kookmin Bank and H&CB Stock Options

As of August 8, 2001, options to purchase an aggregate of 553,000 shares of Kookmin Bank common stock were outstanding and held by the officers, directors and employees of Kookmin Bank. As of that date, options to purchase an aggregate of 964,007 shares of H&CB common stock were outstanding and held by the officers, directors and employees of H&CB. See "Description of New Kookmin's Capital Stock—Capital Stock—Employee Stock Options". We anticipate that, subject to approval at the extraordinary general meeting of stockholders of Kookmin Bank, all outstanding Kookmin Bank stock options will be converted into corresponding options to purchase one share of New Kookmin common stock for every 1.688346 shares of Kookmin Bank common stock that an option holder is entitled to purchase under the outstanding Kookmin Bank stock options. We also anticipate that, subject to approval at the extraordinary general meeting of stockholders of H&CB, all outstanding H&CB stock options will be converted into corresponding options to purchase one share of New Kookmin common stock for every share of H&CB common stock that an option holder is entitled to purchase under the outstanding H&CB stock options. Accordingly, we anticipate that options to purchase an aggregate of 1,291,546 shares of New Kookmin common stock will be outstanding following the completion of the merger and will be held by former officers, directors and employees of Kookmin Bank and H&CB.

In the event that a director or officer of Kookmin Bank resigns from Kookmin Bank or New Kookmin as a result of the merger prior to the expiration of one year from the grant date of any options he or she holds, the number of shares he or she is entitled to purchase under the relevant options will be reduced proportionately to reflect the number of days remaining from the date of his or her resignation to the end of such one-year period.

In the event that a director or officer of H&CB resigns from H&CB or New Kookmin as a result of the merger prior to the expiration of three years from the grant date of any options he or she holds, the number of shares he or she is entitled to purchase under the relevant options will be reduced proportionately to reflect the number of days remaining from the date of his or her resignation to the end of such three-year period.

Effect of the Merger on Existing Agreements with Major Stockholders

Kookmin Bank has agreed to use its best efforts to consult with Goldman Sachs Capital Koryo, L.P. in connection with amending the agreement entered into between Goldman Sachs Capital Koryo, L.P. and Kookmin Bank in connection with Goldman Sachs Capital Koryo, L.P.'s investment in Kookmin Bank to the extent necessary to ensure that such agreement does not have a material adverse effect on the merger.

H&CB has agreed to use its best efforts to consult with ING Insurance International B.V., or ING, in connection with amending the agreement entered into between ING and H&CB in connection with ING's investment in H&CB to the extent necessary to ensure that such agreement does not have a material adverse effect on the merger.

Effect of the Merger on Outstanding Kookmin Bank Convertible Bonds

If Kookmin Bank and H&CB agree that the terms and conditions of the convertible bonds issued in connection with the investment agreement between Kookmin Bank and Goldman Sachs Capital Koryo, L.P. may potentially have a material adverse effect on the merger, Kookmin Bank will use its best efforts to amend the relevant terms and conditions of such convertible bonds prior to the date of the merger through consultations with Goldman Sachs Capital Koryo, L.P. and The Bank of New York.

Income Tax Consequences of the Merger

It is expected that each of the merger of Kookmin Bank into New Kookmin and the merger of H&CB into New Kookmin will qualify as a tax-free reorganization for U.S. federal income tax purposes. In general, holders of Kookmin Bank common stock or global depositary shares and holders of H&CB common stock or American depositary shares will not recognize any gain or loss on the exchange of their common stock and depositary shares for New Kookmin common stock or American depositary shares in the merger, except to the extent they receive cash in lieu of fractional shares.

However, if H&CB does not repurchase prior to the merger all of its preferred stock owned by the Korea Deposit Insurance Corporation, then the merger of H&CB into New Kookmin will not constitute a tax-free reorganization. In this case, holders of H&CB common stock or American depositary shares will recognize taxable gain to the extent that the fair market value of the New Kookmin common stock or American depositary shares they receive in the merger (including any cash received in lieu of fractional shares) exceeds their tax basis in the H&CB common stock or American depositary shares they hold. H&CB intends to repurchase prior to the merger all of its preferred stock owned by the Korea Deposit Insurance Corporation.

Accounting Treatment of the Merger

The consolidated financial statements of Kookmin Bank and the consolidated financial statements of H&CB presented elsewhere in this prospectus have been prepared in accordance with US GAAP. Under US GAAP, Kookmin Bank will be deemed the accounting acquiror of H&CB in the merger, and intends to account for the acquisition using the purchase method of accounting. The unaudited pro forma combined condensed financial statements presented elsewhere in this prospectus are based on the US GAAP consolidated financial statements of Kookmin Bank and the US GAAP consolidated financial statements of H&CB. See "Unaudited Pro Forma Combined Financial Information".

Regulatory Matters

We have summarized below the material regulatory requirements affecting the merger. Although we have not yet received all of the required approvals we discuss, we anticipate that we will receive them in time to complete the merger by the fourth quarter of 2001.

Korean Bank Regulatory Requirements. Under the Act on Structural Improvement of the Financial Industry of Korea, we are required to obtain an approval in respect of the merger from the Korean Financial Supervisory Commission prior to the incorporation of New Kookmin. We submitted an application for preliminary approval of the merger pursuant to this Act to the Financial Supervisory Commission on May 18, 2001. After we obtain a preliminary approval, we will apply to the Financial Supervisory Commission for official approval of the merger. Unless material changes are made to the terms of the merger after the date of preliminary approval, we expect that the Financial Supervisory Commission will issue its official approval of the merger in time for it to be completed as scheduled in the fourth quarter of 2001.

Korean Antitrust Requirements. Under the Monopoly Regulation & Fair Trade Act of Korea, we are required to file a business combination report with the Korean Fair Trade Commission within 30 days of the execution of the merger agreement. However, this filing requirement was waived under applicable Korean law because the Financial Supervisory Commission initiated direct consultations with the Fair Trade Commission after we filed our application for preliminary approval of the merger with the Financial Supervisory Commission on May 18, 2001. The Fair Trade Commission may require us to provide additional documents or information relating to the merger.

Other Requirements. In addition, Kookmin Bank and H&CB submitted a report regarding the proposed merger to the Financial Supervisory Commission and the Korea Stock Exchange on April 23, 2001, the date of the execution of the merger agreement. Kookmin Bank and H&CB have also undertaken in the merger agreement to use their best efforts to obtain all other Korean or non-Korean regulatory approvals necessary to complete the merger.

Stock Exchange Listings

We expect that the New Kookmin common stock will be approved for listing on the Korea Stock Exchange. We also expect that the New Kookmin American depositary shares will be approved for listing on the New York Stock Exchange, subject to official notice of issuance. We expect that the listing of the New Kookmin common stock on the Korea Stock Exchange will not occur until approximately three weeks after the merger is completed. Common stockholders of New Kookmin will not be able to trade their shares of New Kookmin common stock until such listing occurs.

Dissent and Appraisal Rights

Holders of Kookmin Bank and H&CB common stock are entitled to appraisal rights under Korean law. However, holders of Kookmin Bank global depositary shares or H&CB American depositary shares will not have any appraisal rights in respect of the merger, since they are not holders of record of the underlying Kookmin Bank or H&CB common stock.

Under the Korean Securities and Exchange Act and the Act on Structural Improvement of the Financial Industry of Korea, in order to exercise the appraisal rights, a holder of Kookmin Bank or H&CB common stock must:

- have been listed on the stockholder registry as of August 8, 2001;
- provide written notice to Kookmin Bank or H&CB, as the case may be, of his or her objection to the merger prior to the applicable extraordinary general meeting;
- not vote to approve the merger agreement at such extraordinary general meeting; and
- within 10 days of such extraordinary general meeting, request that Kookmin Bank or H&CB, as applicable, purchase his or her shares.

If the merger is approved, we will purchase the shares of each dissenting stockholder who has properly submitted a purchase request to us, within two months of receipt of the request. Stockholders wishing to exercise their appraisal rights must hold their shares until we purchase such shares within the specified two-month period.

Under Korean law, the purchase price for shares in respect of which appraisal rights have been exercised is to be determined through negotiation between the dissenting stockholders and the relevant bank. However, if the dissenting stockholders and the relevant bank fail to agree on a purchase price, Korean law provides that the purchase price will be calculated as the arithmetic average of the weighted average daily closing prices of the relevant bank's common stock for (1) the two month period, (2) the one month period and (3) the one week period ending immediately prior to April 23, 2001, the date each bank's board of directors approved the execution of the merger agreement. The appraisal price to be offered by each of Kookmin Bank and H&CB was calculated as follows using the formula described above:

	Kookmin Bank Common Stock	H&CB Common Stock
(1) Two month daily closing price weighted average	₩14,449	₩22,787
(2) One month daily closing price weighted average	13,568	21,669
(3) One week daily closing price weighted average	13,886	22,867
Appraisal Price (arithmetic average of (1), (2) and (3))	₩13,968	₩22,441

Under Korean law, stockholders of Kookmin Bank and H&CB exercising appraisal rights may contest the above appraisal prices by providing the relevant bank with a written request to adjust the price at least ten days prior to the expiration of the two-month period during which the bank may buy the shares. If either bank or 30% or more of its stockholders exercising appraisal rights do not accept the appraisal price calculated as set forth above, the Financial Supervisory Commission may adjust the appraisal price.

If the Financial Supervisory Commission decides to adjust the appraisal price, it will calculate a revised appraisal price based on changes in the Korea Composite Stock Price Index between April 23, 2001, the date each bank's board of directors approved the execution of the merger agreement, and the tenth day following the date of the relevant extraordinary general meeting, the last day that stockholders have to submit their request to exercise their appraisal rights, as described in the table below:

	KOSPI on the tenth day following the extraordinary general meeting is higher than it was on April 23, 2001[(1)]	**KOSPI on the tenth day following the extraordinary general meeting is lower than it was on April 23, 2001[(1)]**
Standard adjusted price is higher than the market price of the bank's common stock on the tenth day following the extraordinary general meeting[(2)]	Revised appraisal price will be the higher of: 1. The appraisal price described above; or 2. The market price on the last day of the 10-day exercise period.	Revised appraisal price will be the standard adjusted price.
Standard adjusted price is lower than the market price of the bank's common stock on the tenth day following the extraordinary general meeting[(2)]	Revised appraisal price will be the standard adjusted price.	Revised appraisal price will be the lower of: 1. The appraisal price described above; or 2. The market price on the last day of the 10-day exercise period.

(1) For purposes of this table, "KOSPI" refers the Korea Composite Stock Price Index for the banking industry, as calculated and published by the Korea Stock Exchange. If there are fewer than 10 companies in the banking industry on the final day of the exercise period or if the market capitalization of the relevant bank is equal to or more than 10% of that of all of the banks on the index, the standard Korea Composite Stock Price Index will be used instead. The KOSPI on the final day of the 10-day exercise period will be calculated as the arithmetic average of the closing price of the appropriate index for the seven trading days prior to, and including, the final day of the 10-day exercise period.

(2) The "standard adjusted price" is the amount equal to the appraisal price described above multiplied by a fraction of which the numerator is the KOSPI on the final day of the 10-day exercise period and the denominator is the KOSPI on April 23, 2001 (each calculated as described in note (1)).

If you own shares of common stock of Kookmin Bank or H&CB and wish to find out more information about how to exercise your appraisal rights, you should contact the relevant bank at the following addresses:

Kookmin Bank
Securities Agency Business Department
15-22 Yoido-dong, Youngdeungpo-gu
Seoul 150-758, Korea

H&CB
General Affairs Team
36-3 Yoido-dong, Youngdeungpo-gu
Seoul 150-758, Korea

The Merger Agreement

We believe this summary describes all material terms of the merger agreement. However, because the merger agreement is the primary legal document that governs the merger, we urge you to read the full text of the merger agreement for its terms and provisions and other information that may be important to you. The merger agreement is attached as Annex I to this prospectus and is incorporated by reference in this prospectus.

Form of the merger. Kookmin Bank and H&CB have agreed that through the merger, each of Kookmin Bank and H&CB will be dissolved and New Kookmin will be established simultaneously. The name of New Kookmin will be "Kookmin Bank". However, if Kookmin Bank and H&CB agree that the merger through the establishment of New Kookmin is not possible due to material policy restrictions, the form of the merger will be changed so that Kookmin Bank will be the surviving bank and the name of the surviving bank will be "H&CB". New Kookmin will have its head office in Seoul, Korea.

Date and effectiveness of the merger. The date of the merger will be October 31, 2001, unless the conditions precedent to the merger have not been satisfied, in which case the date of the merger may be changed as agreed by Kookmin Bank and H&CB. The merger will take effect upon completion of the registration of the merger with the commercial registry office of the Seoul District Court, pursuant to the applicable requirements of Korean law.

Merger ratios. New Kookmin will issue and deliver the following shares to the stockholders listed on the stockholder registry of Kookmin Bank as of the date of the merger:

- one share of its common stock (par value ₩5,000) per 1.688346 shares of common stock (par value ₩5,000) of Kookmin Bank.
- one share of its preferred stock (par value ₩5,000), with substantially identical terms and conditions as those of Kookmin Bank's preferred stock, per one share of preferred stock (par value ₩5,000) of Kookmin Bank.

New Kookmin will issue and deliver the following shares to the stockholders listed on the stockholder registry of H&CB as of the date of the merger:

- one share of its common stock (par value ₩5,000) per one share of common stock (par value ₩5,000) of H&CB.
- one share of its preferred stock (par value ₩5,000), with substantially identical terms and conditions as those of H&CB's preferred stock, per one share of preferred stock (par value ₩5,000) of H&CB.

No new shares will be issued with respect to treasury shares held by Kookmin Bank or H&CB. Any required disposition of fractional shares will be determined by Kookmin Bank and H&CB and in accordance with the Korean Commercial Code.

Capital stock of New Kookmin. The aggregate number of shares of authorized capital stock of New Kookmin to be issued will be 1,000,000,000 shares. The par value of capital stock to be issued by New Kookmin is ₩5,000 per share.

The merger agreement provides that, in connection with the merger, New Kookmin will issue 298,605,132 shares of common stock and 41,790,000 shares of preferred stock, and that the paid-in capital of New Kookmin at the time of its incorporation will be ₩1,701,975,660,000. However, these numbers and amounts are subject to adjustment based on the actual numbers of shares of Kookmin Bank and H&CB common stock and preferred stock outstanding on the effective date of the merger.

The total reserves of New Kookmin will consist of capital surplus reserves of ₩5,554,055,455,200. In the event that there is a discrepancy between such amount and the amount calculated in accordance with applicable laws and accounting principles resulting in a new amount, the new amount will be the total reserves of New Kookmin.

The number of shares to be issued and the paid-in capital may be adjusted in the event that any of the following occurs prior to the date of the merger (although any such adjustment will not affect the merger ratios described above):

- New shares are issued pursuant to the exercise of the conversion rights attached to convertible bonds issued by Kookmin Bank prior to the date of the merger agreement;
- New shares are issued pursuant to the exercise of stock options granted to directors, officers or employees of Kookmin Bank or H&CB;
- Treasury shares acquired by Kookmin Bank or H&CB are cancelled pursuant to an offset against earnings or in accordance with capital reduction procedures or are sold; or
- Kookmin Bank or H&CB acquires shares as a result of the exercise of appraisal rights by stockholders who oppose the merger.

Stockholder approval of merger. Kookmin Bank and H&CB will each convene a stockholders' meeting for approval of the merger by October 20, 2001.

Incorporators. Four or more incorporators appointed by Kookmin Bank and H&CB will jointly perform any acts relating to the establishment of New Kookmin, including the preparation of its articles of incorporation. These incorporators will be appointed by special resolutions at the stockholders' meetings of Kookmin Bank and H&CB for the approval of the merger.

Employees. The employees of Kookmin Bank and H&CB will become employees of New Kookmin as a result of the merger.

Stock Options. The exercise period, exercise price, method of exercise and other terms related to the exercise of stock options granted, prior to the date of the merger agreement, to the directors, officers or employees of Kookmin Bank and H&CB will be adjusted as agreed by Kookmin Bank and H&CB. Kookmin Bank and H&CB will take measures for the adoption of resolutions providing for the stock option adjustments described above at meetings of their boards of directors and at the stockholders' meetings for the approval of the merger, as well as measures for the amendment, prior to the date of the merger, of stock option agreements entered into with the relevant directors, officers and employees. However, any such amendments to the stock option agreements will take effect on the date of the registration of the merger with the commercial registry office of the Seoul District Court. In the event that these stock option adjustments result in any losses to directors, officers or employees of Kookmin Bank or H&CB, New Kookmin will indemnify such directors, officers or employees for such losses.

Convertible Bonds. If Kookmin Bank and H&CB agree that the terms and conditions of either the convertible bonds issued to the International Finance Corporation pursuant to the subordinated convertible notes agreement dated June 22, 1998 between Kookmin Bank and the International Finance Corporation or the convertible bonds issued under the investment agreement dated May 27, 1999 between Kookmin Bank and Goldman Sachs Capital Koryo, L.P. may potentially have a material adverse effect on the merger, Kookmin Bank will use its best efforts to amend the relevant terms and conditions of such convertible bonds prior to the date of the merger through consultations with the International Finance Corporation or with Goldman Sachs Capital Koryo, L.P. and The Bank of New York.

Treasury Stock. Out of 16,000,000 shares of its preferred stock that Kookmin Bank held as treasury stock, 8,000,000 shares were cancelled on April 23, 2001 in accordance with the procedure for the reduction of capital under the Korean Commercial Code. Kookmin Bank plans to repurchase 24,000,000 shares of its preferred stock from the Korea Deposit Insurance Corporation. As of the date of the merger agreement, H&CB held 41,510,000 shares of its preferred stock as treasury stock and has no plan to cancel, sell or otherwise dispose of such preferred stock prior to the date of the merger. H&CB plans to repurchase 17,790,000 shares of its preferred stock from the Korea Deposit Insurance Corporation.

Governance of New Kookmin. Immediately after the merger, the board of directors of New Kookmin will consist of up to 30 directors. In the event that New Kookmin does not hold an inaugural stockholders' meeting, the directors of New Kookmin will be appointed by resolutions at the stockholders' meetings of Kookmin Bank and H&CB for the approval of the merger. In such event, prior to the stockholders' meetings of Kookmin Bank and H&CB for the approval of the merger, Kookmin Bank and H&CB will after mutual consultation attach a list of candidates for directors and their qualifications and will notify their stockholders of, and make public, this list in accordance with the applicable laws. The term of directors will commence from the date of registration of the merger with the commercial registry office of the Seoul District Court and will be as set forth in the articles of incorporation of New Kookmin. The chief executive officer of New Kookmin will be appointed based on the recommendation of the merger steering committee and pursuant to applicable laws.

Conditions to the merger. The obligation of each of Kookmin Bank and H&CB to complete the merger are subject to the satisfaction or waiver of specified conditions, including those listed below:

- the obtaining or satisfaction of all regulatory approvals, permits, consents and requirements necessary for the consummation of the merger;
- the satisfaction of the listing requirements of, and eligibility for trading on, the Korea Stock Exchange, for the shares of New Kookmin common stock to be issued in connection with the merger;

- the satisfaction of the listing requirements of, and eligibility for trading on, the New York Stock Exchange, for the New Kookmin American depositary shares to be issued in connection with the merger; and
- the declaration of effectiveness of the registration statement on Form F-4, of which this prospectus forms a part, by the U.S. Securities and Exchange Commission.

Kookmin Bank's obligation to complete the merger is subject to the satisfaction or waiver of the following additional conditions before completion of the merger:

- H&CB's representations and warranties set out in the merger agreement must be true and correct in all material respects as of the date of the merger agreement and as of the date the merger; and
- H&CB must have performed in all material respects all covenants and other obligations required to be performed by it under the merger agreement.

H&CB's obligation to complete the merger is subject to the satisfaction or waiver of the following additional conditions before completion of the merger:

- Kookmin Bank's representations and warranties set out in the merger agreement must be true and correct in all material respects as of the date of the merger agreement and as of the date the merger; and
- Kookmin Bank must have performed in all material respects all covenants and other obligations required to be performed by it under the merger agreement.

Termination. The merger agreement may be terminated at any time prior to the completion of the merger:

- by mutual written consent of Kookmin Bank and H&CB;
- by either Kookmin Bank or H&CB if any of the following events occur:
  - the completion of the merger becomes impossible because any approval or consent necessary to complete the merger is not granted or because the merger becomes unlawful due to a change in applicable law;
  - the registration statement on Form F-4, of which this prospectus forms a part, is not declared effective by the U.S. Securities and Exchange Commission by December 31, 2001;
  - the shares of New Kookmin common stock fail to meet the listing requirements of, or are not eligible for trading on, the Korea Stock Exchange, by December 31, 2001; or
  - the New Kookmin American depositary shares fail to meet the listing requirements of, or are not eligible for trading on, the New York Stock Exchange, by December 31, 2001;

  except that this right to terminate the merger agreement will not be available to any party that has violated the agreement or that caused the delay in the completion of the merger, not including a delay caused by the failure of the stockholders of either party to adopt a resolution approving the merger agreement; or
- by either Kookmin Bank or H&CB if the other party breaches any of its representations, warranties or obligations under the merger agreement, and such breach causes a material adverse effect on the financial condition, results of operations or business of either party or on the ability of either party to perform its obligations under the merger agreement, and fails to cure such breach within 30 days of receiving written notice from the other party.

Effect of termination. After termination, either party may seek damages or other rights and remedies from the party responsible for any default or breach under the merger agreement.

Conduct of business pending the merger. Under the merger agreement, each of Kookmin Bank and H&CB has agreed that, during the period before completion of the merger, it will carry on its respective business in the ordinary course of business consistent with past practice, and it will use and preserve the assets held by it on the date of the merger agreement in good condition. Each of Kookmin Bank and H&CB has also agreed that it will not, without the written consent of the other party, engage in any sale or purchase of any assets, or any incurrence of debt, that may have a material adverse effect on its financial condition, results of operations or business or on its ability to perform its obligations under the merger agreement.

Each of Kookmin Bank and H&CB has agreed to use its best efforts to hold its respective extraordinary general meeting by October 20, 2001 and to cause the merger to be completed by October 31, 2001. Such best efforts shall cover any actions by either party necessary to complete the merger, including in connection with:

- the completion of all necessary internal procedures;
- the documentary filings and negotiations required to obtain any necessary consents and approvals; and
- the preparation or delivery of any documents necessary for the approval of the listing and continued trading of New Kookmin's common stock and American depositary shares on the Korea Stock Exchange and New York Stock Exchange, respectively.

Each of Kookmin Bank and H&CB has agreed to use its best efforts to obtain support from any Korean or non-Korean governmental entity necessary for the efficient proceeding of the merger.

Kookmin Bank has agreed to use its best efforts to consult with Goldman Sachs Capital Koryo, L.P. in connection with amending the agreement entered into between Goldman Sachs Capital Koryo, L.P. and Kookmin Bank in connection with Goldman Sachs Capital Koryo, L.P.'s investment in Kookmin Bank to the extent necessary to ensure that such agreement does not have a material adverse effect on the merger.

H&CB has agreed to use its best efforts to consult with ING Insurance International B.V., or ING, in connection with amending the agreement entered into between ING and H&CB in connection with ING's investment in H&CB to the extent necessary to ensure that such agreement does not have a material adverse effect on the merger.

Each of Kookmin Bank and H&CB has also agreed to provide any materials or information reasonably requested by the other party and to respond faithfully to any inquiries by the other party, provided that compliance with such requests or inquiries does not interfere with the responding party's ordinary course of business. The parties have agreed to consult with each other in connection with the preparation of any press release or other public disclosure related to the merger, and unless otherwise required by law or under a court order, neither party will make any public disclosure without engaging in such consultation.

Each of Kookmin Bank and H&CB has agreed to notify the other party in writing if it becomes aware of any condition:

- that may have a material adverse effect on the merger;
- that results in any of its representations and warranties no longer being true; or
- that prevents the satisfaction of any condition to the merger.

In addition, each of Kookmin Bank and H&CB has agreed to some specific restrictions relating to the following:

- the declaration or payment of any new dividend;
- the issuance of any stocks, depositary receipts, convertible bonds, bonds with warrants or exchangeable bonds;
- the grant of any stock options to any of its directors, officers or employees;

- the grant of any options, or other rights to acquire stock, to any third-parties; and
- the reduction in the amount of outstanding stock or change in capital stock.

Merger steering committee. Kookmin Bank and H&CB have agreed to form a merger steering committee to review and coordinate any major issues related to the merger. Each of Kookmin Bank and H&CB has agreed to respect the results of the merger steering committee's review and coordination and to use its best efforts to implement such results. The merger steering committee was formed on January 4, 2001 and consists of the following six members:

- a chairman, appointed by the mutual consent of the chief executive officers of Kookmin Bank and H&CB;
- a secretary, appointed by the chairman of the merger steering committee in consultation with the chief executive officers of Kookmin Bank and H&CB; and
- four other members, including one outside director and one member of management from each of Kookmin Bank and H&CB.

Any vacancy on the merger steering committee will be filled by a replacement selected by the actual agreement of Kookmin Bank and H&CB.

In addition, Kookmin Bank and H&CB have granted the merger steering committee authority to establish a merger planning team to assist the merger steering committee in its operations and to perform all day-to-day tasks related to the merger. Kookmin Bank and H&CB have agreed to hold harmless and indemnify the merger steering committee, its members and their representatives from any claims arising out of the activities of the merger steering committee, to the extent that the person being indemnified has not acted with malice or gross negligence.

Expenses. Whether or not the merger is completed, all expenses incurred in connection with the merger agreement and the merger will be paid by the party incurring the expenses. All expenses incurred by the activities of the merger steering committee, including the fees and expenses of the merger steering committee's advisors, will be shared equally by Kookmin Bank and H&CB, unless the merger agreement is terminated due to actions of one party, in which case that responsible party will be required to pay for all fees and expenses incurred by the merger steering committee, including the fees and expenses of the merger steering committee's advisors.

Representations and Warranties. The merger agreement contains customary representations and warranties of Kookmin Bank and H&CB relating to, among other things:

- corporate organization and similar corporate matters;
- authorization, execution, delivery and enforceability of the merger agreement;
- subsidiaries and affiliates;
- capital structure and securities;
- compliance with applicable laws and regulations, including banking laws and regulations;
- compliance with contracts;
- financial statements;
- undisclosed liabilities;
- absence of material adverse changes;
- real and tangible property;
- derivative products;
- intellectual property;

- taxes;
- legal proceedings and claims; and
- environmental matters.

In addition, H&CB has made certain representations and warranties to Kookmin Bank with respect to H&CB's management and operation of the National Housing Fund.

Articles of Incorporation of New Kookmin

The articles of incorporation of New Kookmin were prepared and proposed by the merger steering committee and are expected to be adopted by the incorporators of New Kookmin at the time of its formation. For a summary of the material provisions of the proposed articles of incorporation of New Kookmin, and the rights of stockholders of New Kookmin under the proposed articles of corporation, see the section entitled "Description of New Kookmin Capital Stock—Proposed Articles of Incorporation". While the proposed articles of incorporation are subject to revision by the incorporators of New Kookmin, we do not expect any material revisions to be made.

Opinion of UBS Warburg to the Board of Directors of H&CB

In connection with the proposed merger, the board of directors of H&CB received a written opinion, dated August 14, 2001, from UBS AG, acting through its business group UBS Warburg, to the effect that, as of that date and based on and subject to various assumptions, matters considered and limitations described in the opinion, the exchange ratio provided for in the merger was fair, from a financial point of view, to the holders of H&CB common stock. Representatives of H&CB advised UBS Warburg that the conversion ratio in the merger for each outstanding share of H&CB common stock was structured such that, as a result of the merger, each outstanding share of H&CB common stock would effectively be converted into the right to receive 1.688346 shares of Kookmin Bank common stock, in the form of one share of New Kookmin common stock. For purposes of UBS Warburg's analysis, the conversion ratio of 1.688346 is referred to as the exchange ratio.

The full text of UBS Warburg's opinion describes the assumptions made, procedures followed, matters considered and limitations on the review undertaken by UBS Warburg. This opinion is attached as Annex VII and is incorporated into this prospectus by reference. **UBS Warburg's opinion is directed only to the fairness, from a financial point of view, of the exchange ratio provided for in the merger and does not address any other aspect of the merger or any related transaction. The opinion does not address H&CB's underlying business decision to effect the merger or constitute a recommendation to any holder of H&CB common stock as to how to vote with respect to any matters relating to the proposed merger. Holders of H&CB common stock are encouraged to read this opinion carefully in its entirety.** The summary of UBS Warburg's opinion described below is qualified in its entirety by reference to the full text of its opinion.

In arriving at its opinion, UBS Warburg:

- reviewed current and historical market prices and trading volumes of H&CB common stock and Kookmin Bank common stock;
- reviewed publicly available business and financial information, including publicly available forecasts, relating to H&CB and Kookmin Bank;
- reviewed internal financial information and other data relating to the businesses and financial prospects of H&CB and Kookmin Bank, including estimates and financial forecasts prepared by the managements of H&CB and Kookmin Bank, that were provided to or discussed with UBS Warburg by the managements of H&CB and Kookmin Bank and are not publicly available;
- conducted discussions with members of H&CB's and Kookmin Bank's senior managements;

- reviewed publicly available financial and stock market data with respect to other companies in lines of businesses that UBS Warburg believed to be generally comparable to those of H&CB and Kookmin Bank;
- compared the financial terms of the merger with the publicly available financial terms of other transactions which UBS Warburg believed to be generally relevant;
- considered the pro forma financial impact of the merger and the potential cost savings and other synergies anticipated to result from the merger that H&CB's management provided to or discussed with UBS Warburg;
- reviewed the merger agreement; and
- considered other financial studies, analyses and investigations, and considered other information, as UBS Warburg deemed necessary or appropriate.

In connection with its review, with H&CB's consent, UBS Warburg did not assume any responsibility for independent verification of any of the information that UBS Warburg was provided or reviewed for the purpose of its opinion and, with H&CB's consent, UBS Warburg relied on that information being complete and accurate in all material respects. In addition, at H&CB's direction, UBS Warburg did not make any independent evaluation or appraisal of any of the assets or liabilities, contingent or otherwise, of H&CB or Kookmin Bank, and was not furnished with any evaluation or appraisal. UBS Warburg is not an expert in the evaluation of allowances for loan losses, and did not make an independent evaluation of the adequacy of the allowances for loan losses of H&CB or Kookmin Bank, and was not requested to, and did not, conduct a review of any individual credit files of H&CB or Kookmin Bank and, as a result, UBS Warburg assumed, at the direction of H&CB and Kookmin Bank, that the aggregate allowances for loan losses of H&CB and Kookmin Bank are adequate to cover the losses and will be adequate on a pro forma basis for New Kookmin.

With respect to the publicly available financial forecasts relating to H&CB and Kookmin Bank, UBS Warburg reviewed and discussed those forecasts with the managements of H&CB and Kookmin Bank and assumed, at the direction of H&CB and Kookmin Bank, that they represent reasonable estimates and judgments as to the future financial performance of H&CB and Kookmin Bank. With respect to the financial forecasts and estimates prepared by the managements of H&CB and Kookmin Bank, UBS Warburg assumed, at the direction of H&CB and Kookmin Bank, that they were reasonably prepared on bases reflecting the best currently available estimates and judgments of the managements of H&CB and Kookmin Bank as to the future financial performance of H&CB and Kookmin Bank. With respect to the estimates of the potential cost savings and other synergies anticipated by the management of H&CB to result from the merger, UBS Warburg assumed, at the direction of H&CB, that they were reasonably prepared on a basis reflecting the best currently available estimates and judgments of H&CB's management as to the potential cost savings and other synergies anticipated to result from the merger, including the amount, timing and achievability of those synergies.

UBS Warburg also assumed, with H&CB's consent, that all governmental, regulatory or other consents and approvals necessary for the consummation of the merger would be obtained without any material adverse effect on H&CB, Kookmin Bank or the merger. UBS Warburg's opinion is necessarily based on economic, monetary, market and other conditions existing, and information available to UBS Warburg, on the date of its opinion.

At H&CB's direction, UBS Warburg was not requested to, and it did not, participate in the negotiation or structuring of the merger. In addition, at H&CB's direction, UBS Warburg was not asked to, and it did not, offer any opinion as to the terms of the merger agreement, the obligations under the merger agreement or the form of the merger. UBS Warburg expressed no opinion as to the value of New Kookmin common stock or New Kookmin American depositary shares when issued in the merger or the prices at which New Kookmin common stock or New Kookmin American depositary shares will trade at any time. In connection with its engagement, UBS Warburg was not requested to, and it did not, solicit third party indications of interest in the acquisition of all or a part of H&CB. In rendering its opinion, UBS Warburg assumed, at H&CB's direction, that each of H&CB and Kookmin Bank would comply with all material covenants and agreements contained in, and other material terms of, the merger agreement and that the merger would be consummated in accordance with its terms, without waiver, modification or amendment of any material term, condition or agreement. Except as otherwise described above, H&CB imposed no other instructions or limitations on UBS Warburg with respect to the investigations made or the procedures followed by UBS Warburg in rendering its opinion.

In connection with rendering its opinion to H&CB's board of directors, UBS Warburg performed a variety of financial and comparative analyses which are summarized below. The following summary is not a complete description of all of the analyses performed and factors considered by UBS Warburg in connection with its opinion. The preparation of a fairness opinion is a complex process involving subjective judgments and is not necessarily susceptible to partial analysis or summary description. With respect to the analysis of selected publicly traded companies and selected transactions referenced below, no company or transaction used as a comparison is either identical or directly comparable to H&CB, Kookmin Bank or the merger. These analyses necessarily involve complex considerations and judgments concerning financial and operating characteristics and other factors that could affect the public trading or acquisition values of the companies concerned.

UBS Warburg believes that its analyses and the summary below must be considered as a whole and that selecting portions of its analyses and factors or focusing on information presented in tabular format, without considering all analyses and factors or the narrative description of the analyses, could create a misleading or incomplete view of the processes underlying UBS Warburg's analyses and opinion. None of the analyses performed by UBS Warburg was assigned greater significance by UBS Warburg than any other. UBS Warburg arrived at its ultimate opinion based on the results of all analyses undertaken by it and assessed as a whole. UBS Warburg did not draw, in isolation, conclusions from or with regard to any one factor or method of analysis.

The estimates of H&CB's and Kookmin Bank's future performance provided by H&CB's and Kookmin Bank's managements in or underlying UBS Warburg's analyses are not necessarily indicative of future results or values, which may be significantly more or less favorable than those estimates. In performing its analyses, UBS Warburg considered industry performance, general business and economic conditions and other matters, many of which are beyond H&CB's and Kookmin Bank's control. Estimates of the financial value of companies do not necessarily purport to be appraisals or reflect the prices at which companies actually may be sold.

The exchange ratio provided for in the merger was determined through negotiation between H&CB and Kookmin Bank and the decision to enter into the merger was solely that of H&CB's board of directors. UBS Warburg's opinion and financial analyses was not determinative of the views of H&CB's board of directors or management with respect to the merger or the exchange ratio provided for in the merger.

The following is a brief summary of the material financial analyses performed by UBS Warburg in connection with its opinion dated August 14, 2001. **The financial analyses summarized below include information presented in tabular format. In order to fully understand UBS Warburg's financial analyses, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses. Considering the data below without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of UBS Warburg's financial analyses.**

Introduction

Representatives of H&CB advised UBS Warburg that the conversion ratio in the merger for each outstanding share of H&CB common stock was structured such that, as a result of the merger, each outstanding share of H&CB common stock would effectively be converted into the right to receive 1.688346 shares of Kookmin Bank common stock, in the form of one share of New Kookmin common stock. Accordingly, UBS Warburg compared the implied exchange ratio reference ranges derived from its analyses to 1.688346, which is referred to as the exchange ratio.

Merger Exchange Ratio Analysis

UBS Warburg performed a merger exchange ratio analysis comparing the exchange ratio provided for in the merger with the exchange ratios implied for H&CB and Kookmin Bank based on the daily closing prices of H&CB common stock and Kookmin Bank common stock on December 21, 2000, April 20, 2001 and August 14, 2001 and the volume-based weighted average of the daily closing prices of H&CB common stock and Kookmin Bank common stock during the one-week and one-month periods preceding December 22, 2000, which is the date of the memorandum of understanding between H&CB and Kookmin Bank with respect to the merger, April 23, 2001, which is the date of the merger agreement, and August 14, 2001, which is the date of UBS Warburg's opinion. This analysis indicated the following implied exchange ratio reference range, as compared to the exchange ratio provided for in the merger:

Implied Exchange Ratio Reference Range	Exchange Ratio in the Merger
1.596966-1.716513	1.688346

Historical Exchange Ratio Analysis

UBS Warburg performed a historical exchange ratio analysis comparing the exchange ratio provided for in the merger with the exchange ratios implied for H&CB and Kookmin Bank based on the daily closing prices of H&CB common stock and Kookmin Bank common stock on December 21, 2001 and the average of the daily closing prices of H&CB common stock and Kookmin Bank common stock during the one-week, one-month, two-month, three-month, four-month, five-month, six-month, nine-month, 12-month and 18-month periods preceding December 22, 2000, which is the date of the memorandum of understanding between H&CB and Kookmin Bank with respect to the merger. This analysis indicated the following implied exchange ratio reference range, as compared to the exchange ratio provided for in the merger:

Implied Exchange Ratio Reference Range	Exchange Ratio in the Merger
1.532605-1.787760	1.688346

Contribution Analysis

UBS Warburg reviewed the relative contributions of H&CB and Kookmin Bank to the combined company's net interest income and non-interest income, net income, total assets, loans net of allowance for loan losses, deposits, shareholders' equity and preprovision income, which represents the sum of net interest income, non-interest income and net non-operating income, less non-interest expense, for fiscal year 2000 based on Korean and United States generally accepted accounting principles, or GAAP, as well as for the first-half of fiscal year 2001 on an unconsolidated and unaudited Korean GAAP basis. UBS Warburg also analyzed the relative contributions of H&CB and Kookmin Bank to the combined company's estimated earnings for fiscal years 2001 through 2003 in accordance with Korean GAAP. Estimated financial data for H&CB and Kookmin Bank were based on publicly available research analysts' estimates. Using the estimated percentage of relative contributions by H&CB and Kookmin Bank to the combined entity based on each of the financial metrics reviewed, UBS Warburg derived the following implied exchange ratio reference ranges, as compared to the exchange ratio provided for in the merger:

Implied Exchange Ratio Reference Range Based on Fiscal Year 2000 Results and Estimated Fiscal Year 2001 through 2003 Earnings (Korean GAAP)	Implied Exchange Ratio Reference Range Based on Fiscal Year 2000 Results (U.S. GAAP)	Implied Exchange Ratio Reference Range Based on Results of First-Half of Fiscal Year 2001 (Korean GAAP)	Exchange Ratio in the Merger
1.506003-1.891954	1.572716-1.864890	1.544069-1.912843	1.688346

Analysis of Selected Public Companies

UBS Warburg compared selected financial information and operating statistics for H&CB and Kookmin Bank with corresponding financial information and operating statistics of the following five selected publicly held companies in the banking industry:

- Chohung Bank
- Hana Bank
- KorAm Bank
- Korea Exchange Bank
- Shinhan Bank

UBS Warburg reviewed equity values as multiples of fiscal year 2000 and estimated fiscal years 2001 and 2002 preprovision income and earnings and as a multiple of fiscal year 2000 book value. UBS Warburg then compared the multiples derived from the selected companies with corresponding multiples for H&CB and Kookmin Bank. Multiples for the selected companies, H&CB and Kookmin Bank were based on closing stock prices on August 14, 2001. Estimated financial data for the selected companies were based on publicly available research analysts' estimates. Estimated financial data for H&CB and Kookmin Bank were based both on publicly available research analysts' estimates and internal estimates of the managements of H&CB and Kookmin Bank. Based on an implied equity reference range derived for each of H&CB and Kookmin Bank by applying selected multiples of the selected companies, UBS Warburg derived the following implied exchange ratio reference range, as compared to the exchange ratio provided for in the merger:

Implied Exchange Ratio Reference Range	Exchange Ratio in the Merger
1.511667-1.870190	1.688346

Dividend Discount Analysis

UBS Warburg performed a dividend discount analysis of H&CB and Kookmin Bank in order to derive an implied equity reference range for H&CB and Kookmin Bank by calculating the present value of future theoretical dividends, or excess equity, that H&CB and Kookmin Bank could generate for fiscal years 2001 through 2004 and the present value of the terminal values for H&CB and Kookmin Bank. Estimated financial data for H&CB and Kookmin Bank were based on publicly available research analysts' estimates and internal estimates of, and discussions with, the managements of H&CB and Kookmin Bank. UBS Warburg calculated a range of estimated terminal values by applying multiples ranging from 5.0x to 7.0x, in the case of H&CB, and multiples ranging from 5.5x to 7.5x, in the case of Kookmin Bank, to the estimated fiscal year 2004 net earnings of H&CB and Kookmin Bank. The present value of the excess equity and terminal values were calculated using discount rates of 13.8% to 15.8%, in the case of H&CB, and discount rates of 13.0% to 15.0%, in the case of Kookmin Bank. Based on a selected implied equity reference range derived for each of H&CB and Kookmin Bank, UBS Warburg then derived the following implied exchange ratio reference range, as compared to the exchange ratio provided for in the merger:

Implied Exchange Ratio Reference Range	Exchange Ratio in the Merger
1.454734-1.677495	1.688346

Pro Forma Impact Analysis

UBS Warburg analyzed the potential pro forma effect of the merger on H&CB's earnings per share and book value per share for fiscal year 2000 and estimated fiscal years 2001 through 2004 after giving full and partial effect to the potential cost savings and other synergies anticipated by H&CB's management to result from the merger and without giving effect to purchase price allocation under purchase accounting methods. Estimated financial data for H&CB and Kookmin Bank were based on publicly available financial forecasts and estimates of the potential cost savings and other synergies were based on internal estimates of H&CB's management. This analysis indicated that the merger could be dilutive to H&CB's earnings per share, or EPS, in fiscal year 2000 and estimated EPS for fiscal years 2001 and 2002, and accretive to H&CB's estimated EPS in fiscal years 2003 and 2004, after giving full and partial effect to estimated potential cost savings and other synergies. This analysis also indicated that the merger could be accretive to H&CB's book value per share in fiscal year 2000 and estimated book value per share in fiscal years 2001 through 2004 after giving full and partial effect to estimated potential cost savings and other synergies. Actual results may vary from projected results and the variations may be material.

Other Factors

In rendering its opinion, UBS Warburg also reviewed and considered other factors, including:

- relationships between movements in indexed share price percentages for H&CB common stock, Kookmin Bank common stock and the Korea Composite Stock Price Index and movements in the implied exchange ratio for the 12-month period preceding and approximately eight-month period following December 22, 2000, the date of announcement of the memorandum of understanding between H&CB and Kookmin Bank with respect to the merger; and
- selected precedent transactions involving Korean banks and selected financial information derived from those transactions.

Miscellaneous

H&CB has agreed to pay UBS Warburg a fee of $600,000 for its opinion services upon delivery of its opinion to the H&CB board of directors. In addition, H&CB has agreed to reimburse UBS Warburg for its out-of-pocket expenses and to indemnify UBS Warburg and related parties against liabilities, including liabilities under the federal securities laws of the United States, relating to, or arising out of, its engagement.

H&CB selected UBS Warburg to render an opinion in connection with the merger because UBS Warburg is an internationally recognized investment banking firm with substantial experience in similar transactions. UBS Warburg is continually engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, leveraged buyouts, negotiated underwritings, competitive bids, secondary distributions of listed and unlisted securities and private placements.

UBS Warburg and its affiliates in the past have provided services to H&CB and Kookmin Bank unrelated to the proposed merger, for which services UBS Warburg and its affiliates have received compensation. During the past two years, UBS Warburg and its affiliates have received fees totaling approximately $4.5 million in the aggregate for its financial advisory and investment banking services to H&CB and Kookmin Bank. In the ordinary course of business, UBS Warburg, its successors and affiliates may actively trade the securities of H&CB and Kookmin Bank and its affiliates for their own accounts and the accounts of their customers and, accordingly, may at any time hold a long or short position in these securities.

UNAUDITED PRO FORMA COMBINED FINANCIAL DATA

The unaudited pro forma combined balance sheet data is derived from the audited consolidated balance sheets of Kookmin Bank and H&CB both appearing elsewhere in this prospectus. The unaudited pro forma combined balance sheet data has been prepared to reflect the combined financial position as if the merger occurred on December 31, 2000. The unaudited pro forma combined statement of income data is derived from the audited consolidated statements of income of Kookmin Bank and H&CB both appearing elsewhere in this prospectus. The unaudited pro forma combined statement of income data has been prepared as if the merger occurred on January 1, 2000.

The following unaudited pro forma combined financial data give effect to the merger between Kookmin Bank and H&CB using the purchase method of accounting for business combinations, with Kookmin Bank being the acquiring entity and H&CB being the acquired entity. The merger transaction is more fully described in "The Merger".

You should read the unaudited pro forma combined financial data in conjunction with the historical audited financial statements and the related notes of Kookmin Bank and H&CB included elsewhere in this prospectus.

The unaudited pro forma combined financial data appearing below is based on financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). These principles require the use of estimates that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from those estimates. The unaudited pro forma combined financial data has been prepared based on the assumptions described in the notes thereto.

The unaudited pro forma combined financial data have been prepared for comparative purposes only and do not purport to be indicative of what the operating results and financial position would have been, had the merger between Kookmin Bank and H&CB actually taken place as of and for the periods indicated.

UNAUDITED PRO FORMA COMBINED BALANCE SHEET
as of December 31, 2000
(in ₩ million)

	Historical		Pro Forma			
	Kookmin Bank	H&CB	Inter-Company Eliminations(1)	Fair Value Adjustments(2)(3)	Purchase Accounting Adjustments(3)(5)	Combined
Assets:						
Cash and due from banks	1,701,471	1,154,195			(164,305)	2,691,361
Restricted cash	1,539,876	425,937				1,965,813
Interest-bearing deposits in other banks	1,586,600	329,696		397		1,916,693
Call loans and securities purchased under resale agreements	2,491,208	719,679				3,210,887
Trading assets	3,103,688	2,548,546	(141,597)			5,510,637
Securities available-for-sale	8,281,394	5,782,117	(20,283)			14,043,228
Held-to-maturity securities	9,004,481	2,182,085		58,330		11,244,896
Loans, net	57,040,649	44,926,644	(118,396)	414,943		102,263,840
Due from customers on acceptances	1,916,111	363,455				2,279,566
Premises and equipment, net	1,153,118	827,378				1,980,496
Accrued interest and dividends receivable	1,107,219	381,062				1,488,281
Security deposits	689,739	516,891				1,206,630
Other assets	1,174,992	798,235	(1,374)	88,559		2,060,412
Core deposit intangibles acquired	—	—			971,417	971,417
Total assets	90,790,546	60,955,920	(281,650)	562,229	807,112	152,834,157
Liabilities and Stockholders' Equity:						
Liabilities						
Deposits:						
Noninterest bearing	1,982,268	93,926				2,076,194
Interest bearing	54,200,615	47,185,091		249,135		101,634,841
Call money	581,112	51,323				632,435
Trading liabilities	717,767	31,197	(141,597)			607,367
Acceptances outstanding	1,916,111	363,455				2,279,566
Other borrowed funds	6,368,557	2,215,503	(127,512)			8,456,548
Accrued interest payable	2,310,986	2,678,396				4,989,382
Secured borrowings	1,467,990	1,247,319		10,606		2,725,915
Long-term debt	14,796,590	3,703,420	(11,167)	116,773		18,605,616
Other liabilities	2,482,462	1,023,604	(1,374)	151,128	299,196	3,955,016
Total liabilities	86,824,458	58,593,234	(281,650)	527,642	299,196	145,962,880
Minority Interest	220,874	6,715				227,589
Stockholders' Equity						
Preferred stock	160,000	88,950				248,950(6)
Less: bonds issued by the Korea Deposit Insurance Corporation	(160,000)	(88,950)				(248,950)
Common stock	1,498,067	599,844			(610,768)(4)	1,487,143
Additional paid-in capital	1,242,203	1,060,036			1,849,362	4,151,601
Retained earnings	819,114	563,620		34,587	(598,207)(4)	819,114
Accumulated other comprehensive income, net of taxes	185,830	132,471			(132,471)(4)	185,830
Total stockholders' equity	3,745,214	2,355,971	—	34,587	507,916	6,643,688
Total liabilities, minority interest & stockholders' equity	90,790,546	60,955,920	(281,650)	562,229	807,112	152,834,157

UNAUDITED PRO FORMA COMBINED STATEMENT OF INCOME
for the year ended December 31, 2000
(in ₩ million, except per share data)

	Historical		Inter-company	Purchase Accounting	
	Kookmin Bank	H&CB	Eliminations	Adjustments	Combined
Interest and dividend income					
Loans, including fees	5,266,822	4,228,630	(6,632)		9,488,820
Trading assets	183,055	117,969	—		301,024
Investment securities	1,652,909	803,289	(3,686)		2,452,512
Call loans and securities purchased under resale agreements	55,258	36,114	(1,270)		90,102
Deposits in other banks	198,603	61,947	(193)		260,357
Other interest income	—	6,808	(1,620)		5,188
Total interest and dividend income	7,356,647	5,254,757	(13,401)	—	12,598,003
Interest expense					
Deposits	3,035,861	2,879,536	(193)		5,915,204
Call money	61,884	28,936	(1,270)		89,550
Other borrowed funds	340,981	104,616	(5,306)		440,291
Long-term debt	1,142,083	326,062	(6,632)		1,461,513
Secured borrowings	59,091	112,604			171,695
Total interest expense	4,639,900	3,451,754	(13,401)	—	8,078,253
Net interest income	2,716,747	1,803,003		—	4,519,750
Provision for loan losses	(261,929)	(378,000)			(639,929)
Provision for guarantees and acceptances	(14,094)	788			(13,306)
Net interest income after provision for loan losses, guarantees and acceptances	2,440,724	1,425,791	—	—	3,866,515
Noninterest income					
Trust fees, net	119,662	268,995			388,657
Other fees and commission income	628,800	217,255	(560)		845,495
Net trading revenue	13,300	153,429			166,729
Net gain on investments	11,470	(131,245)			(119,775)
Other noninterest income	93,222	127,693	(261)		220,654
Total noninterest income	866,454	636,127	(821)	—	1,501,760
Noninterest expense					
Salaries and employee benefits	705,547	509,178			1,214,725
Depreciation and amortization	118,194	107,560		180,739(7)	406,493
Other administrative expenses	334,484	237,366			571,850
Credit card fee expense	141,791	37,349			179,140
Other fees and commissions	223,801	162,286	(560)		385,527
Other noninterest expense	158,810	255,902	(261)		414,451
Total noninterest expense	1,682,627	1,309,641	(821)	180,739	3,172,186
Income before income taxes and minority interest	1,624,551	752,277		(180,739)	2,196,089
Income taxes	629,556	243,657		(55,668)	817,545
Minority interest	80,770	2,559			83,329
Net income before extraordinary items	914,225	506,061	—	(125,071)	1,295,215
Net income per share before extraordinary items—basic (in Korean won)	3,052	4,218			4,355
Weighted average shares outstanding (in thousands)	299,613	119,969			297,429
Net income per share before extraordinary items—diluted (in Korean won)	2,603	3,569			3,558
Diluted weighted average shares outstanding (in thousands)	353,115	141,778			364,026(8)
End of period shares outstanding (in thousands)	299,613	119,969			297,429

NOTES TO UNAUDITED PRO FORMA COMBINED FINANCIAL DATA

Balance Sheet

1. As of December 31, 2000, inter-company balances consisted principally of unsettled foreign exchange contracts, securities, loans and miscellaneous receivables and payables.

2. The fair value adjustments applied to the financial assets, including derivatives, of H&CB are estimates of fair value, determined as follows:

   - Interest bearing deposits in other banks: discounted cash flows using current rates for similar types of deposits;
   - Held-to-maturity securities: generally based on quoted market prices, where available;
   - Loans, net: discounted cash flows based on current rates at which similar loans would be made to borrowers for the same maturities;
   - The specific fair value adjustments to other assets are as follows (in millions of Korean Won):

Non-marketable equity securities	17,005
Deferred tax asset related to fair value adjustments	115,967
Write-off of H&CB goodwill	(44,413)
Total	88,559

   - Interest bearing deposits: discounted cash flows based on rates offered for deposits with similar maturities;
   - Secured borrowings and long-term debt: discounted cash flows based on current rates for issues of similar maturities; and
   - Other liabilities: consists of deferred tax liabilities related to the fair value adjustments.

   The management does not believe that the fair value adjustments related to non-financial assets and liabilities would have a material effect on the unaudited pro-forma combined financial position as of December 31, 2000.

3. Purchase price allocation and goodwill (in millions of Korean won):

Market value of consideration	2,898,474[(a)]
Merger gain tax	151,128[(b)]
Acquisition costs	13,177[(c)]
Total purchase price	3,062,779
Allocation of Purchase Price:	
Fair value of H&CB net tangible assets	2,390,558[(d)]
Core deposit intangible asset	971,417[(e)]
Deferred tax liability related to core deposit intangible asset acquired	(299,196)[(f)]
Total purchase price	3,062,779
Goodwill	—

(a) Market value of consideration has been calculated by reference to the number of New Kookmin shares to be issued to H&CB's stockholders (based on an exchange ratio of 1:1), using the number of H&CB shares outstanding at December 31, 2000, times the average closing stock price of Kookmin Bank on the Korean Stock Exchange 2 days before and after the merger agreement date of April 23, 2001 multiplied by the exchange ratio for Kookmin Bank stock:

H&CB common shares outstanding at December 31, 2000	119,968,809
Average Kookmin Bank stock price	14,310
Kookmin Bank share exchange ratio	1.688346
Total market value of consideration (in millions of Korean won)	2,898,474

(b) Upon consummation, this transaction will be subject to Korean merger gain tax. The merger gain tax is equal to the fair value adjustment of assets acquired, excluding goodwill, multiplied by a tax rate of 30.8%.

(c) Represents estimated costs of acquisition and issuance of shares of New Kookmin.

(d) Fair value adjustments in millions of Korean won:

Gross fair value of H&CB net tangible assets	2,470,133
Deferred tax asset related to fair value adjustments of H&CB liabilities	115,966
Deferred tax liability related to fair value adjustments of H&CB assets	(151,128)
Write-off of H&CB goodwill	(44,413)
Net fair value of H&CB net tangible assets acquired	2,390,558

(e) Estimated value of core deposit intangibles as of December 31, 2000.

(f) Deferred tax liability created as a result of core deposit intangible assuming statutory corporate tax rate of 30.8%.

4. To eliminate share capital of H&CB and to add new share issuances by New Kookmin in connection with the merger.

5. The tax effects of the proposed merger are currently under negotiation with officials of the Ministry of Finance and Economy and has not been finalized. The pro forma combined balance sheet has been prepared assuming that the deferred tax assets of both Kookmin Bank and H&CB will be succeeded to by New Kookmin.

6. For a description of the terms regarding the preferred stock and the related bonds issued by the Korea Deposit Insurance Corporation as they relate to Kookmin Bank and H&CB, refer to note 22 of the notes to the consolidated financial statements of Kookmin Bank and note 19 of the notes to the consolidated financial statements of H&CB included elsewhere in this prospectus. Both Kookmin Bank and H&CB intend to redeem their respective preferred stock prior to the effective date of the merger and expect the Korea Deposit Insurance Corporation to concurrently redeem corresponding amounts of its bonds. While the exact timing of these transactions has not been determined, the concurrent redemption of the Korea Deposit Insurance Corporation bonds will result in no net change to total assets or shareholders equity. Further, as the dividend rate on the respective bank's preferred stock equals the interest rate on the Korea Deposit Insurance Corporation bonds held by each bank, the redemptions discussed above will have no effect on income before income taxes and minority interests.

Income Statement

7. To amortize core deposit intangible over its estimated useful life in proportion to the estimated run-off of depositors on an accelerated basis. The estimated weighted average life of the core deposit intangibles is approximately 8 years.

8. Shares used for computation of diluted earnings per share of the combined entity reflects the following:

	In thousands
Weighted basic average shares outstanding	297,429
Add:	
Convertible preferred shares of Kookmin Bank	32,568
Convertible debentures of Kookmin Bank	12,399
Convertible preferred shares of H&CB	21,371
Share options of H&CB	259[(a)]
Diluted weighted average shares outstanding	364,026

(a) The exercise period, exercise price and method of exercise and other terms related to the stock options granted to the directors, officers and employees of H&CB and Kookmin Bank have not been amended pursuant to the merger agreement. Amendments to such stock option plans in the future may affect the purchase price allocation or result in additional compensation expense recognition.

COMPARATIVE MARKET PRICE AND DIVIDEND INFORMATION

Shares of Kookmin Bank common stock have been listed for trading on the Korea Stock Exchange since September 30, 1994. Kookmin Bank global depositary shares have been listed for trading on the London Stock Exchange since September 25, 1996 under the symbol "KBKD". Each Kookmin Bank global depositary share represents one share of Kookmin Bank common stock.

Shares of H&CB common stock have been listed for trading on the Korea Stock Exchange since March 7, 1996. H&CB American depositary shares have been listed for trading on the New York Stock Exchange since October 3, 2000 under the symbol "HCB". Each H&CB American depositary share represents one half of one share of H&CB common stock.

The table below lists, for the periods indicated, the range of high and low closing sale prices for Kookmin Bank and H&CB common stock on the Korea Stock Exchange and the equivalent per global depositary share price or American depositary share price prior to September 25, 1996, in the case of Kookmin Bank, or October 3, 2000, in the case of H&CB, and the actual Kookmin Bank global depositary share or H&CB American depositary share high and low closing sale prices on the London Stock Exchange or the New York Stock Exchange after such dates.

	Kookmin Bank Common Stock		Kookmin Bank Global Depositary Shares Equivalent(1)		H&CB Common Stock		H&CB American Depositary Shares Equivalent(2)	
	High	Low	High	Low	High	Low	High	Low
	₩		US$		₩		US$	
1996	17,700	10,700	22.71	12.43	23,000	11,100	14.75	6.54
1997	14,000	6,280	19.47	3.23	17,800	6,920	9.77	2.91
1998	13,900	2,920	8.20	2.10	14,900	2,960	6.16	1.06
1999								
First Quarter	12,900	7,580	10.12	6.05	27,000	14,000	11.03	5.94
Second Quarter	25,500	12,600	22.20	9.98	41,000	24,600	17.63	10.04
Third Quarter	25,300	15,000	21.25	12.00	36,900	23,500	15.85	9.65
Fourth Quarter	25,500	14,200	18.95	11.75	36,000	22,500	15.19	9.32
2000								
First Quarter	21,100	11,100	18.90	9.98	36,000	19,750	15.73	8.70
Second Quarter	15,150	9,200	13.53	8.33	26,700	14,100	11.79	6.23
Third Quarter	15,800	11,100	14.23	9.70	27,800	20,950	12.42	9.29
Fourth Quarter	16,000	11,850	13.60	10.50	30,500	24,200	12.44	8.81
2001								
First Quarter	18,900	13,200	15.38	10.13	33,200	21,100	12.94	7.75
April	15,600	12,250	11.35	9.45	25,050	19,000	9.60	7.35
May	17,400	15,250	13.40	11.35	28,700	24,900	11.18	9.60
June	17,750	15,950	13.65	12.50	29,000	26,400	11.17	10.40
July	17,500	15,600	13.50	12.00	29,100	26,400	11.20	10.40
August	20,600	17,200	16.00	12.90	34,050	28,400	13.03	10.90
September (through September 7)	17,900	17,200	13.75	13.10	30,100	29,500	11.63	11.50

(1) To obtain the Kookmin Bank global depositary share equivalent prices prior to September 25, 1996, the reported high and low closing sale prices for Kookmin Bank shares of common stock expressed in Won per share have been translated into Dollars per global depositary share (each representing one share of common stock) by converting the price per share to Dollars at the noon buying rate on the dates of such respective high and low closing sale prices. Kookmin Bank global depositary shares were listed on the London Stock Exchange on September 25, 1996, and actual global depositary share prices are given from that date.

(2) To obtain the H&CB American depositary share equivalent prices prior to October 3, 2000, the reported high and low closing sale prices for H&CB shares of common stock expressed in Won per share have been translated into Dollars per American depositary share (each representing one-half of one share of common stock) by multiplying the Won price per share by one-half and converting that amount to Dollars at the noon buying rate on the dates of such respective high and low closing sale prices. H&CB American depositary shares were listed on the New York Stock Exchange on October 3, 2000, and actual American depositary share prices are given from that date.

The table below lists the amount of dividends declared by each of Kookmin Bank and H&CB on each share of its common stock for the years 1996 to 2000. The dividend amounts set forth below for each year were paid in the immediately following year. Dollar amounts have been converted from Won at the noon buying rate at the end of the relevant period:

	Kookmin Bank Dividends Per Share		H&CB Dividends Per Share	
	₩	US$	₩	US$
1996	150	.19	550	.649
1997	606(1)	.70(1)	500	.295
1998	—(2)	—(2)	—	—
1999	200	.16	150(3)	.132(3)
2000	50	.04	150(3)	.118(3)

(1) Plus a dividend in common stock of 2.8% of par value.

(2) No cash dividend, but dividend in common stock of 19.0% of par value declared.

(3) Plus a dividend in common stock of 10% of par value.

The table below lists, as of the dates indicated, the closing prices of Kookmin Bank's and H&CB's common stock and depositary shares, as well as the respective equivalent values of Kookmin Bank's and H&CB's common stock and depositary shares based upon the merger ratio:

	December 21, 2000(1)	September 7, 2001(2)
Kookmin Bank common stock	₩ 15,200	₩ 17,900
H&CB common stock	28,700	30,100
Pro forma equivalent per share value of Kookmin Bank common stock(3)	16,999	17,828
Pro forma equivalent per share value of H&CB common stock(4)	25,663	30,221
Kookmin Bank global depositary share	US$ 12.38	US$ 13.50
H&CB American depositary share	11.31	11.55
Pro forma equivalent per share value of Kookmin Bank global depositary share(5)	13.40	13.68
Pro forma equivalent per share value of H&CB American depositary share(6)	10.45	11.40

(1) December 21, 2000 was the last trading day prior to the public announcement of the memorandum of understanding regarding the possible merger for Kookmin Bank and H&CB common stock on the Korea Stock Exchange, for Kookmin Bank global depositary shares on the London Stock Exchange, and for H&CB American depositary shares on the New York Stock Exchange.

(2) September 7, 2001 was the most recent date for which it was practicable to obtain market price data before the printing of this prospectus.

(3) Calculated by dividing the H&CB common stock closing price by 1.688346.

(4) Calculated by multiplying the Kookmin Bank common stock closing price by 1.688346.

(5) Calculated by dividing the H&CB American depositary share closing price by 1.688346, then multiplying such amount by 2 to reflect the fact that each H&CB American depositary share represents one-half of one share of H&CB common stock.

(6) Calculated by multiplying the Kookmin Bank global depositary share closing price by 1.688346, then dividing such amount by 2 to reflect the fact that each H&CB American depositary share represents one-half of one share of H&CB common stock.

We urge you to obtain current market quotations prior to making any decision with respect to the merger.

KOOKMIN BANK

Unless otherwise indicated, all references in this section to "we", "us" and "our" are to Kookmin Bank. Financial information regarding our bank is presented under US GAAP, except where such information is expressly stated to be presented in accordance with Korean GAAP. For a description of significant differences between US GAAP and Korean GAAP, see "Kookmin Bank—Management's Discussion and Analysis of Financial Condition and Results of Operations—Reconciliation with Korean Generally Accepted Accounting Principles". Statistical information is presented on a consolidated basis unless otherwise specially stated.

Selected Financial Information

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, 1999 and 2000 and as of December 31, 1999 and 2000 have been derived from our audited consolidated financial statements which have been prepared in accordance with US GAAP.

You should read the following data with the more detailed information contained in "Kookmin Bank—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,		
	1999	2000	2000[1]
	(in ₩ billion, except per common share data)		(in US$ million, except per common share data)
Interest and dividend income	6,484	7,357	5,807
Interest expense	4,498	4,640	3,662
Net interest income	1,986	2,717	2,145
Provision for credit losses	1,015	276	218
Non-interest income	1,398	866	684
Non-interest expense	1,532	1,683	1,328
Income tax expense	350	629	497
Minority interest income	6	80	64
Extraordinary gain	—	13	10
Net income	481	928	732
Per common share data:			
Net income-basic[2]	1,872	3,096	2.44
Net income-diluted[3][4]	1,558	2,641	2.09
Weighted average common shares outstanding-basic (in thousands of common shares)	256,737	299,613	—
Weighted average common shares outstanding-diluted (in thousands of common shares)	310,050	353,115	—
Cash dividend declared per common share[5]	200	50	0.04

(1) Won amounts are expressed in US dollars at the rate of ₩1,267/US$1.00, the noon buying rate in effect on December 31, 2000 as quoted by the Federal Reserve Bank of New York in the United States of America.

(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 stock. Also, for the purpose of calculating diluted earnings per share, net income available for common stock is adjusted, if applicable, for any convertible debt interest or any other changes in income that could result from the assumed conversion of securities and other contracts. We have three categories of potentially dilutive common shares: shares issuable on exercise of stock options granted to directors and employees, shares issuable on conversion of convertible debentures and shares issuable on conversion of preferred shares.

(4) In the diluted earnings per share calculation, the convertible debentures and preferred shares are assumed to have been converted into common shares. Net income is adjusted to eliminate the applicable interest on the convertible debentures but no adjustment was made to net income related to the preferred shares.

For the stock options, a calculation is performed to determine the number of shares that could be acquired at market price (determined as the average annual share price of our common shares) based on the proceeds that we would receive upon exercise of the outstanding options. The difference between the number of shares to be issued upon exercise and the number of shares that could be acquired with the proceeds is the number of shares that must be added to the common shares outstanding for the purpose of computing the dilution. For the stock option calculation, no adjustment is made to net income.

The exercise price of all outstanding options to purchase common shares was higher than the average market price of our common stock in 2000. As a result, such options were excluded from the computation of diluted earnings per share in 2000. There were no options outstanding in 1999.

(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,		
	1999	2000	2000[1]
	(in ₩ billion)		(in US$ million)
Assets			
Cash and due from banks	2,161	1,701	1,343
Restricted cash	706	1,540	1,215
Interest-bearing deposits in other banks	629	1,587	1,252
Call loans and securities purchased under resale agreements	377	2,491	1,966
Trading assets	3,636	3,104	2,450
Securities available-for-sale	8,167	8,281	6,536
Held-to-maturity securities (fair value of ₩7,809 in 1999 and ₩9,301 in 2000)	7,765	9,005	7,107
Loans (net of allowance for loan losses of ₩2,623 in 1999 and ₩2,394 in 2000)	42,351	57,041	45,020
Due from customers on acceptances	995	1,916	1,512
Premises and equipment, net	1,130	1,153	910
Accrued interest and dividends receivable	1,090	1,107	874
Security deposits	687	690	545
Other assets	1,660	1,175	928
Total assets	71,354	90,791	71,658
Liabilities			
Deposits:			
Interest bearing	40,079	54,201	42,779
Noninterest bearing	2,659	1,982	1,565
Call money	1,333	581	459
Trading liabilities	298	718	567
Acceptances outstanding	995	1,916	1,512
Other borrowed funds	4,816	6,369	5,026
Accrued interest payable	2,105	2,311	1,824
Secured borrowings	423	1,468	1,159
Long-term debt	14,212	14,797	11,678
Other liabilities	1,853	2,482	1,959
Total liabilities	68,773	86,825	68,528
Commitments and contingencies	—	—	—
Minority interest	21	221	174
Stockholders' equity	2,560	3,745	2,956
Total liabilities, minority interest and stockholders' equity	71,354	90,791	71,658

(1) Won amounts are expressed in US dollars at the rate of ₩1,267/US$1.00, the noon buying rate in effect on December 31, 2000 as quoted by the Federal Reserve Bank of New York in the United States.

Profitability ratios

	Year ended December 31,	
	1999	2000
	(percentages)	
Net income as a percentage of:		
Average total assets[(1)]	0.7	1.2
Average stockholders' equity[(1)]	23.2	29.4
Dividend payout ratio[(2)]	9.8	1.6
Net interest spread[(3)]	2.6	3.1
Net interest margin[(4)]	3.0	3.6
Cost-to-income ratio[(5)]	45.3	47.0
Cost-to average assets ratio[(6)]	2.2	2.1

(1) Average balances are based upon fiscal quarter ending balances.

(2) Represents the ratio of total dividends paid on common stock as a percentage of net income.

(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 revenue 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 and Year ended December 31,	
	1999	2000
	(percentages)	
Total capital adequacy (BIS) ratio[(1)]	11.38	11.18
Tier 1 capital adequacy ratio	7.26	6.82
Tier 2 capital adequacy ratio	4.12	4.36
Average stockholders' equity as a percentage of average total asset[(2)]	2.95	3.92

(1) Our capital adequacy ratios are computed in accordance with the guidelines issued by the Financial Supervisory Service. The computation is based on our consolidated financial statements prepared in accordance with Korean GAAP. See "Kookmin Bank—Management's Discussion and Analysis of Financial Condition and Results of Operations—Financial Condition—Capital Adequacy".

(2) Average balances are based upon fiscal quarter ending balances.

Asset quality ratios

	As of December 31,	
	1999	2000
	(percentages)	
Non-performing loans as a percentage of total loans[(1)]	4.7	3.0
Non-performing loans as a percentage of total assets[(1)]	3.0	1.9
Allowance for loan losses as a percentage of non-performing loans[(1)]	48.3	43.0
Allowance for loan losses as a percentage of total loans	5.8	4.0

(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,					
	1999			2000		
	Average Balance[1]	Interest Income[5]	Average Yield	Average Balance[1]	Interest Income[5]	Average Yield
	(in ₩ billion, except percentages)					
Assets						
Cash and interest-earning deposits in other banks	2,081	179	8.60	2,898	199	6.87
Call loans and securities purchased under resale agreements	578	37	6.40	821	55	6.70
Trading securities[6]	4,654	127	2.73	2,774	183	6.60
Investment securities[4][6]	16,228	1,589	9.79	17,720	1,653	9.33
Loans	42,391	4,552	10.74	51,925	5,267	10.14
Commercial and industrial	23,706	2,143	9.04	27,375	2,260	8.26
Lease financing	1,037	118	11.38	593	73	12.31
Construction loans	1,766	165	9.34	1,955	182	9.31
Other commercial	999	91	9.11	1,140	105	9.21
Mortgage and real estate	5,166	633	12.25	7,081	770	10.87
Credit Cards	2,786	551	19.78	5,518	982	17.80
Other consumer	5,904	762	12.91	7,176	811	11.30
Foreign commercial and industrial	1,027	89	8.67	1,087	84	7.73
Total average interest-earning assets	65,932	6,484	9.83	76,138	7,357	9.66
Cash and due from banks	1,858	—	—	2,221	—	—
Foreign exchange contracts and derivatives	299	—	—	321	—	—
Premises and equipment	1,187	—	—	1,154	—	—
Due from customers on acceptance	874	—	—	1,456	—	—
Loan loss allowance	(2,161)	—	—	(2,287)	—	—
Other non-interest earning assets	2,379	—	—	1,477	—	—
Total average non-interest earning assets	4,436	—	—	4,342	—	—
Total average assets	70,368	6,484	9.21	80,480	7,357	9.14

	Year ended December 31,					
	1999			2000		
	Average Balance[1]	Interest Expense[5]	Average Yield	Average Balance[1]	Interest Expense[5]	Average Yield
	(in ₩ billion, except percentages)					
Liabilities						
Interest bearing liabilities						
Deposits						
Demand deposits	12,665	373	2.95	16,321	446	2.73
Certificate of deposits	778	52	6.68	1,878	129	6.87
Other time deposits	18,958	1,609	8.49	23,840	1,782	7.47
Savings deposits	2,535	253	9.98	2,820	269	9.54
Mutual installment deposits	3,575	326	9.12	4,676	410	8.77
Call money	1,215	69	5.68	1,214	62	5.11
Borrowings from the Bank of Korea	1,397	63	4.51	892	42	4.71
Other short-term borrowings	2,713	205	7.56	4,049	299	7.38
Secured borrowings	372	24	6.45	795	59	7.42
Long-term debt	17,614	1,524	8.65	14,112	1,142	8.09
Total average interest-bearing liabilities	61,822	4,498	7.28	70,597	4,640	6.57

	Year ended December 31,					
	1999			2000		
	Average Balance[1]	Interest Expense[5]	Average Yield	Average Balance[1]	Interest Expense[5]	Average Yield
	(in ₩ billion, except percentages)					
Non Interest bearing liabilities						
Demand deposits	1,568	—	—	1,677	—	—
Foreign exchange contracts and derivatives	314	—	—	341	—	—
Acceptances to customers	874	—	—	1,456	—	—
Other non-interest bearing liabilities	3,717	—	—	3,256	—	—
Total average non-interest bearing liabilities	6,473	—	—	6,730	—	—
Total average liabilities	68,295	4,498	6.59	77,327	4,640	6.00
Stockholders' equity	2,073			3,153		
Total liabilities and equity	70,368	4,498	6.39	80,480	4,640	5.77

(1) Average balances are based upon fiscal quarter ending balances.

(2) The amount of credit card loan fees included in interest income are ₩323 billion for the year ended December 31, 1999, and ₩777 billion for the year ended December 31, 2000.

(3) Interest income figures include dividends on securities and certain interest revenue on non-accruing loans. See "Kookmin Bank — Business Overview — Assets and Liabilities — Non-Accrual Loans and Past Due Accruing Loans".

(4) Average yield information related to investment securities classified as available for sale has been computed using amortized cost, 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, respectively, exclude interest income and expense related to instruments entered into for hedging purposes.

(6) We do not invest in any tax-exempt securities.

The following table presents the interest spread, net interest margin, and asset liability ratio:

	Year ended December 31,	
	1999	2000
	(percentages)	
Net interest spread[1]	2.6	3.1
Net interest margin[2]	3.0	3.6
Asset liability ratio[3]	106.6	107.8

(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 average 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 2000 compared to 1999. 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 absolute volume and rate change.

	Fiscal 2000 vs. Fiscal 1999 Increase/(decrease) due to changes in		
	Volume	**Rate**	**Total**
Interest-earning assets			
Cash and interest-earning deposits	61	(41)	20
Call loans and securities purchased under resale agreements	16	2	18
Trading securities	(67)	123	56
Investment securities	142	(78)	64
Loans			
Commercial and industrial	313	(196)	117
Lease financing	(54)	9	(45)
Construction loans	18	(1)	17
Other commercial	13	1	14
Mortgage and real estate	214	(77)	137
Credit Cards	491	(60)	431
Other consumer	151	(102)	49
Foreign commercial and industrial	5	(10)	(5)
Total interest income	1,303	(430)	873
Interest-bearing liabilities			
Deposits			
Demand deposits	101	(28)	73
Certificate of deposits	76	1	77
Other time deposits	381	(208)	173
Savings deposits	28	(12)	16
Mutual installment deposits	97	(13)	84
Call money	—	(7)	(7)
Borrowings from the Bank of Korea	(24)	3	(21)
Other short-term borrowings	99	(5)	94
Secured borrowings	31	4	35
Long-term debt	(288)	(94)	(382)
Total interest expense	501	(359)	142
Total net interest income	802	(71)	731

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, except for (i) the segment analyses, which are prepared based on Korean GAAP, and (ii) the selected financial information under Korean GAAP, which are based on our consolidated financial statements prepared in accordance with Korean 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, and volatility in the domestic financial and currency markets. In response, the International Monetary Fund provided a financial aid package to Korea and the Korean government has initiated a series of measures to address structural weaknesses in the Korean economy.

As a result of the downturn, in 1998 there was a general increase in interest rates in Korea and we experienced a decrease in loans and other products that we offer (not taking into account the increases from our merger with Korean Long Term Credit Bank) as well as a significant deterioration in the quality of our loan portfolio. In addition, our general level of non-performing loans increased. During 1999 and 2000, financial and economic conditions began to improve in Korea. The general level of interest rates decreased, demand for financial products increased, our overall level of non-performing loans decreased and our overall profitability increased. Nonetheless, the Korean government's structural reforms have not been fully implemented and the corporate sector of the economy is still experiencing significant difficulties. Accordingly, our results of operations for 2000 may not necessarily be indicative of results of operations for future periods.

Changes in Securities Values, Exchange Rates and Interest Rates

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 (known as "KOSPI"), the Won to U.S. dollar exchange rates and benchmark Won borrowing interest rates for the periods indicated.

	June 30, 1997	Dec. 31, 1997	June 30, 1998	Dec. 31, 1998	June 30, 1999	Dec. 31, 1999	June 30, 2000	Dec. 31, 2000	Mar. 31, 2001	June 30, 2001
KOSPI	745.40	376.31	297.88	562.46	883.00	1,028.07	821.22	504.62	523.22	595.13
₩/US$ exchange rates(1)	890.00	1,695	1,376	1,206	1,158	1,136	1,115	1,267	1,332	1,303
Corporate bond rates(2)	11.92%	29.83%	18.00%	8.00%	7.96%	9.95%	9.37%	8.27%	7.82%	7.25%
Treasury bond rates(3)	11.65%	15.00%	14.00%	6.95%	7.20%	9.03%	8.31%	6.70%	6.31%	5.93%

(1) Noon buying rate.

(2) Measured by the yield on three-year A+ rated corporate bonds, as rated by the Korean credit rating agencies.

(3) Measured by the yield on three-year treasury bonds.

Exposure to Chaebols

We have significant exposure to chaebols. As a result of the unfavorable financial and economic conditions in Korea, a number of chaebols have experienced financial difficulties from which they have yet to fully recover. If the quality of the credits extended to chaebols declines, substantial additional allowances would be required, which would adversely affect our results of operations. See "Risk Factors— Risks relating to the combined business of Kookmin Bank and H&CB—Kookmin Bank and H&CB have exposure to the largest Korean commercial conglomerates known as "chaebols" and, as a result, recent and any future financial difficulties of chaebols may have an adverse impact on us".

Kookmin Leasing

Kookmin Leasing is a consolidated subsidiary which was established in October 1984 to engage in leasing of industrial equipment. As of December 31, 2000, we owned 89.61% of Kookmin Leasing. The following table sets forth condensed financial information of Kookmin Leasing as of and for the years ended December 31, 1999 and 2000.

	As of and for the year ended December 31,	
	1999	2000
	(in ₩ billion)	
Leases, net of allowance	846	496
Total assets	1,530	824
Shareholders' equity (deficit)	(133)	(435)
Net interest income (loss)	(46)	(33)
Provision for lease losses	35	195
Net income (loss)	(61)	(303)

Kookmin Leasing has been experiencing financial difficulties primarily as a result of the following reasons:

- severe financial and economic difficulties, including bankruptcies, experienced starting from late 1997 by Korean companies to which Kookmin Leasing provides lease services, which difficulties resulted in lower interest income, lower interest margin and higher provisions for loan losses;
- high interest rate environment resulting from the adverse financial and economic conditions in Korea since late 1997, which environment resulted in high funding or refinancing costs for Kookmin Leasing such that it was prohibitive for Kookmin Leasing to provide new leasing services; and
- changes in Korean GAAP requiring companies to treat certain leases previously treated as operating leases as capital leases that are less attractive to Kookmin Leasing's customers, resulting in lower demand for Kookmin Leasing's services.

A substantial majority of the leases of Kookmin Leasing are accounted for as capital leases. Kookmin Leasing's allowance for lease losses is approximately 22.0% and 25.0% of its outstanding lease receivable, including any residual value receivable, as of December 31, 1999 and 2000, respectively. Kookmin Leasing is currently servicing its existing lease portfolio and is not actively seeking new lease customers.

Currently, Kookmin Leasing is undergoing a workout plan that was approved by its creditors to restructure ₩1,351 billion of debt. For details of the debt restructuring of Kookmin Leasing, see "—Recent Developments—Debt Restructuring of Kookmin Leasing".

We cannot assure you that Kookmin Leasing will not incur any additional losses in the future which losses may have a material adverse effect on our financial condition and results of operations.

Sales of Substandard or Below Loans to the Korea Asset Management Corporation

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 Korean government authorized the Korea Asset Management Corporation to purchase certain assets which were primarily classified as substandard or below from Korean financial institutions at discounted prices. We have sold primarily substandard or below loans in the net aggregate principal amount (net of related allowances for loan losses) of ₩183 billion and ₩708 billion in 1997 and 1998, respectively, to the Korea Asset Management Corporation for losses of ₩22 billion and ₩196 billion for 1997 and 1998, respectively. The purchase price was paid in bonds issued by the Korea Asset Management Corporation and cash.

Pursuant to the terms of the sales, the Korea Asset Management Corporation can require us to repurchase any substandard or below loans we have sold to them in the event that:

- 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 the Korea Asset Management Corporation 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 the Korea Asset Management Corporation to exercise its right to require us to repurchase loans sold is without limit. As of December 31, 2000, the aggregate remaining principal amount of loans sold that are subject to such repurchase rights were ₩20 billion.

Results of Operations

1999 Compared to 2000

—Net Interest Income

The following table shows, for the periods indicated, the principal components of our net interest income.

	Year ended December 31,		
	1999	2000	% change
	(in ₩ billion, except percentages)		
Interest and dividend income			
Loans, including fees	4,552	5,267	15.7%
Trading assets	127	183	44.1
Investment securities	1,589	1,653	4.0
Call loans and securities purchased under resale agreements	37	55	48.6
Deposits	179	199	11.2
Total interest and dividend income	6,484	7,357	13.5
Interest expense			
Deposits	2,613	3,036	16.2
Call money	69	62	(10.1)
Other borrowed funds	268	341	27.2
Secured borrowings	24	59	145.8
Long-term debt	1,524	1,142	(25.1)
Total interest expense	4,498	4,640	3.2
Net interest income	1,986	2,717	36.8
Net interest margin(1)	3.0%	3.6%	

(1) The ratio of net interest income to average interest earning assets. See "Kookmin Bank—Selected Financial Information—Selected Consolidated Financial and Operating Data Under US GAAP—Profitability ratios".

Interest and dividend income. The 13.5% increase in interest and dividend income is primarily due to the 15.7% increase in interest and fees on loans and, to a lesser extent, an increase in interest and dividends on securities. These increases principally reflect a ₩10,206 billion increase in the average balance of interest earning assets, mostly loans and securities, from ₩65,932 billion in 1999 to ₩76,138 billion in 2000, which more than offset a decline in average yields from 9.83% in 1999 to 9.66% in 2000.

The 15.7% increase in interest and fees on loans was primarily a result of:

- a ₩2,732 billion increase in average credit card volumes, from ₩2,786 billion in 1999 to ₩5,518 billion in 2000, partially offset by a decline in average yields from 19.78% in 1999 to 17.80% in 2000;
- a ₩1,915 billion increase in average volume of mortgage and real estate loans from ₩5,166 billion in 1999 to ₩7,081 billion in 2000, partially offset by a decline of 138 basis points in the average yield on such loans from 12.25% in 1999 to 10.87% in 2000; and
- a ₩3,669 billion increase in average volume of commercial and industrial loans from ₩23,706 billion in 1999 to ₩27,375 billion in 2000, partially offset by a decline of 78 basis points in the average yield on such loans from 9.04% in 1999 to 8.26% in 2000.

The average volume of our loans increased as a result of (i) increased loan demand as economic conditions, and therefore consumer demand, in Korea improved and (ii) increased funding from our deposit sources, as many people withdrew their deposits from banks and other financial institutions they perceived as weaker and made deposits with banks they perceived as stronger, such as ourselves, providing us with the opportunity to increase our lending volume. Our average volume growth in credit cards, mortgage and real estate loans, are primarily due to our increased efforts to market these consumer loans. In general, credit cards have relatively higher lending yields, ranging from 14% to 18% per annum as of December 31, 2000, as compared to other consumer loans such as mortgage and real estate loans which are secured. The increase in mortgage and real estate loans is primarily due to the recent trend and preference by commercial banks, including ourselves, to lend on a secured basis. The average volume growth in commercial and industrial loans is a result of our increased efforts to market loans to small and medium-size enterprises pursuant to our marketing campaigns in 2000 as well as the increase in large corporate lending including to low-risk government-controlled entities such as the Korea Deposit Insurance Corporation. In general, our average yield on loans decreased from 10.74% to 10.14% as a result of the decline in the general levels of interest rates in Korea from 1999 to 2000 and a decrease in lending rates as competition among banks intensified.

Our securities portfolio consists primarily of investment securities, of which 73.4% represents debt securities issued or guaranteed by the Korean government or government-controlled entities and debt securities issued by financial institutions and other Korean banks as of December 31, 2000. Interest and dividends on investment securities increased 4.0% from ₩1,589 billion in 1999 to ₩1,653 billion in 2000. This increase was primarily due to an increase in average volume of investment securities from ₩16,228 billion in 1999 to ₩17,720 billion in 2000, partially offset by a decline in average yields on our investment securities from 9.79% in 1999 to 9.33% in 2000. The increase in the average volume of investment securities is primarily due to the fact that our funding increased in 2000 due to an increase in deposits and we used a portion of these funds to increase our investment in investment securities. The principal reason for the decline in average yields on these investment securities is the general decline in market interest rates.

Interest Expense. Interest expense increased slightly 3.2% from ₩4,498 billion in 1999 to ₩4,640 billion in 2000, principally as a result of a ₩423 billion increase in interest expense on deposits from ₩2,613 billion in 1999 to ₩3,036 billion in 2000, which was substantially offset by a ₩382 billion decrease in interest expense on long-term debt from ₩1,524 billion in 1999 to ₩1,142 billion in 2000.

The 16.2% increase in interest expense on deposits was primarily the result of the impact of a 28.6% increase in the average volume of interest-bearing deposits from ₩38,511 billion in 1999 to ₩49,535 billion in 2000. This increase consisted mostly of a ₩4,882 billion increase in the average volume of time deposits other than certificates from ₩18,958 billion in 1999 to ₩23,840 billion in 2000 and a ₩3,656 billion increase in the average volume of interest bearing demand deposits from ₩12,665 billion in 1999 to ₩16,321 billion in 2000. The increase in average deposits was primarily attributable to (i) the recent difficulties in the Korean financial sector which has led many people to withdraw their deposits from financial institutions they perceive as weaker and deposit them with banks they perceive as stronger, such as ourselves, and (ii) the changes in regulations that allowed commercial banks to offer housing subscription time deposits previously offered only by H&CB, 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. The Housing Construction Promotion Law provides various measures supporting the purchase of houses and the supply of such houses by construction companies. The increase in interest expense as a result of increased average deposits was partially offset by a decrease in interest payable on interest bearing deposits due to the improvement of economic conditions in Korea in 2000. The average interest rate paid on our time deposits other than certificates, which accounted for 33.8% of our average interest-bearing liabilities in 2000, decreased from 8.49% in 1999 to 7.47% in 2000. The average interest rate paid on our interest bearing demand deposits, which accounted for 23.1% of our average interest-bearing liabilities in 2000, decreased from 2.95% in 1999 to 2.73% in 2000.

Interest expense on other borrowed funds, which consists primarily of short-term borrowings, borrowings from the Bank of Korea, short-term foreign currency borrowings, short-term debentures and borrowing from our trust accounts, increased 27.2% from ₩268 billion in 1999 to ₩341 billion in 2000. The increase in interest expense on other borrowings was due to an increase in the average volume of borrowing except for borrowings from the Bank of Korea and the increase in average interest rates payable on short-term foreign currency borrowings. The increase in average volume of borrowing was primarily due to the increase in the average balance of short-term borrowings by Kookmin Credit Card in order to fund the expansion of our credit card operations. In 2000, the interest rates payable on foreign currency borrowings from the Bank of Korea increased in connection with the increase in interest rates in the United States. As a result, we repaid most of these borrowings in 2000. The interest rates payable on short-term foreign currency borrowings increased in 2000 due primarily to the increase in interest rates in the United States.

Interest expense on long-term debt fell 25.1% from ₩1,524 billion in 1999 to ₩1,142 billion in 2000 as a result of decreases in both average volume and rate. The average balance of long-term debt decreased by ₩3,502 billion from ₩17,614 billion in 1999 to ₩14,112 billion in 2000 as a result of increased funding from other sources such as deposits. In addition, as interest rates decreased, we replaced maturing long-term debt with lower cost long-term debt.

Net interest margin. Our net interest margin increased 20.0% from 3.0% in 1999 to 3.6% in 2000 as a result of the 36.8% increase in net interest income from ₩1,986 billion in 1999 to ₩2,717 billion in 2000, primarily due to an increase in our interest and dividend income, while our interest expense remained relatively constant. The increase in interest and dividend income in 2000 was a result of the increase in our average volume of interest-earning assets, partially offset by a decline in interest rates on such assets. Despite the increase in the average balance of our interest-bearing liabilities, our interest expense only increased 3.2% as a result of increased average volume of our demand deposits, which are the least costly form of funding, and the decreased average volume of, and average interest rates on, long-term debt, which are a relatively costly form of funding. This was partially offset by an increase in the average volume of our time deposits, which is a more costly form of funding. The average balance of our interest-earning assets, on the other hand, increased by 15.5% from ₩65,932 billion in 1999 to ₩76,138 billion in 2000.

—Provision for Loan Losses

Our provision for loan losses decreased from ₩1,010 billion in 1999 to ₩262 billion in 2000 as a result of:

- lower provisions, in respect of our new loan portfolio, and improvement in the quality of our existing loan portfolio; and
- a decrease in the level of impaired loans and a reduction in the proportion of total loans classified as substandard or below.

The quality of our loan portfolio improved in 2000, as reflected in a decrease of impaired loans from December 31, 1999 to December 31, 2000 despite increased lending volume. For example, the aggregate principal amount of impaired loans in our corporate loan portfolio decreased from ₩6,111 billion as of December 31, 1999 to ₩5,527 billion as of December 31, 2000. This 9.6% decrease was, in general, due to charge-offs of our impaired loans in 2000. This decrease also contributed to a decline in the proportion of total loans classified as substandard or below to total corporate loans from 15.5% as of December 31, 1999 to 13.0% as of December 31, 2000.

We consider the following corporate loans to be impaired loans:

- loans classified as "substandard" or below according to the asset classification guidelines promulgated by the Financial Supervisory Commission;
- loans that are more than 30 days past due;
- loans to companies that have received a "yellow" warning from the Korean Federation of Banks, which warning indicates that the company has been in arrears for more than three months on loans in the amount of ₩15 million or more; and
- loans which are "troubled debt restructurings" as defined under US GAAP.

We establish specific loan loss allowances for corporate loans based on whether a particular loan is impaired or not. Loan loss allowances for impaired loans are, in general, established by discounting the cash flows (both principal and interest) we expect to receive on a particular loan. Where the impaired loan or a portion of the impaired loan is secured by collateral or a guarantee, the fair value of the collateral or the guarantee payment is considered in establishing the level of the allowance. Alternatively, for impaired loans that are considered collateral dependent, the amount of impairment is determined by reference to the fair value of the collateral. In addition, for certain impaired loans, the fair value has been determined by reference to observable market prices. We also establish allowances for losses for corporate loans that have not been individually identified as impaired. These allowances are based on historical performance and charge-off information.

The following table shows, for the periods indicated, certain information regarding our impaired loans to the total corporate sector.

	As of December 31,	
	1999	**2000**
Impaired loans as a percentage of total corporate loans	20.8%	15.9%
Allowance for loan losses as a percentage of total corporate loans	7.3%	5.2%
Allowance for loan losses as a percentage of impaired loans	35.3%	32.7%

During 2000, impaired loans as a percentage of total loans and allowance for loan losses as a percentage of total loans in the corporate sector fell as a result of (i) an increase in new loans, most of which were classified as normal as of December 31, 2000, (ii) a reduction in impaired loans through significant amount of charge-offs and (iii) a lower incidence of default rates. In addition, the level of allowance for loan losses fell as a percentage of impaired loans in 2000 as a result of continued economic stabilization in 2000, resulting in higher estimated recovery value of collateral such as real estate, for example, which was factored into our estimation of lower provisioning levels.

For loan losses on consumer loans, we establish allowances based on historical performance, previous loan loss history and charge-off information.

The following table shows, for the periods indicated, certain information regarding our non-performing loans to the consumer sector.

	As of December 31,	
	1999	2000
Non-performing loans as a percentage of total consumer loans	1.9%	1.1%
Allowance for loan losses as a percentage of total consumer loans	1.6%	1.4%
Allowance for loan losses as a percentage of non-performing consumer loans	39.0%	36.9%

During 2000, non-performing loans as a percentage of total loans and allowance for loan losses as a percentage of total loans in the consumer sector fell as a result of an increase in new loans, most of which were classified as normal as of December 31, 2000. In addition, the level of allowance for loan losses fell as a percentage of non-performing loans in 2000 due to (i) our efforts to charge off non-performing loans in respect of which we are required to raise higher levels of allowance for loan losses and (ii) continued economic stabilization in 2000, resulting in higher estimated recovery value of collateral such as real estate, for example, which was factored into our estimation of lower provisioning levels.

For information on allowance for loan losses, see "Kookmin Bank—Business Overview—Assets and Liabilities—Allocation of Allowance for Loan Losses" and "Kookmin Bank—Business Overview—Assets and Liabilities—Analysis of the Allowance for Loan Losses".

Charge-offs decreased in 2000 largely as a result of the improved credit quality in our loan portfolio.

—Non-Interest Income

The following table sets forth for the periods indicated the components of our non-interest income.

	As of December 31,		
	1999	2000	% Change
	(in ₩ billion, except percentages)		
Trust fees, net	₩ 96	₩120	25.0%
Other fees and commission income	468	629	34.4
Net trading revenue	507	13	(97.4)
Net gain on investments	186	11	(94.1)
Gain on disposition of subsidiaries	15	—	(100.0)
Other non-interest income	126	93	(26.2)
Total non-interest income	₩1,398	₩866	(38.1)%

Trust fees 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, net of subsidy for trust performance guarantees from our banking accounts to our trust accounts, which are payments from our banking accounts to make up for shortfalls in the guaranteed money trust accounts. The 25.0% increase in trust fees was primarily due to a ₩158 billion of increase in trust account management fees, which are based on assets under management and the performance of the trusts, as a result of decreased provisioning in respect of our non-guaranteed performance-based trust account assets due to improved economic conditions in Korea in 2000. This increase was partially offset by an increase of ₩117 billion in subsidy for trust performance guarantees from our banking accounts to our trust accounts, from ₩41 billion in 1999 to ₩158 billion in 2000, as a result of increased losses incurred in the Development Trust, which is a guaranteed rate of return money trust account with a high level of concentration on equity securities within its investment portfolio. In 2000, the Korean equity securities market experienced a general decline resulting in significant losses from our equity securities investments. In addition, the increase in trust and asset management fees was partially offset by a decrease of ₩17 billion in early termination payments, which are penalty payments that customers of trust accounts pay us when they terminate their accounts prior to maturity. For further information on trust accounts, see "Kookmin Bank—Business Overview—Other Businesses—Trust Account Management Services."

Other fees and commission income consist mostly of commissions on credit cards and commissions received on remittance. The 34.4% increase is primarily due to the increase in commissions received on credit cards, which include annual fees from credit card customers and fees received from member merchants on credit card transactions.

Net trading revenue represents net realized and unrealized gains on securities and derivatives in our trading portfolio. The 97.4% decrease in net trading revenue was the result of a general decrease in prices of equity securities in Korea in 2000. The decrease in the prices of securities also led to a decrease in net gain on investments, which are profits from sale of available for sale securities net of losses from sale of available for sale securities and impairment losses, from ₩186 billion in 1999 to ₩11 billion in 2000.

The ₩15 billion of gain on disposition of subsidiaries in 1999 was recorded in connection with the sale of one of our subsidiaries, Kookmin Mutual Savings & Finance on January 22, 1999. No such gain was recorded in 2000.

Other non-interest income consists mostly of income from sale of assets and others. The 26.2% decrease in other non-interest income was primarily a result of gains we realized on the sale of our loans in 1999, which did not occur in 2000.

—Non-Interest Expense

The following table shows, for the periods indicated, the components of our non-interest expense.

	Year ended December 31,		
	1999	2000	% Change
	(in ₩ billion, except percentages)		
Salaries and employee benefits	659	706	7.1%
Depreciation and amortization	116	118	1.7
Other administrative expenses	300	334	11.3
Credit card fees	79	142	79.7
Other fees and commissions	196	224	14.3
Loss on disposition of subsidiaries	56	—	(100.0)
Other non-interest expenses	126	159	26.2
Total non-interest expense	1,532	1,683	9.9

The 9.9% increase in non-interest expense was primarily due to:

- a ₩47 billion increase in salaries and employee benefits from ₩659 billion in 1999 to ₩706 billion in 2000;
- a ₩34 billion increase in administrative expenses from ₩300 billion in 1999 to ₩334 billion in 2000; and
- a ₩63 billion increase in credit card fees from ₩79 billion in 1999 to ₩142 billion in 2000.

The 7.1% increase in salaries and employee benefits results from increased wages due to the increase in overall market prices in Korea. The 11.3% increase in administrative expenses is primarily attributable to the increased administrative expenses incurred in connection with the expansion of our credit card operations. The average volume of loans from our credit cards increased 98.1% from ₩2,786 billion in 1999 to ₩5,518 billion to 2000. The 79.7% increase in our credit card fees was a result of increased marketing due to the expansion of our credit card activities. Such fees included fees and commissions paid to our sales agents, expenses related to awarding mileages and bonus points to our credit card customers and fees and commissions paid to our member merchants.

Other fees and commission expenses consist primarily of premiums paid to the Korea Deposit Insurance Corporation for deposit insurance, contributions to the Korea Credit Guarantee Fund for loan guarantees and related fees. The 14.3% increase in other fees and commission expenses was due to the higher volume of customer deposits taken by us and higher lending volume therefrom in 2000.

In 1999, we realized a loss of ₩56 billion on the sale of Bukook Mutual Savings & Finance to Hansol Mutual Savings & Finance. No such loss was incurred in 2000.

The 26.2% increase in other non-interest expenses results primarily from the increased losses recorded on the sale of certain assets including real property.

—Income Tax Expense

Income tax expense increased from ₩350 billion in 1999 to ₩630 billion in 2000 as a result of our increased income. The statutory tax rate was 30.8% in 1999 and 2000.

Our effective rate of income tax decreased from 41.8% in 1999 to 38.8% in 2000. This decrease was due primarily to the changes in tax law allowing us to take a 50% deduction on valuation gains from the equity method of accounting. These gains are recorded as a deferred income tax liability.

As a result of the above, our net income was ₩928 billion in 2000 as compared to ₩481 billion in 1999.

Results by Principal Business Segment

We are organized into four major business segments: retail banking, corporate banking, international banking and capital markets and credit card operations. The following discussion is based upon our internal management account information, prepared based on Korean GAAP. The following table shows, for the periods indicated, our results of operation by segment based on this information.

	Year ended December 31,			
	1999	2000	1999	2000
	Net Income(1)		Total Revenue	
	(in ₩ billion, except percentages)			
Retail banking	166	364	4,546	4,966
Corporate banking	(244)	60	2,816	2,896
International banking and capital markets	105	143	3,765	3,946
Credit card operations	43	301	904	1,468
Other	(154)	(140)	1,419	1,474
Total	(84)	728	13,450	14,750

(1) After deduction of income tax allocated proportionately among each segments.

Retail Banking

	Year ended December 31,		
	1999	2000	% change
	(in ₩ billion, except percentages)		
Income statement data			
Interest income	4,374	4,733	8.2%
Interest expense	3,471	3,595	3.6
Provision for loan losses	45	10	(78.1)
Non-interest income	172	234	36.0
Non-interest expense including depreciation and amortization	787	836	6.3
Segment result(1)	243	526	116.2

(1) Net income per segment before income taxes.

Our retail banking segment products include consumer loans and mortgages, deposits and other savings products. Our overall segment result increased 116.2% from ₩243 billion in 1999 to ₩526 billion in 2000.

Interest income from retail banking activities increased 8.2% from ₩4,374 billion in 1999 to ₩4,733 billion in 2000, primarily due to (i) an increase in average lending volume to individuals and households, particularly, mortgage and real estate loans and overdrafts, partially offset by a decline in average interest rates in respect of such loans and (ii) the increase in inter-segment lending from retail banking to other segments.

The increase in average lending volume to individuals results from an increase in mortgage and real estate loans primarily due to the recent trend and preference by commercial banks, including ourselves, to lend on a secured basis. The increase in overdrafts was a result of increased efforts to promote and market overdrafts.

Our largest and most important funding source is deposits from our retail customers. In 2000, we took deposits of ₩9,422 billion of which we used ₩3,414 billion for our retail banking operations. We used the remaining ₩6,008 billion of funds from deposits to fund our operations in other segments.

Interest expense increased 3.6% from ₩3,471 billion in 1999 to ₩3,595 billion in 2000. The volume of deposit and savings products has increased as customers have withdrawn their deposits from financial institutions they perceive to be weaker, and opened accounts with banks they perceive to be stronger, such as us. However, this was largely offset by (i) the lower interest rates paid on these products as the economy improved and (ii) the decrease in interest rates on our long-term debt as a result of our efforts to replace maturing long-term debt with lower cost long-term debt as general interest rates fell.

Provision for loan losses on consumer loans decreased primarily as a result of the improvement in the quality of our consumer loan portfolio and continued economic stabilization.

Non-interest income increased 36.0% from ₩172 billion in 1999 to ₩234 billion in 2000. This was primarily due to the increase in handling and related fees that we receive from Kookmin Credit Card, which are reflected in our retail banking segment. This increase is a result of improved operational results at Kookmin Credit Card.

Non-interest expense, which includes depreciation and amortization, increased 6.3% from ₩787 billion in 1999 to ₩836 billion in 2000. This was primarily due to increased salaries and wages paid to our employees, increased premiums paid to the Korea Deposit Insurance Corporation for deposit insurance due to the higher volume of customer deposits taken by us and increase in severance benefits paid to employees who retired in 2000, partially offset by a decrease in other non-interest expenses.

Corporate Banking

	Year ended December 31,		
	1999	2000	% change
	(in ₩ billion, except percentages)		
Income statement data			
Interest income	2,597	2,712	4.4%
Interest expense	1,787	1,894	6.0
Provision for loan losses	962	585	(39.2)
Non-interest income	219	183	(16.4)
Non-interest expense including depreciation and amortization	424	329	(22.4)
Segment result(1)	(357)	87	124.4

(1) Net income per segment before income taxes.

Our corporate banking segment handles our transactions with private and public enterprises. Activities within the segment include loans, overdrafts and other credit facilities, deposits in foreign currencies and foreign currency activities. Our overall segment result improved from a loss of ₩357 billion in 1999 to a profit of ₩87 billion in 2000.

The segmental loss in 1999 was primarily due to the provision for losses against our commercial loans, guarantees and acceptances of ₩962 billion in 1999, compared to ₩585 billion in 2000. The higher level of provision for loan losses in 1999 results from the changes in the classification guidelines promulgated by the Financial Supervisory Commission that reflect the forward looking criteria to comply with international standards. The credit quality of our portfolios improved in 2000 as reflected in the decline in our non-performing loans.

The 4.4% increase in interest income was due to increased average volume on our corporate lending in Korean won from ₩21,690 billion in 1999 to ₩26,159 billion in 2000, partially offset by the effects of the decrease in average interest rates from 10.54% in 1999 to 9.25% in 2000. The increase in the average volume of corporate lending is the result of increased loans to small and medium-size enterprises and large corporate borrowers including government controlled entities such as the Korea Deposit Insurance Corporation.

The 6.0% increase in interest expense was a result of increased inter-segment borrowing from our retail banking segment, partially offset by a decline in inter-segment interest rates on such borrowings in line with the general decline in market interest rates.

Non-interest income decreased 16.4% from ₩219 billion in 1999 to ₩183 billion in 2000. In 1999, we saw an increase in prepayment penalties on high interest loans to corporate customers, as these customers prepaid such loans in light of the lower interest rate environment compared to 1998. This was not repeated in 2000.

Non-interest expense, which includes depreciation and amortization, decreased 22.4% from ₩424 billion in 1999 to ₩329 billion in 2000 due to a ₩107 billion decrease in loss on sale of loans.

International Banking and Capital Markets

	Year ended December 31,		
	1999	**2000**	**% change**
	(in ₩ billion, except percentages)		
Income statement data			
Interest income	2,075	2,055	(1.0)%
Interest expense	1,882	1,838	(2.4)
Provision for loan losses	92	55	(40.1)
Non-interest income	1,690	1,891	11.9
Non-interest expense including depreciation and amortization	1,637	1,846	12.8
Segment result(1)	154	207	34.4

(1) Net income per segment before income taxes.

Our international banking and capital markets segment handles our treasury activities and dealing of trading and investment securities as well as raising foreign currency funding through debentures and borrowings in foreign currencies and making loans overseas from our overseas branches and subsidiaries. Our overall segment result increased 34.4% from ₩154 billion in 1999 to ₩207 billion in 2000.

Interest income decreased 1.0% from ₩2,075 billion in 1999 to ₩2,055 billion in 2000 as a result of a ₩65 billion decrease in interest income from long-term debt securities which was almost offset by a ₩47 billion increase in interest income from call loans and other short-term money market investments. Our investments in interest-bearing securities increased as a result of increased funding available from our retail 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 increased due to an increase in volume as a result of increased funding available from our deposit base.

Interest expense decreased 2.4% from ₩1,882 billion in 1999 to ₩1,838 billion in 2000. The decrease was due to a decrease in borrowings from external funding sources, partially offset by increase in inter-segmental borrowings from the retail banking segment as a result of increased funding available from our retail deposit base.

Provision for loan losses decreased 40.1% from ₩92 billion in 1999 to ₩55 billion in 2000 as a result of an improvement in the quality of our foreign currency loan portfolio.

Non-interest income increased 11.9% from ₩1,690 billion in 1999 to ₩1,891 billion in 2000 due to increased gains on valuation and sale of debt securities as a result of declining interest rates in the market, partially offset by decreased gains from equity securities and other securities such as beneficiary certificates. This increase was also due to the increase in gains on derivative transactions. However, losses on derivative transactions also increased in proportion, resulting in a net loss of ₩3 billion from derivative transactions.

Non-interest expense, which includes depreciation and amortization, increased 12.8% from ₩1,637 billion in 1999 to ₩1,846 billion in 2000 due to losses on our trading activities in 2000, particularly on trading of equity securities, as a result of a decline in the Korean stock markets in 2000, partially offset by a decrease in losses on valuation and sale of debt securities. This increase was also due to the increase in losses on derivative transactions as explained above.

Credit Card Operations

	Year ended December 31,		
	1999	2000	% change
	(in ₩ billion, except percentages)		
Income statement data			
Interest income	599	984	64.4%
Interest expense	373	478	28.0
Provision for loan losses	109	113	4.1
Non-interest income	305	484	58.4
Non-interest expense including depreciation and amortization	336	441	31.3
Segment result[(1)]	86	436	406.9

(1) Net income per segment before income taxes.

Our credit card segment handles credit card activities primarily managed by Kookmin Credit Card which is our largest subsidiary. Our overall segment result increased 406.9% from ₩86 billion in 1999 to ₩436 billion in 2000.

Interest income increased 64.4% from ₩599 billion in 1999 to ₩984 billion in 2000. This increase was due to an increase in interest from cash advances and installment purchases, partially offset by a reduction in volume of factoring receivables and installment financing provided by Kookmin Credit Card.

Interest expense increased 28.0% from ₩373 billion in 1999 to ₩478 billion in 2000. This increase was due to increased funding, necessitated by the expansion of our credit card activities in terms of both the number of our credit card customers as well as the transaction amount from credit cards. This increase was partially offset by the effect of a decline in our interest rates payable on our borrowings from 11.10% in 1999 to 10.09% in 2000.

Non-interest income increased 58.4% from ₩305 billion in 1999 to ₩484 billion in 2000 due to an increase in annual fees received from our credit card customers and transaction fees received from member merchants. Our fee income increased as a result of the expansion of our credit card activities as described above. Non-interest expense increased 31.3% from ₩336 billion in 1999 to ₩441 billion in 2000 due to increased marketing and administrative expenses resulting from the increased number of credit card customers.

Other

	Year ended December 31,		
	1999	**2000**	**% change**
	(in ₩ billion, except percentages)		
Income statement data			
Interest income	730	424	₩(41.9)%
Interest expense	705	445	(36.9)
Provision for loan losses	280	358	27.9
Non-interest income	689	1,050	52.4
Non-interest expense including depreciation and amortization	522	740	42.0
Segment result[(1)]	(88)	(69)	21.6

(1) Net income per segment before income taxes.

Other includes our trust account management operations, the operations within our guaranteed money trust accounts which are included in our consolidated financial statements under Korean GAAP and the operations of all of our consolidated subsidiaries except Kookmin Credit Card. Our overall segment recorded a loss of ₩88 billion in 1999 and a loss of ₩69 billion in 2000.

The 41.9% decrease in interest income and the 36.9% decrease in interest expense were both due to decreases in interest income and expense in our guaranteed trust accounts and at Kookmin Leasing, one of our subsidiaries in trouble debt restructuring. Both interest income and expense in our guaranteed trust accounts decreased in 2000 as a result of decreases in volume of interest-earning assets and interest-bearing liabilities and a decline in market interest rates in 2000. Interest income and interest expense decreased at Kookmin Leasing due to contracted operations resulting from Kookmin Leasing's financial difficulties.

The 27.9% increase in provision for loan losses was a result of an increase in provision for loan losses at Kookmin Leasing, which was due to deterioration of the quality of loans by Kookmin Leasing to its subsidiary, Kookmin Leasing & Finance (Hong Kong), requiring increased provision levels in respect of these loans.

The 52.4% increase in non-interest income was a result of an increase in trust management fees that our banking account received from our non-guaranteed performance-based trust accounts and an increase in non-interest income within our guaranteed trust accounts.

The 42.0% increase in non-interest expense was a result of an increase in subsidy for trust performance guarantees from our banking accounts to our trust accounts due to increased losses incurred in the guaranteed trust accounts. The increase was also a result of an increase in non-interest expense at Kookmin Leasing due to increased losses on valuation of Kookmin Leasing's investment in equity-type beneficiary certificates.

Financial Condition

Assets

The following table sets forth, as of the dates indicated, the principal components of our assets.

	As of December 31,		
	1999	2000	% change
	(in ₩ billion, except percentages)		
Cash and due from banks	2,161	1,701	(21.3)%
Restricted cash	706	1,540	118.1
Interest-bearing deposits in other banks	629	1,587	152.3
Call loans and securities purchased under resale agreements	377	2,491	560.7
Trading assets	3,636	3,104	(14.6)
Securities available-for-sale	8,167	8,281	1.4
Held-to-maturity securities	7,765	9,005	16.0
Loans:			
Domestic:			
Commercial:			
Commercial and industrial	24,667	29,795	20.8
Construction	1,724	2,168	25.8
Lease financing	882	592	(32.9)
Other commercial	1,053	1,216	15.5
Total commercial	28,326	33,771	19.2
Consumer:			
Credit cards	3,362	8,321	147.5
Mortgages and real estate	6,034	8,068	33.7
Other consumer	6,143	8,151	32.7
Total consumer	15,539	24,540	57.9
Total domestic	43,865	58,311	32.9
Foreign:			
Commercial:			
Commercial and industrial	1,080	1,086	0.6
Total foreign	1,080	1,086	0.6
Deferred origination costs	29	38	31.0
Less allowance for loan losses	(2,623)	(2,394)	(8.7)
Total loans	42,351	57,041	34.7
Premises and equipment, net	1,130	1,153	2.0
Due from customers on acceptances	995	1,916	92.6
Accrued interest and dividend receivable	1,090	1,107	1.6
Security deposits	687	690	0.4
Other assets	1,660	1,175	(29.2)
Total assets	71,354	90,791	27.2

Our assets increased 27.2% from ₩71,354 billion as of December 31, 1999 to ₩90,791 billion as of December 31, 2000 principally due to increased lending and an increase in held-to-maturity securities.

Our loans increased 34.7% from ₩42,351 billion as of December 31, 1999 to ₩57,041 billion as of December 31, 2000. This increase was due largely to increases in commercial and industrial loans, credit card loans, mortgage and real estate loans and other consumer loans. Commercial and industrial lending increased 20.8% from ₩24,667 billion as of December 31, 1999 to ₩29,795 billion as of December 31, 2000. Credit card lending increased 147.5% from ₩3,362 billion as of December 31, 1999 to ₩8,321 billion as of December 31, 2000. Mortgages and real estate lending increased 33.7% from ₩6,034 billion as of December 31, 1999 to ₩8,068 billion as of December 31, 2000. Other consumer loans increased 32.7% from ₩6,143 billion as of December 31, 1999 to ₩8,151 billion as of December 31, 2000. The growth in our total assets is also partially attributable to a ₩2,114 billion increase in call loans and securities purchased under resale agreements from ₩377 billion as of December 31, 1999 to ₩2,491 billion as of December 31, 2000. These increases in lending were due mainly to increased loan demand and to the fact that our funding increased in 2000 due to an increase in deposits.

The 16.0% increase in our held-to-maturity securities was a result of an increase in debt securities issued or guaranteed by the Korean government or government-controlled entities. We increased our investments in these low risk securities with the increased funding from our deposit base in 2000.

For further information on our assets, see "Kookmin Bank—Business Overview—Assets and Liabilities".

Liabilities

The following table sets forth, as of the dates indicated, the principal components of our liabilities.

	As of December 31,		
	1999	2000	% change
	(in ₩ billion, except percentages)		
Deposits			
Interest bearing	40,079	54,201	35.2%
Non-interest bearing	2,659	1,982	(25.5)
Call money	1,333	581	(56.4)
Trading liabilities	298	718	140.9
Other borrowed funds	4,816	6,369	32.2
Acceptances outstanding	995	1,916	92.6
Accrued interest payable	2,105	2,311	9.8
Secured borrowings	423	1,468	247.0
Long-term debt	14,212	14,797	4.1
Other liabilities	1,853	2,482	33.9
Total liabilities	68,773	86,825	26.2
Minority interest	21	221	952.4
Stockholders' equity	2,560	3,745	46.3
Total liabilities, minority interest and stockholders' equity	71,354	90,791	27.2

Our total liabilities increased 26.2% from ₩68,773 billion as of December 31, 1999 to ₩86,825 billion as of December 31, 2000. The increase was primarily due to an increase in interest bearing deposits and, to a lesser extent, an increase in other borrowed funds.

Our interest bearing deposits increased 35.2% from ₩40,079 billion as of December 31, 1999 to ₩54,201 billion as of December 31, 2000 primarily due to the recent difficulties in the Korean financial 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.

The increase in secured borrowings from ₩423 billion as of December 31, 1999 to ₩1,468 billion as of December 31, 2000 was due primarily to the borrowings we incurred in 2000 which were secured by our loans as a result of asset-backed securitization transactions.

Other borrowed funds consist mostly of borrowings from the Bank of Korea, cover bills sold and borrowings from our trust accounts and short-term borrowings in Korean won or foreign currencies. Other borrowed funds increased 32.2% from ₩4,816 billion in 1999 to ₩6,369 billion in 2000 due primarily to increases in cover bills sold, which are deposit-type borrowing that pay interest in advance, partially offset by a decrease in borrowings from the Bank of Korea. This increase in cover bills sold occurred mostly in the last quarter of 2000 as a result of the Korean government's announcement of certain tax law changes rendering it less favorable for our customers to receive interest income in 2001 as opposed to in 2000. Borrowings from the Bank of Korea decreased 28.1% from ₩1,196 billion in 1999 to ₩860 billion in 2000.

Our stockholders' equity as of December 31, 1999 and 2000 included 40 million shares and 32 million shares, respectively, of redeemable preferred stock issued to the Korea Deposit Insurance Corporation. Our investment in bonds issued by the Korea Deposit Insurance Corporation, however, offsets our preferred stock because both instruments are related to the same transaction. See "—Liquidity" below and "Kookmin Bank—Business Overview—History".

For further information on our sources of funding, see "Kookmin Bank—Business Overview—Assets and Liabilities—Funding".

Liquidity

Starting from January 1, 1999, the Korean Financial Supervisory Commission required 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 "Supervision and Regulation—Principal Regulations Applicable to Banks in Korea—Liquidity".

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 "Kookmin Bank—Business Overview—Risk Management—Liquidity Risk Management".

Our primary source of funding as a retail bank has historically been and continues to be customer deposits. Deposits amounted to ₩37,177 billion, ₩42,738 billion and ₩56,183 billion in 1998, 1999 and 2000, which represented approximately 58.6%, 67.3% and 70.8% of our total funding, respectively. Deposits represent a high percentage of our total funding because many people have withdrawn their deposits from financial institutions 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 ₩5,199 billion, ₩6,263 billion and ₩7,183 billion for 1998, 1999, and 2000 and represented 8.2%, 9.9% and 9.0% of our total funding, respectively. These types of borrowings have maturities of less than one year. Other sources of funding daily operations have been through long-term borrowings, which include long-term debentures and borrowings from other financial institutions. These borrowings amounted to ₩21,062 billion, ₩14,521 billion and ₩16,032 billion for 1998, 1999, and 2000 and represented 33.2%, 22.9% and 20.2% of our total funding, respectively.

Capital Adequacy

The following discussion and the figures contained herein are based upon the Korean GAAP statistics prepared by us for the purposes of regulatory reporting in Korea. We are subject to the capital adequacy requirements of the Financial Supervisory Service, which have been formulated based on, and are consistent in all material respects with, 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%, of which at least 4% must be Tier I capital.

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 surpluses, retained earnings, minority interest in consolidated subsidiaries and unpaid dividends less specified deductions. Tier II capital is our supplementary capital and includes allowances for loan losses for credits classified as normal or precautionary, under the asset qualification standards promulgated by the Financial Supervisory Commission, up to 1.25% of risk-weighted assets, subordinated debt with a maturity of at least five years (up to 50% of Tier I capital), certain revaluation surpluses and valuation gain on investment securities. The amount of risk-weighted assets is determined by adding (i) the risk-weighted assets on our balance sheet and (ii) our off balance sheet risk-weighted assets multiplied by a rate determined by the Financial Supervisory Commission.

As of December 31, 2000, our capital adequacy ratio was 11.18%, which is above the Financial Supervisory Service's requirement of 8%. Despite the increase in net income and the increase of capital through a rights offering by Kookmin Credit Card, our Tier I capital adequacy ratio decreased from 7.26% as of December 31, 1999 to 6.82% as of December 31, 2000 due to increases in deposits and an increase in assets of Kookmin Credit Card. The following table sets forth a summary of our capital and capital adequacy ratios as of December 31, 1998, 1999 and 2000.

	As of December 31,		
	1998	1999	2000
	(in ₩ billion)		
Tier I capital:	2,686	3,301	3,843
Paid-in capital	1,382	1,698	1,698
Capital reserves	1,009	1,408	1,470
Retained earnings	401	263	708
Minority interests in consolidated Subsidiaries	32	21	215
Consolidated adjustment credit/debit	(51)	(27)	—
Others (–)	(87)	(62)	(248)[3]
Tier II capital:	2,114	1,871	2,455
Revaluation reserves	177	177	177
Allowance for loan losses[1]	594	277	349
Subordinated debt[2]	1,343	1,417	1,919
Valuation gain on investment securities	—	—	10
Total core and supplementary capital	4,800	5,172	6,298
Risk-weighted assets:	47,552	45,435	56,347
On-balance sheet	45,088	43,083	52,703
Off-balance sheet	2,464	2,352	3,644
Capital adequacy ratio:	10.09%	11.38%	11.18%
Tier I capital	5.65	7.26	6.82
Tier II capital	4.45	4.12	4.36

(1) Reserves for possible loan losses in respect of credits classified as normal or precautionary are used to calculate Tier II capital only to the extent they represent up to 1.25% of risk-weighted assets.

(2) The subordinated debt representing 50% of Tier I capital is used in the calculation of Tier II capital.

(3) In 2000, deferred income tax asset of ₩ 207 billion was disallowed from the calculation of Tier I capital.

During 1999, our total paid-in capital increased by ₩316 billion to ₩1,698 billion, an increase of 22.9% from the previous year. This was a result of (i) the sale of 30,000,000 shares of our common stock at ₩12,000 per share to Goldman Sachs Capital Koryo, L.P. on June 14, 1999 and (ii) the rights offering of 33,314,050 shares of common stock at ₩11,400 per share on November 19, 1999.

In addition, simultaneous with the sale of our common stock to Goldman Sachs Capital Koryo on June 14, 1999, we also issued US$200 million principal amount of subordinated convertible bonds with the then conversion price of ₩14,200 per share to Goldman Sachs Capital Koryo, which conversion price was subsequently adjusted to ₩13,802 per share. To date, no conversion has occurred on these subordinated convertible bonds.

On June 22, 1998, Korea Long Term Credit Bank issued US$25 million principal amount of subordinated convertible bonds with the then conversion price of ₩5,000 per share to International Finance Corporation, which conversion price was subsequently adjusted to ₩8,822 per share. We assumed these convertible bonds through our merger with Korea Long Term Credit Bank. In each of February and July 2001, we issued 1,986,510 new shares of our common stock to International Finance Corporation pursuant to the exercise of its conversion rights in respect of US$12.5 million principal amount of these convertible bonds. Accordingly, no such convertible bonds are outstanding.

In connection with our acquisition of DaeDong Bank, on December 28, 1998, we issued 40,000,000 shares of non-cumulative, non-participating redeemable preferred stock, with a par value of ₩5,000 per share, to the Korea Deposit Insurance Corporation for ₩200 billion. In January 2000, we repurchased 8,000,000 shares of preferred stock at par and, as a result, 32,000,000 shares were still held by the Korea Deposit Insurance Corporation at December 31, 2000. In January 2001, we repurchased additional 8,000,000 shares of preferred stock at par, which reduced our capital base and our capital adequacy ratios by 0.07% based on our financial condition as of December 31, 2000. In addition, we plan to repurchase the remaining 24,000,000 shares of preferred stock at par, prior to the merger. If we do so, it will reduce our capital base and our capital adequacy ratios by an additional 0.21% based on our financial condition as of December 31, 2000.

Recent Accounting Pronouncements

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities"

Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 137 and 138, supersedes and amends several existing standards and establishes accounting and reporting standards for hedging activities and for derivative financial instruments, including derivatives embedded in other contracts. SFAS No. 133 requires that all derivative instruments be recorded on the balance sheet at fair value. Changes in the fair values of derivatives in each period are recorded in either current earnings or other comprehensive income, based on whether the derivative contract is designated as part of a hedge transaction as well as on the effectiveness and type of hedge.

For fair value hedges, in which derivatives hedge the fair value of assets and liabilities, changes in the fair value of derivatives are reflected in current earnings together with changes in the fair value of the related hedged item. The change in fair value of a derivative that is not effective as a hedge is immediately recognized in earnings. Our fair value hedges primarily include hedges of fixed rate long-term debt, loans and securities available-for-sale.

For cash flow hedges, in which derivatives hedge the variability of cash flows related to floating rate assets, liabilities or forecasted transactions, the accounting treatment will depend on the effectiveness of the hedge. To the extent these derivatives are effective in offsetting the variability of the hedged cash flows, changes in the derivatives' fair value are not included in current earnings but are reported in other comprehensive income. These changes in fair value will be included in earnings in future periods when earnings are also affected by the variability of the hedged cash flows. To the extent these derivatives are not effective, changes in their fair values will be immediately included in current earnings. We did not have any cash flow hedges as of December 31, 2000.

For a derivative not designated as a hedging instrument, changes in the fair value are recognized in earnings in the period of change.

On the initial adoption date of SFAS No. 133, hedging relationships must be redesignated and documented pursuant to the provisions of the standard. SFAS No. 133 requires that derivatives that currently apply hedge accounting that do not meet the new definition of a hedging relationship be treated as trading transactions and marked to market. From January 1, 2001 a significant proportion of our non-trading derivatives will not be designated as hedging transactions as defined by SFAS No. 133. As a result, adoption of this standard may cause volatility in our earnings and equity prospectively.

On adoption of SFAS No. 133, securities classified as held-to-maturity can be transferred to either the available-for-sale classification or the trading classification without calling into question an entity's intent to hold other debt securities to maturity in the future. SFAS No. 133 also allows transfers from the available-for-sale classification to the trading classification. We did not make any such transfers.

We adopted SFAS No. 133 on January 1, 2001. In accordance with the transition adjustment provisions of SFAS No. 133, the Bank recorded a net-of-tax cumulative-effect-type adjustment of ₩11,116 million loss in earnings to recognize at fair value derivative contracts hedging held-to-maturity securities (and accounted for on an accrual basis) which were designated as trading derivatives under SFAS No. 133.

We recorded a net-of-tax reduction to income of ₩8,540 million and an increase of the same amount to accumulated other comprehensive income for interest rate swaps that were hedging available-for-sale securities, which did not qualify for hedge accounting under SFAS No. 133.

We also recorded a net-of-tax cumulative-effect-type adjustment of ₩5,059 million loss in earnings and a net-of-tax gain in accumulated other comprehensive income of ₩5,118 million to recognize the fair value of embedded equity-based derivatives that was not previously separately accounted for as a derivative under generally accepted accounting principles before the initial application of SFAS No. 133.

SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities"

In September 2000, the FASB issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities—a replacement of SFAS No. 125". SFAS No. 140 revises the standards for accounting for securitizations and other transfers of financial assets and collateral. SFAS No. 140 requires certain new disclosures, but it carries over most of SFAS No. 125's provisions without reconsideration. Generally, the new provisions of this standard were to be applied prospectively and became effective March 31, 2000. However, certain recognition and classification requirements for collateral and disclosures for collateral and securitization transactions are required as of December 31, 2000 and have been adopted by us. Adoption of the remaining provisions of this revised accounting standard is not expected to have a material impact on us.

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, 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.

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 Financial Supervisory Service.

Because of significant changes in Korean GAAP which were applied by us in 1999 and 2000, 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,					
	1996	1997	1998	1999	2000	2000[1]
	(in ₩ billion, except per common share data)					(in US$ million, except per common share data)
Interest income	4,327	4,942	6,062	6,853	6,788	5,358
Interest expense	3,255	3,938	4,762	5,029	4,947	3,905
Net interest income	1,072	1,004	1,300	1,824	1,841	1,453
Provision for possible loan losses[2]	—	—	—	1,387	916	723
Net interest income after provision for possible loan losses	1,072	1,004	1,300	437	925	730
Non-interest revenue[3]	782	1,822	2,353	2,886	3,753	2,963
Non-interest expense[4]	1,648	2,563	3,754	3,131	3,514	2,774
Operating income	206	263	(101)	192	1,164	919
Non-operating loss, net	12	(123)	(344)	(88)	(30)	(24)
Net income before income tax expense	218	140	(445)	104	1,134	895
Income tax expense[5]	22	20	1	121	448	354
Net income (loss) before consolidation adjustment	196	120	(446)	(17)	686	541
Minority interest in earnings of consolidated subsidiaries	(5)	(8)	135	(4)	(94)	(75)
Other[6]	(1)	—	(11)	(7)	—	—
Net income	190	112	(322)	(28)	592	466
Per common share data:						
Earnings per share-basic	2,272	1,139	(1,952)	(109)	1,977	1.56
Earnings per share-diluted[7]	—	—	—	(73)	1,700	1.34
Cash dividends per common share[8]	606	—	200	50	500	0.39
Stock dividends per common share	—	140	—	—	—	—

(1) Won amounts are expressed in US dollars at the rate of ₩1,267.00/US$1.00, the noon buying rate in effect on December 31, 2000.

(2) The provision for possible loan losses was included in non-interest expense in 1996, 1997 and 1998. The amount of the provision was ₩70 billion, ₩265 billion and ₩1,274 billion, respectively. The methodology we use to calculate the provision for loan losses was revised in 1999, which resulted in the recognition of a significantly higher provision. The revised guidelines require us to consider not only delinquencies and bankruptcies but also a borrower's future capacity to repay, including the borrower's management, current financial position and future cash flows.

(3) Non-interest revenue includes fees and commission income, dividends on securities, gains on security valuations and disposals, gains on foreign currency transactions and gains from derivative transactions.

(4) Non-interest expense is composed of fees and commissions paid or payable, general and 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 debit opening retained earnings by ₩26 billion, which reflected the net deferred tax liabilities 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 decrease net income by ₩28 billion and to recognize deferred tax liabilities of ₩54 billion as of December 31, 1999.

(6) Prior to 2000, we recorded changes of equity interest in subsidiaries due to additional share issuance by these companies as consolidation adjustments and amortized the balances over 5 years using the straight-line method. From 2000, in accordance with the revised accounting standards for the consolidated financial statements, such changes of equity interest are recorded in consolidated capital surplus.

(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,					
	1996	1997	1998	1999	2000	2000[1]
	(in ₩ billion, except per common share data)					(in US$ million, except per common share data)
Cash and due from banks	4,495	4,343	5,766	5,317	6,403	5,054
Foreign exchange[2]	521	850	764	—	—	—
Loans[3]	24,251	28,971	37,659	45,587	60,462	47,720
Less: allowance for doubtful accounts[4]	—	—	—	(2,367)	(2,250)	(1,777)
Call loans[5]	397	484	1,021	—	—	—
Trading securities[6]	—	—	—	4,250	3,806	3,004
Investment securities[6]	11,416	13,727	23,637	14,528	16,839	13,291
Customers' liabilities on guarantees[7]	542	908	2,641	—	—	—
Fixed assets	1,913	2,342	2,847	1,621	1,458	1,151
Other assets[8]	5,638	6,520	7,584	4,015	4,380	3,458
Consolidation adjustment debit	—	—	56	29	—	—
Total assets	49,173	58,145	81,975	72,980	91,098	71,901
Deposits	34,665	37,234	42,547	44,538	58,244	45,970
Borrowings[9]	7,453	10,678	24,273	10,315	9,384	7,406
Call money[10]	509	325	466	—	—	—
Guarantees outstanding[7]	542	908	2,641	—	—	—
Allowance for possible loan losses[11]	1,853	2,317	3,809	—	—	—
Debentures	—	—	—	9,313	11,648	9,193
Other liabilities[12]	2,535	4,555	5,240	5,305	7,571	5,976
Total liabilities	47,557	56,017	78,976	69,471	86,847	68,545
Minority interests in consolidated Subsidiaries	52	48	32	21	215	170
Stockholders' equity	1,564	2,080	2,967	3,488	4,036	3,186
Total liabilities, minority interest and stockholders' equity	49,173	58,145	81,975	72,980	91,098	71,901

(1) Won amounts are expressed in US dollars at the rate of ₩1,267.00/US$1.00, the noon buying rate in effect on December 31, 2000.

(2) Foreign exchange represents holdings of foreign currency and bills bought in foreign currencies. In 1999 and 2000, holdings of foreign currency and bills bought in foreign currencies were included in cash and due from banks and loans, respectively. The amount of foreign currency and bills bought in foreign currencies as of December 31, 1999 was ₩60 billion and ₩827 billion, respectively. As of December 31, 2000, the amount was ₩74 billion and ₩925 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 of December 31, 1996, 1997 and 1998 was ₩299 billion, ₩429 billion, and ₩2,273 billion, respectively. The allowance was disclosed within allowance for possible loan losses until 1998. The allowance for loan losses prior to December 31, 1999 was provided based on credit risk classifications of the loan portfolio in accordance with guidelines issued by the Financial Supervisory Commission. Estimated loan losses were determined by applying certain percentages to each credit risk classification. Under revised Korean GAAP, effective as of December 31, 1999, the Financial Supervisory Commission 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 large-sized corporate loans (loan exposure greater than ₩3 billion), while consumer loans and small-sized corporate loans were classified by considering number of days delinquent, secured amounts, and possibility of collection. Pursuant to the regulations promulgated by the Financial Supervisory Service, loans are classified as normal, precautionary, substandard, doubtful or estimated loss, and the allowance for loan losses is determined by applying a percentage within a certain range to those classifications.

(5) Call loans are included in loans as of December 31, 1999 and December 31, 2000. The amount of call loans at those dates was ₩377 and ₩991 billion, respectively.

(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 cost 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 allowance for possible loan losses. The amounts of such allowance as of December 31, 1996 and 1997 were ₩122 billion and ₩317 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 ₩1 billion. Under Korean GAAP effective for periods beginning after December 12, 1998, all debt securities and marketable equity securities are accounted for on a similar basis to US 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 sheet until 1998. From 1999, such amounts do not appear on the balance sheet but are recorded as an off-balance sheet item in the notes to our financial statements. The amounts of guarantees and acceptances at December 31, 1999 and 2000, were ₩2,111 billion and ₩3,060 billion, respectively.

(8) 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).

Until 1998, leasehold deposits were recorded as premises and equipment. From 1999, such amounts are recorded as other assets on the balance sheet. Accumulated depreciation was recorded within allowance for possible loan losses until 1998; but from 1999 such amounts are recorded as a deduction from premises and equipment. The amounts of accumulated depreciation as of December 31, 1996, 1997 and 1998 were ₩348 billion, ₩373 billion and ₩471 billion, respectively.

Credit card accounts, payments on guarantees and purchases of securities under agreements to resell (resale agreements) were included in other assets until 1998. The amount of credit card loans was ₩2,104 billion, ₩2,205 billion, ₩1,813 billion, ₩2,669 billion and ₩6,214 billion as of December 31, 1996, 1997, 1998, 1999 and 2000, respectively. The amount of payments on guarantees was ₩76 billion, ₩116 billion, ₩285 billion, ₩333 billion and ₩241 billion as of December 31, 1996, 1997, 1998, 1999 and 2000, respectively. The amount of resale agreements was ₩210 billion, ₩428 billion, ₩146 billion, ₩100 billion, ₩1,500 billion as of December 31, 1996, 1997, 1998, 1999 and 2000, respectively.

(9) Borrowings consist mainly of borrowings from the Bank of Korea, the Korean government and other banking institutions.

(10) Call money is included in borrowings at December 31, 1999 and 2000. The balance of call money at that date was ₩974 billion and ₩762 billion, respectively.

(11) Allowance for possible loan losses and accumulated depreciation were recorded as provisions until 1998. From 1999, however, such amounts are recorded as deductions from the loans and premises and equipment balances, respectively. Unrealized losses on securities were also included as allowance until 1997. From 1998, such amounts are recorded as deductions from the carrying amounts of securities.

(12) Under Korean GAAP, effective as of December 31, 1999, 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 allowance as of December 31, 1999 and 2000 were ₩28 billion and ₩37 billion, respectively. These amounts are included in other liabilities.

Profitability Ratios

	Year ended December 31,				
	1996	1997	1998	1999	2000
	(percentages)				
Net income as a percentage of:					
Average total assets	0.46	0.23	(0.62)	(0.04)	0.72
Average stockholders' equity	26.76	5.94	(14.22)	(0.93)	15.74
Dividend payout ratio[1]	26.84	13.39	—	—	25.16
Net interest spread[2]	2.90	2.06	2.59	2.40	2.14
Net interest margin[3]	2.96	2.27	2.73	2.73	2.45
Cost-to-income ratio[4]	88.89	90.69	102.76	66.48	62.82
Cost-to average assets ratio[5]	4.03	5.29	7.31	4.49	4.28

(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. A negative ratio in 1998 and 1999 resulted from net losses.

(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 and Year ended December 31,				
	1996	1997	1998	1999	2000
	(percentages)				
Total capital adequacy (BIS) ratio[1]	8.46	10.77	10.09	11.38	11.18
Tier I	5.92	5.64	5.65	7.26	6.82
Tier II	2.56	5.14	4.45	4.12	4.36
Average stockholders' equity as a percentage of average total assets	1.74	3.89	4.40	4.33	4.58

[1] The capital adequacy ratios are computed in accordance with the guidelines issued by the Financial Supervisory Service, which guidelines are consistent with the capital adequacy accord reached by the Basle Committee of Banking Supervision, Bank for International Settlements in all material respects. The computation is prepared on a consolidated Korean GAAP basis.

Asset Quality Ratios

	As of December 31,				
	1996	1997	1998	1999	2000
	(in ₩ billion, except percentages)				
Non-performing loans[(1)]	₩622	₩1,198	₩3,883	₩5,489	₩4,448
Non-performing loans as a percentage of total loans	3.01%	4.64%	8.40%	11.77%	7.51%
Non-performing loans as a percentage of total assets	0.55%	0.91%	2.50%	4.71%	3.39%
Allowance for loan losses as a percentage of non-performing loans	20.25%	46.50%	50.90%	47.42%	57.32%
Allowance for loan losses as a percentage of total loans	1.11%	1.66%	4.92%	5.08%	3.80%

(1) Non-performing loans are defined in accordance with regulatory guidance in Korea. Until 1998, we classified credit quality into the following five categories according to standards defined by the Office of Banking Supervision: normal, precautionary, substandard, doubtful and estimated loss. Non-performing loans were defined as loans classified as substandard, doubtful and estimated loss. In 1999, in addition to classifying credit quality into the five categories in accordance with standards defined by the Financial Supervisory Commission, we also took into account the repayment capability of borrowers. Since 1999, the Financial Supervisory Commission 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 estimated loss, but certain adjustments are now made to substandard credits. The portion of precautionary loans of workout companies which are in default on interest payments are included, but the portion of estimated losses and doubtful credits that are paying interest are excluded. Since 2000, regardless of default on interest payments, loans to workout companies are classified using the same strict standards as those applied to the other companies. See "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 footnote 1 to our 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 statements with Korean GAAP.

	2000
	(in ₩ million)
US GAAP net income	927,548
1. Provision for loan losses, guarantees and acceptances	(420,608)
2. Sale of loans to the Korea Asset Management Corporation	(10,254)
3. Deferred loan costs	(8,296)
4. Reversal of accrued interest on delinquent loans	(10,256)
5. Valuation of investment securities and hedging derivatives accounting	121,211
6. Other loan sale accounting	(83,568)
7. Revaluation of fixed assets	(9,343)
8. Accounting of acquisition of Korea Long Term Credit Bank	13,517
9. Fair valuation of assets and liabilities from our merger with Korea Long Term Credit Bank	(60,135)
10. Lease conversion	15,925
11. Sale of subsidiaries	(47,900)
12. Other assets and liabilities	(29,078)
15. Reversal of cumulative effect of accounting changes	30,969
16. Foreign currency translation	(18,583)
17. Impairment	(4,249)
18. Others	(1,571)
Total of Adjustments	(522,219)
Tax effect of adjustments	187,087
Korean GAAP net income	592,416

	2000
	(in ₩ million)
US GAAP shareholders' equity	3,745,214
1. Provision for loan losses, guarantees and acceptances	(419,982)
2. Sale of loans to the Korea Asset Management Corporation	(19,211)
3. Deferred loan costs	(37,571)
4. Reversal of accrued interest on delinquent loans	16,766
5. Valuation of investment securities and hedging derivatives accounting	(70,177)
6. Other loan sale accounting	(103,026)
7. Revaluation of fixed assets	323,498
8. Accounting of acquisition of Korea Long Term Credit Bank	638,247
9. Fair valuation of assets and liabilities from our merger with Korea Long Term Credit Bank	(202,112)
10. Lease conversion	(725)
12. Other assets and liabilities	16,558
13. Reversal of dividends	(209,077)
14. Preferred shares issued for bonds of the Korea Deposit Insurance Corporation	160,000
15. Reversal of cumulative effect of accounting changes	5,981
17. Impairment	(46,116)
18. Others	36,113
Total of adjustments	89,166
Tax effect of adjustments	202,035
Korean GAAP shareholders' equity	4,036,415

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 non-homogeneous 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 or observable market prices if available. For small balance homogeneous loan portfolios and consumer loans, we have established the allowance for the 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 the classification guidelines promulgated by the Financial Supervisory Commission, 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 1999, we also established voluntary additional reserves on the individual credits to be more in line with international banking practices. Our reserve is established based on the following percentages as of December 31, 2000:

	2000
	(Percentages)
Normal	0.5
Precautionary	2 to 19
Substandard	20 to 49
Doubtful	50 to 99
Estimated loss	100

2. During fiscal years 1997 and 1998, we sold a number of non-performing loans to the Korea Asset Management Corporation. The Korea Asset Management Corporation can put back certain loans to us when the performance requirements of such loans are not met. Under US GAAP, we have recognized estimated possible losses at the date of sales as well as subsequent gains or losses from the settlement of such options. Under Korean GAAP, recognition of possible losses for put-back options is not required.

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 or expense when received or paid and does not provide for deferral of related costs.

4. For US GAAP reporting purposes, we have generally recorded interest income on loans that are past due greater than one day on a cash basis. Under Korean GAAP, we accrued interest income on certain loans that were past due. The adjustment in the reconciliation is to report interest income under US GAAP on a cash basis only for past due loans.

5. 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 that experience an "other than temporary impairment" are required to be written down to their impairment amount. Under Korean GAAP, investment securities must be deemed to be permanently impaired before they are written down.

   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.

6. 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 such rigorous criteria and, therefore, certain loan transactions resulted in a sale and accordingly, in the recognition of a gain or loss.

7. In 1972, 1979, 1983 and 1997, we revalued certain 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 should be based on historical cost.

   As part of our normal operations, we occasionally dispose of fixed assets. Due to the different accounting treatment of fixed asset carrying value as noted above, there was an adjustment to reflect the gain or loss from an historic cost basis as opposed to the Korean GAAP carrying value.

8. In accordance with Korean GAAP, we recorded the acquisition of the Korea Long Term Credit Bank net assets at their book value. This transaction created negative goodwill under Korean GAAP, which was recorded in stockholders' equity. As required under US GAAP, purchased net assets must be revalued to fair value with any difference between the fair value and the purchase price recorded as goodwill. The application of US GAAP resulted in goodwill due to a decline in the net assets of Korea Long Term Credit Bank after fair valuation. Under Korean GAAP, the shares given up were valued on the consummation date, while, under US GAAP, the shares were valued on the date the transaction was announced. Also, an increase in retained earnings was recorded under Korean GAAP but is not permissible under US GAAP. The income statement adjustments represent the amortization of goodwill under US GAAP.

9. The income statement adjustments in the reconciliation represent the accretion to income of the difference between book value and fair value on the net assets acquired (see note 8). The adjustment to retained earnings is the reflection of changes in net income.

10. As lessors, we recorded certain equipment financing as operating leases under Korean GAAP. Under US GAAP, such leases are classified as capital leases. As such, the equipment subject to capital lease

requirements are removed from the balance sheet and replaced with the net investment in the respective leases. The difference between US and Korean GAAP relates to the difference between the depreciation expense and rental income that is recorded under Korean GAAP versus the amortization of the unearned income related to the lease receivable that is recorded under US GAAP.

11. We sold a subsidiary in January 1999 which had liabilities exceeding assets in the amount of approximately ₩57 billion. In connection with this transaction, we received ₩6 billion in cash and agreed to provide a 15-year below-market rate loan of ₩120 billion to the purchaser. The present value of the below-market rate discount was approximately ₩47.9 billion, which amount we ultimately paid to the buyer in 2000 in lieu of funding the loan. Under Korean GAAP, such payment was recorded when the amount was ultimately paid in 2000, but under US GAAP, the payment was recorded on the consummation date in January 1999, as the payment represents the present value of the discount of the below-market rate debt that we had agreed to provide to the buyer.

12. We recorded an asset for an investment made in funds set up by the Korea Asset Management Corporation to purchase troubled debt in 1998. Under Korean GAAP, the investment was deemed impaired in fiscal 2000, while, under US GAAP, the investment was deemed impaired in 1998 and the amount invested was written off. In addition, certain amounts incurred for legal expenses related to collecting delinquent loans are recorded as an asset under Korean GAAP, but are expensed as incurred under US GAAP.

13. 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 the ex-dividend date falls.

14. Under US GAAP, we disclose the bonds issued by the Korea Deposit Insurance Corporation 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 gross amount of bonds issued by the Korea Deposit Insurance Corporation were not met. Under Korean GAAP, the respective bonds issued by the Korea Deposit Insurance Corporation are included within securities held to maturity.

15. We made accounting changes related to derivatives and guarantee payments on trust accounts for troubled debt restructuring in fiscal 2000. These changes were considered to be adjustments in accounting methodology under Korean GAAP and were recorded through retained earnings. The adjustment noted in the reconciliation eliminates the change in accounting methodology recorded under Korean GAAP as no change was necessary from a US GAAP perspective.

16. This adjustment relates to foreign translation gains/losses under US GAAP for deposits, borrowings and loans derivative contracts that are exempt from translation under Korean GAAP.

17. US GAAP requires that all long-lived assets be considered for impairment. This adjustment represents a write-down in the carrying value of intangible assets, troubled leasehold deposits and foreclosed assets. Such write-down is not required under Korean GAAP.

18. Other represents various items, including such items as capitalized software cost, stock and debt issuance costs, stock option and foreign currency translation of overseas branches and subsidiaries.

During the six months ended June 30, 2001, we recognized unrealized gains on a certain pool of debt securities that would be classified as available for sale under US GAAP. Such gains, which amounted to ₩63 billion, would not be recognizable under US GAAP.

Recent Developments

Results of operations for the first half of 2001 compared to the first half of 2000

The unaudited and non-consolidated financial information shown below was prepared pursuant to Korean generally accepted accounting principles or Korean GAAP and was derived from the non-consolidated semi-annual financial statements included in this prospectus as Annex V. Korean GAAP differs in significant respects from US GAAP. See "Kookmin Bank—Management's Discussion and Analysis of Financial Condition and Results of Operations—Selected Financial Information Under Korean GAAP" and "Kookmin Bank—Management's Discussion and Analysis of Financial Condition and Results of Operations—Reconciliation with Korean Generally Accepted Accounting Principles". In addition, the financial information below is non-consolidated and therefore does not reflect the results of operations of our subsidiaries other than those accounted for under 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 2001 may not be indicative of results of operations for the full 2001 year.

Non-consolidated semi-annual Korean GAAP income statement data

	Six Months Ended June 30,	
	2000	2001
	(in ₩ billion)	
Interest income	3,042	3,341
Interest expense	2,002	2,210
Net interest income	1,040	1,131
Provision for loan losses	277	217
Net interest income after provision for loan losses	763	914
Non-interest income[(1)]	384	521
Non-interest expense[(1)]	796	749
Operating income	351	686
Non-operating gains, net	(22)	271
Income before income tax expense	329	957
Income tax expense	100	295
Net income	229	662

(1) Presented net of gains and losses on foreign currency transactions and derivative transactions. Our non-consolidated financial statements record these items on a gross basis.

Non-consolidated semi-annual Korean GAAP balance sheet data

	As of June 30,	
	2000	2001
	(in ₩ billion)	
Cash and due from banks	6,161	4,053
Loans, net of allowance for loan losses(1)	43,707	54,188
Trading securities	2,615	2,679
Investment securities	17,153	21,248
Premises and equipment	1,270	1,277
Other assets	3,671	4,506
Total assets	74,577	87,951
Deposits	52,818	60,611
Borrowings	6,265	9,725
Debentures	5,731	6,125
Other liabilities	5,870	6,517
Total liabilities	70,684	82,978
Total shareholders' equity	3,893	4,973
Total liabilities and shareholders' equity	74,577	87,951

(1) Loans, before net of allowance for loan losses, were ₩45,659 billion and ₩55,838 billion as of June 30, 2000 and 2001, respectively.

Our non-consolidated net interest income increased by 8.8% from ₩1,040 billion in the first half of 2000 to ₩1,131 billion in the first half of 2001 as a result of a 9.8% increase in non-consolidated interest income which more than offset a 10.4% increase in non-consolidated interest expense.

The 9.8% increase in non-consolidated interest income from ₩3,042 billion in the first half of 2000 to ₩3,341 billion in the first half of 2001 was primarily due to a 17.1% increase in interest on loans from ₩2,051 billion in the first half of 2000 to ₩2,401 billion in the first half of 2001. The increase in interest on loans was attributable to an increase in average lending volume in line with an increase in our funding from deposit sources and a decrease in delinquency ratios from 3.75% in the first half of 2000 to 2.50% in the first half of 2001, partially offset by a decline in average interest rates in respect of such loans as a result of declining interest rates in Korea. Our outstanding loans, before net of allowance for loan losses, increased by 22.3% from ₩45,659 billion as of June 30, 2000 to ₩55,838 billion as of June 30, 2001.

The 10.4% increase in non-consolidated interest expense from ₩2,002 billion in the first half of 2000 to ₩2,210 billion in the first half of 2001 was due primarily to a 21.0% increase in interest on deposits from ₩1,389 billion in the first half of 2000 to ₩1,680 billion in the first half of 2001, partially offset by a 24.3% decrease in interest on debentures from ₩350 billion in the first half of 2000 to ₩265 billion in the first half of 2001. The increase in interest on deposits was attributable to a 23.5% increase in the average volume of deposits for the first half of 2001 compared to the first half of 2000, which was partially offset by a decrease in average interest rate paid on deposits from 5.84% in the first half of 2000 to 5.74% in the first half of 2001 as a result of declining interest rates in Korea. Our outstanding deposits increased from ₩52,818 billion as of June 30, 2000 to ₩60,611 billion as of June 30, 2001. This increase in deposits was attributable primarily to the recent difficulties in the Korean financial sector which has led many people to withdraw their deposits from financial institutions they perceive as weaker and deposit them with banks they perceive as stronger, such as ourselves.

Our net interest margin decreased from 3.23% in the first half of 2000 to 2.88% in the first half of 2001, 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 provision for loan losses decreased by 21.7% from ₩277 billion in the first half of 2000 to ₩217 billion in the first half of 2001 as a result of improvements in the quality of our loan portfolio due to continued charge-offs of non-performing loans in 2000 and the continued stabilization of the Korean economy.

Our non-consolidated non-interest income increased by 35.7% from ₩384 billion in the first half of 2000 to ₩521 billion in the first half of 2001 primarily as a result of (i) a 31.1% increase in fees and commission income from ₩148 billion in the first half of 2000 to ₩194 billion in the first half of 2001, which was in turn primarily due to increased commissions from our credit card business, (ii) a 258.3% increase in net gains on foreign currency transactions from ₩24 billion in the first half of 2000 to ₩86 billion in the first half of 2001 and (iii) a 48.8% increase in other income from ₩160 billion in the first half of 2000 to ₩238 billion in the first half of 2001. Other income consists mostly of gains from sale or valuation of debt securities which gains reflect and were a result of the low interest rate environment in Korea.

Our non-consolidated non-interest expense decreased by 5.9% from ₩796 billion in the first half of 2000 to ₩749 billion in the first half of 2001 primarily as a result of (i) a 47.3% decrease in other expenses, which consist mostly of losses from our trust accounts and realized loss on trading securities, from ₩281 billion in the first half of 2000 to ₩148 billion in the first half of 2001, partially offset by a 8.6% increase in general and administrative expenses from ₩487 billion in the first half of 2000 to ₩529 billion in the first half of 2001. The 8.6% increase in general and administrative expenses was due primarily to a 9.7% increase in salaries and wages from ₩186 billion in the first half of 2000 to ₩204 billion in the first half of 2001.

Our net non-consolidated non-operating gains increased to ₩271 billion in the first half of 2001 from a deficit of ₩22 billion in the first half of 2000. The increase was due primarily to valuation gains on equity securities of our subsidiary, Kookmin Credit Card, resulting from improved operations at Kookmin Credit Card.

Income tax expense increased by 195.0% from ₩100 billion in the first half of 2000 to ₩295 billion in the first half of 2001 as a result of our increased income. The statutory rate was 30.8% in each of the first half of 2000 and the first half of 2001. The effective tax rate was 30.79% in the first half of 2001 compared to 30.57% in the first half of 2000.

As a result of the above, our non-consolidated net income was ₩662 billion in the first half of 2001 as compared to ₩229 billion in the first half of 2000.

Debt Restructuring of Kookmin Leasing

In December 2000, a workout plan for Kookmin Leasing was finalized, which was approved by the creditors of Kookmin Leasing in June 2001. According to this plan, ₩1,351 billion of Kookmin Leasing's debt was restructured retroactive to March 30, 2001, resulting in (i) forgiveness of ₩70 billion of debt, (ii) early repayment of ₩236 billion in debt, (iii) a conversion of ₩270 billion in debt into substantially all of the equity interest in Kookmin Leasing and ₩66 billion of convertible bonds and (iv) extended repayments and reduced interest rates on ₩775 billion of debt. Under this plan, ₩182 billion of our loans to Kookmin Leasing will be converted into equity while ₩15 billion of such loans and our existing equity interest in Kookmin Leasing will be written off. On August 13, 2001, the board of directors of Kookmin Leasing, pursuant to the terms of the restructuring plan, resolved to convert debt into equity on September 15, 2001 and to issue convertible bonds on September 17, 2001. After giving effect to the conversion of debt into equity, we will own 88.32% of Kookmin Leasing. As a result of the implementation of the restructuring plan, under Korean GAAP, Kookmin Leasing will recognize a gain of ₩163 billion while we will recognize a gain of ₩150 billion on a consolidated basis.

Business Overview

Overview

We are one of the largest commercial banks in Korea in terms of assets, deposits, branch network and retail customer base. Our primary focus is branch-based lending to and deposit-taking from retail customers and small- and medium-sized enterprises. The principal components of our business are general household, mortgage and small- and medium-sized enterprise lending, fee income generation from our credit card operations and (investment) trust account management business and capital market activities, which businesses are enhanced by our electronic banking platform. We also make loans and provide banking services to large domestic corporate customers.

The following table sets forth the principal components of our lending business as of the dates indicated.

	As of December 31,					
	1998		1999		2000	
	(in ₩ billion, except percentages)					
Household						
Credit cards	2,525	6.0%	3,362	7.5%	8,321	14.0%
Mortgage and real estate[1]	4,519	10.8	6,034	13.4	8,068	13.6
Other[2]	5,913	14.2	6,143	13.6	8,151	13.7
Total household	12,957	31.0	15,539	34.5	24,540	41.3
Small- and medium-sized enterprises	15,723	37.6	18,720	41.7	22,393	37.7
Total household/small- and medium-sized enterprises	28,680	68.6	34,259	76.2	46,933	79.0
Large corporate[3]	12,170	29.0	9,606	21.4	11,378	19.2
Foreign corporate	1,017	2.4	1,080	2.4	1,086	1.8
Total loans	41,867	100.0	44,945	100.0	59,397	100.0

(1) Includes ₩70 billion, ₩302 billion and ₩499 billion of overdraft loans secured by real estate as of December 31, 1998, 1999 and 2000, respectively.

(2) Includes ₩1,860 billion, ₩2,174 billion and ₩2,518 billion of overdraft loans as of December 31, 1998, 1999 and 2000, respectively.

(3) Includes loans to the Korea Deposit Insurance Corporation, which is a government controlled entity, in the amount of ₩387 billion as of December 31, 1999 and ₩1,587 billion as of December 31, 2000.

We have developed one of the most extensive domestic branch networks, with 575 domestic branches as of June 30, 2001. Our deposit customers (excluding those who did not engage in any transactions with us for more than a year) include approximately 14.0 million individuals, representing more than one-quarter of the total population in Korea. Our extensive branch network and retail customer base have provided us with a source of stable and low cost funding. As of December 31, 2000, (as calculated under Korean GAAP on a consolidated basis) we had the largest amount of deposits of any bank in Korea, with total deposits of ₩58 trillion, and the largest assets of any bank in Korea, with assets totaling ₩91 trillion. In 2000, (as calculated under Korean GAAP on a consolidated basis) we had the largest net income of any bank in Korea, totaling ₩592 billion.

In 1980, we became the first Korean bank to issue credit cards. Since 1987, we have operated our credit card business through Kookmin Credit Card, our 76.47%-owned subsidiary. As of December 31, 2000, there were approximately 8 million holders of the Kookmin Credit Card, including 3.4 million holders of Mastercard credit cards and 1.7 million holders of Visa credit cards also issued by Kookmin Credit Card.

For the year ended December 31, 2000, we realized net income of ₩928 billion compared with ₩481 billion for the year ended December 31, 1999. At December 31, 2000, our BIS total capital ratio (as calculated under Korean GAAP on a consolidated basis) was 11.18% compared with 11.38% at December 31, 1999.

History

We were established by the Korean government in 1963 under the Citizens National Bank Act of Korea with majority government ownership. Under this Act, we were limited to providing banking services to the general public and to small- and medium-sized enterprises. (See "Kookmin Bank—Business Overview—Small- and Medium-Sized Enterprise Banking" for an exact definition of small- and medium-sized enterprises.) In September 1994, 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 6.48% as of December 31, 2000.

In January 1995, the Act was repealed and replaced by the Repeal Act of the Citizens National Bank Act. Our status was changed from a specialized bank to a nationwide commercial bank and in February 1995, we changed our name to Kookmin Bank. The Repeal Act allowed us to engage in lending to large businesses. Following the repeal, however, under our then articles of incorporation, only up to 20% of our total Won-currency loans outstanding was allowed to be made to large businesses. Currently, under our articles of incorporation, financial services to individuals and small- and medium-sized enterprises are required to be equal to or more than 70% of the total amount of the loans denominated in Won.

In June 1998, we acquired certain assets, including loans the majority of which was considered performing as of the purchase date, and assumed most of the liabilities of Daedong Bank, pursuant to a directive from the Financial Supervisory Commission in connection with a government program to support the deteriorating financial sector in Korea. We assumed 519 out of 1,740 employees and 49 out of 108 branches of Daedong Bank. As of the date of the Daedong Bank acquisition, there was a net shortfall of ₩1,687 billion between the value of the assets we acquired and the value of the liabilities we assumed. We received compensation for this deficiency and for deterioration of quality of assets assumed by us, in the aggregate amount of ₩1,848 billion from the Korea Deposit Insurance Corporation in the form of cash and debt securities issued by the Korean Deposit Insurance Corporation and ₩218 billion from the Korea Asset Management Corporation in the form of cash and debt securities. We suffered a 0.95% decrease in our capital adequacy ratio resulting from the acquisition. To restore the capital adequacy ratio, we received compensation from the Korean government through the issuance of ₩200 billion of preferred shares to the Korean Deposit Insurance Corporation and ₩100 billion of subordinated notes to Korea Development Bank.

In December 1998, we merged with the Korea Long Term Credit Bank, which focused on providing large corporate banking services. Through the acquisition of this bank, we were able to selectively expand our large corporate business, while continuing to concentrate on the retail sector. This expansion resulted in increased services, including wholesale deposits, corporate overdraft facilities, bills and receivables discounting, export/import financing, payment remittances, foreign exchange transactions, standby letters of credit and guarantees and acceptances.

In June 1999, Goldman Sachs Capital Koryo, L.P., a group of funds managed by Goldman Sachs Group, L.P., acquired an interest in our bank in return for an investment of U.S.$500 million in new common shares and convertible bonds, consisting of ₩360 billion of new common shares (30,000,000 common shares at ₩12,000 per share) and U.S.$200 million principal amount of subordinated convertible bonds with a conversion price of ₩14,200 per common share. The current conversion price is ₩13,802. At the time of the purchase, the shares purchased by Goldman Sachs Capital Koryo represented an approximate 11.79% interest in our common shares, not including the convertible bonds purchased by Goldman Sachs Capital Koryo. Assuming conversion of the convertible bonds, Goldman Sachs Capital Koryo's investment represented 16.94% of our common shares at the time of purchase. As of December 31, 2000, Goldman Sachs Capital Koryo's investment represented 11.07% interest and 15.84% interest assuming conversion of the convertible bonds. Under the terms of the investment agreement, (i) we are required to use our best efforts to cause one nominee of Goldman Sachs Capital Koryo to be appointed as a non-executive director to our board of directors and, our board of directors is required to use its best efforts to nominate and recommend an additional nominee of Goldman Sachs Capital Koryo for election as a non-executive director when such position becomes available and (ii) for so long as Goldman Sachs Capital Koryo's investment meets a minimum threshold, we are required to consult with it before we or any of our subsidiaries enter into any agreement or understanding with respect to (A) a merger, including the merger with H&CB, share exchange or consolidation involving any financial institution or (B) the acquisition of a substantial portion of the assets of any financial institution. Pursuant to the investment agreement, we will pursue the merger with H&CB or any other merger or other significant transactions described above only if Goldman Sachs Capital Koryo agrees with us that the transaction is in our best interest and in the best interest of our shareholders.

Strategy

We anticipate that the Korean banking industry will become increasingly competitive as a result of (i) the ongoing financial industry restructuring; (ii) the increasing presence of foreign capital and management techniques in Korean banks and of world class foreign banks establishing and expanding Korean operations; and (iii) the development of a more efficient domestic debt capital market. In order to compete in this environment and to deliver value to our customers, shareholders and employees, we intend to improve the way we conduct our existing operations and add new products and services as we anticipate the needs of our retail and corporate customers. We plan to achieve this goal by accomplishing the following objectives.

Secure our leading market position in, and leverage from, our core businesses.

One of our prime objectives is to secure our leading market position in our core businesses, which are retail and small- and medium-sized enterprise banking. Leveraging from our strengths in these markets, we plan to explore other profit opportunities. We intend to accomplish this objective by undertaking the following initiatives:

- Leveraging existing retail customer relationships. For example, we will continue to ensure that our retail customers use our credit card, borrow from us to purchase a car or to finance housing and other household expenses, deposit their money with us and have their investments managed by us. In this connection, among other things, we plan to develop a variety of new products and services linked to our credit card, to enhance affiliations between our credit card and other service providers and to develop cooperative arrangements with large construction companies for the provision of mortgage financing.

- Attracting new retail customers with tailored products and services, including deposit gathering promotions, tailored mortgage products and electronic banking promotions, and further enhancing our private banking services for high net-worth individuals.

- Leveraging small- and medium-sized enterprise customer relationships by expanding the range of lending, deposit and money management products and effectively increasing products and services to small- and medium-sized enterprises as they expand their businesses.

Develop businesses that generate fee income.

To protect ourselves against a decrease in net interest margins as a result of intense competition in the banking industry, we plan to increase the volume and the proportion of our fee income from non-lending businesses such as project financing, investment banking, financial advisory services, derivatives transactions, asset management, asset-backed securitization and real estate investment trust management.

Selectively expand into markets with growth potential.

In addition to securing our position in markets where we have comparative advantage, we plan to expand, on a selective basis, into other markets with future growth potential, including large corporate banking and Internet banking. The following are the initiatives that we plan to undertake:

- Selectively targeting higher quality large corporate customers and competing aggressively for broad banking relationships through superior customer knowledge and interaction, competitively priced products and services, and timely and creative responses to anticipated customer needs. In order to achieve this initiative, we plan to enhance our marketing efforts through the increased use of relationship managers and the strengthening of our portfolio management.

- Focusing on Internet banking as a means to provide a more diverse range of retail and corporate banking products to our customers and seeking profit-making opportunities through cooperations with other businesses and industries interacting in the Internet environment, including through the establishment of a payment gateway system to allow payment settlement through the Internet.

Rationalize and improve the competitiveness of our internal processes.

We seek to improve our profitability by rationalizing our internal processes. In order to achieve this objective, we have been striving to reduce costs through staff reductions, investment in information technology and lower cost funding. Currently, we plan to take our efforts a step further by undertaking the following initiatives:

- Continually striving to reduce costs by, among other things, eliminating functional overlaps, rationalizing our branch network, encouraging greater use of electronic banking and integrating and broadening our information technology systems.

- Increasing the productivity of our professional staff by further developing performance-related compensation schemes, encouraging and rewarding ideas and initiatives at all levels, and reinforcing a client and service-oriented culture.

Strengthen internal risk management capabilities.

One of our highest priorities is to improve, and prevent deterioration of, our asset quality. To this end, we intend to strengthen our internal risk management capabilities by tightening our underwriting and management policies and improving our internal compliance policies. To accomplish this objective, we plan to undertake the following initiatives:

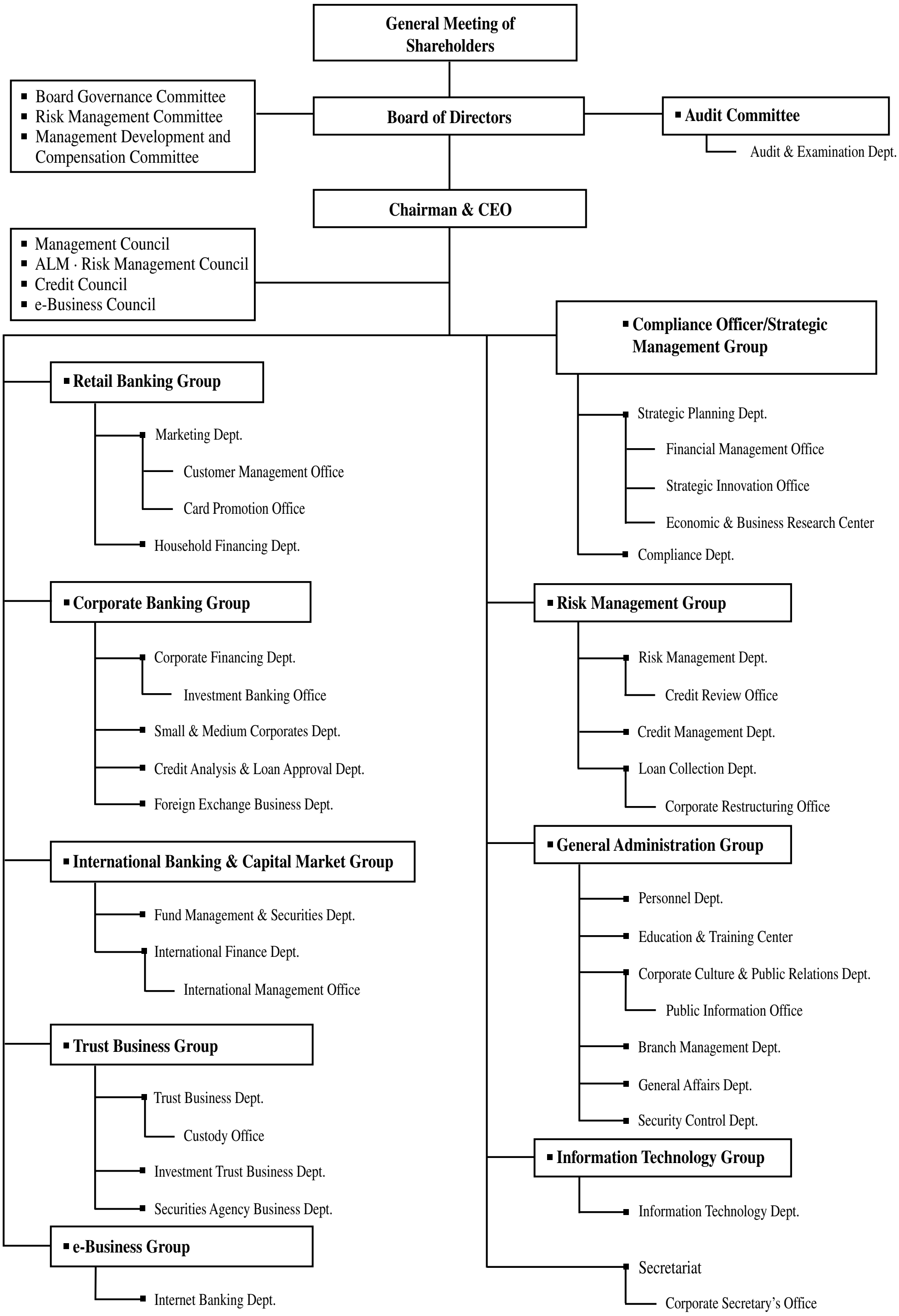
- Continually improving our risk return ratio by improving underwriting procedures with improved credit scoring and product evaluation techniques, and by improving our credit monitoring capabilities. We intend to make better informed decisions about the credit we extend and improve our ability to respond more quickly to incipient credit problems with customer-oriented solutions and timely and effective collection measures.

- Improving our internal compliance policy and ensuring strict application in our daily operations. We intend to improve our monitoring capabilities in respect of our internal compliance and provide training and educational programs to our management and employees.

For a description of the effect of our merger with H&CB on our strategy, see "The Merger—Reasons for the Merger".

Organizational Structure

ORGANIZATION CHART



Our Branch Network

As of June 30, 2001, we had 575 branches in Korea, the second largest number of branches among Korean commercial banks. We believe that our extensive branch network in Korea and retail customer base provide us with a source of stable and relatively low cost funding. More than 75% of our branches are located in cities with a population greater than 500,000. The following table presents the geographical distribution of our branch network in Korea as of June 30, 2001.

Metropolitan Area	Number of branches	Percentage
Seoul	244	42.4%
6 largest cities (other than Seoul)	123	21.4
Large cities with population greater than 500,000	75	13.1
Other	133	23.1
Total	575	100.0

Automated Banking Machines.

We have established an extensive network of automated banking machines, which are located in branches and in Autobanks (unmanned outlets). These automated banking machines consist of ATMs, cash dispensers and passbook printers. As of December 31, 2000, we had 1,717 ATMs, 2,620 cash dispensers and 897 passbook printers. As of December 31, 1999, we had 1,481 ATMs, 2,572 cash dispensers and 862 passbook printers.

We have actively promoted the use of these distribution outlets in order to provide convenient service to customers, as well as to maximize the marketing and sales functions at the branch level, reduce employee costs and improve profitability. We now estimate that automated banking machines account for as much as 81% of our total deposit and withdrawal transactions in amounts less than ₩500,000. For the years ended December 31, 1999 and 2000, customers of our bank and other banks performed over 239 million and 269 million transactions, respectively, using our ATMs (including account balance inquiries which constituted approximately 28% of the total number of transactions for 2000). These ATM transactions generated fee revenue of ₩12 billion and ₩14 billion for the years ended December 31, 1999 and 2000, respectively.

Retail Banking

Due to our development as a retail bank and our resulting know-how and expertise, retail banking has been and will continue to remain one of our core businesses.

The following table sets forth the balances and the percentage of our total lending represented by our retail banking as of the dates indicated.

	As of December 31,					
	1998		1999		2000	
	(in ₩ billion, except percentages)					
Retail:						
Loans	₩10,432	25.0%	₩12,177	27.0%	₩16,219	27.3%

Lending Activities

We offer various loan products that target different segments of the population with features tailored to each segment's financial profile and other characteristics. Our retail loans consist of general loans, overdrafts to households, and mortgage and home equity loans. General loans are loans made to customers for any purpose (other than a purchase of a home). Overdraft loans are loans extended to customers when they withdraw funds from their demand deposit accounts with us in excess of the amount in such accounts up to a limit established by us. We charge interest on the monthly average balance of the overdraft loan and the interest is paid to us from the amounts on deposit or added to the principal amount of the overdraft loan. Among Korean commercial banks, we were the first to offer this product beginning in the early 1980s. Mortgage loans are made to customers to finance home purchases. Home equity loans are loans made to our customers with the home of the customer securing the loan repayment. As of December 31, 2000, general loans, overdraft loans, and mortgage and home equity loans accounted for 42.5%, 18.6% and 38.9%, respectively, of our retail loans.

These retail loans may be secured by real estate, deposits or securities or may be unsecured. As of December 31, 2000, secured loans and loans guaranteed by a third party accounted for approximately 53.2% and 2.5% of our retail loans, respectively. Among the secured loans, approximately 98.6% were secured by real estate or deposits. Overdraft loans are primarily unsecured.

For secured loans, our policy is to lend up to 100.0% of the adjusted collateral value *minus* the value of any security interest that is prior to our security interest. In calculating the adjusted collateral value for real estate, we use appraisal value of the collateral multiplied by 35% to 90%, which percentage varies depending upon the location and use of the real estate and which is established by taking into account the court-supervised auction price.

Overdraft loans typically have a maturity of one year but may be extended on an annual basis. Only mortgage and home equity loans may have maturities over 3 years. The maximum term of mortgage and home equity loans is 30 years. However, approximately 80% of our mortgage and home equity loans have a maturity of one to three years, which loans are typically renewed upon maturity on an annual basis. Consumers of mortgage and home equity loans prefer loans with maturity of one to three years because these loans generally have lower interest rates than longer term loans.

In evaluating the extension of retail loans, we review the borrower's creditworthiness, collateral value, credit scoring and third party guarantees.

Pricing

We determine pricing of our loans as follows:

Interest rate = Our prime rate *plus* a loan rating adjustment rate *plus or minus* a discretionary adjustment rate

Our prime rate reflects our cost of funding, expenses related to lending and a margin. The current prime rate for loans with a maturity of five years or less is 9.5%, and for loans with a maturity of greater than five years is 10.5%. The loan rating adjustment rate is added to the prime rate to reflect the borrower's credit rating and the value of any collateral or payment guarantee. Lastly, another adjustment rate is added to reflect any additional cost to us for extending such loan, or, in some cases, subtracted to reflect the borrower's current and/or future contribution to our profitability. For overdraft loans, we also add 50 basis points in pricing our loans.

As of December 31, 2000, approximately 94% of our retail loans had interest rates that were not fixed but were variable in reference to our prime rate.

Deposit-Taking Activities

Due to our history of development and our resulting know-how and expertise and our extensive nationwide network of branches, we believe that, as of December 31, 2000, we had one of the largest number of retail customers and retail deposits among Korean commercial banks. The balance of our deposits from retail customers was ₩29,440 billion and ₩38,557 billion as of December 31, 1999 and 2000, respectively, which constituted 69.3% and 68.2% of balance of our total deposits.

We offer many deposit products that target different segments of our retail customers, with features tailored to each segment's financial profile, characteristics and needs. Our deposit products consist of the following:

- Time deposits generally require the customer to maintain a deposit for a fixed term during which interest accrues at a fixed rate and withdrawals prior to the end of the term may only be made by receiving lower interest. The terms for time deposits typically range from one month to three years;
- Installment savings deposits generally require the customer to make periodic deposits of a fixed amount over a fixed term during which interest accrues at a fixed rate and withdrawals may only be made by receiving lower interest. The terms for installment savings deposits range from one to seven years; and
- Lower rate demand deposits allow the customer to deposit and withdraw funds at any time and accrue interest at a fixed or variable rate depending upon the period and amount of deposit. Certain demand deposits do not accrue interest and other demand deposits accrue interest at a lower rate than time or other savings deposits. These lower rate demand deposits constituted, on a quarterly average basis under US GAAP, approximately 35.5% and 35.1% of our total deposits for 1999 and 2000, respectively, and paid average interest of 2.6% and 2.5% for 1999 and 2000, respectively. We believe that such a high percentage of our deposits being lower rate demand deposits contributes to our profitability.

We also offer certificates of deposit and deposits in foreign currencies. We offer varying interest rates on our deposit products depending upon average funding costs, the rate of return on our income earning assets and interest rates offered by other commercial banks.

We have developed various deposit products tailored to specific market segments in order to attract new customers. These products include:

- *Kookmin Super Time Deposits* which permit customers to specify:
  - — a fixed rate or variable rate of interest to be payable on the deposit;
  - — the term of the deposit; and
  - — the option of receiving interest upon the expiration of the term of the deposit or on an installment basis.

  This product is for customers who want to design their deposit account characteristics according to their financial profile and needs. We began offering this product on February 1, 2001 and as of July 31, 2001, the deposited amount for this product was ₩14,710 billion.

- *Big Man Gold Time Deposits* which are designed to offer certain tax benefits to customers. Customers may specify the option of receiving interest upon the expiration of the term of the deposit or on an installment basis or on an advance payment basis.

  We began offering this product on June 12, 2000 and as of July 31, 2001, the deposited amount for this product was ₩346 billion.

We have a "Main Customer" program that categorizes our customers according to their average deposit balance for the most recent three-month period, their contribution to our revenue, and their transaction amounts with us. A customer receives preferential treatment in various areas, including interest rates and transaction fees and the types of credit card the customer is eligible for, depending upon the category to which the customer is classified.

The Monetary Board of the Bank of Korea imposes a reserve requirement on Won currency deposits of commercial banks which currently ranges from 1% to 5%, based generally on the term to maturity and the type of deposit instrument. See "Supervision and Regulation—Principal Regulations Applicable to Banks in Korea—Liquidity". The Monetary Board also regulates maximum interest rates that can be paid on certain deposits. Under the Korean government's finance reform plan issued in May 1993, controls on deposit interest rates have been gradually reduced. Currently, only maximum interest rates payable on demand deposits and certain time and savings deposits are subject to regulation by the Bank of Korea.

The Depositor Protection Act provides for a deposit insurance system where the Korea Deposit Insurance Corporation guarantees to depositors the repayment of their eligible bank deposits. The deposit insurance system insures up to a total of ₩50 million per depositor per bank. See "Supervision and Regulation—Principal Regulations Applicable to Banks in Korea—Deposit Insurance System".

Other Services

We have made and will continue to make significant investments in automated banking services using the latest technologies. While these services do not presently generate significant revenues and profits, they assist in attracting and retaining banking customers. In addition, as and to the extent that customer banking habits evolve towards greater use of electronic banking, we expect to achieve significant cost reductions and expand our product and service base through our investment in these technologies.

—Telebanking

We launched our telephone banking services in November 1991, allowing customers to conduct a number of types of transactions by telephone. We offer a variety of services, including inter-account fund transfers, balance and transaction inquiries, credit card transaction inquiries and customer service inquiries.

—PC-Banking

We launched PC-banking services in April 1993. Through our PC-banking service, we offer a variety of services, including inter-account fund transfers, balance and transaction inquiries, credit card transaction inquiries and product inquiries.

—Internet Banking

We began to offer a variety of services over the Internet beginning in July 1999, and our goal is to consolidate our position as a market leader in on-line banking.

Our Internet banking services currently include:

- *Basic Banking Services*—these include all of the banking services offered through our telephone banking services, including funds transfers, balance and transaction inquiries, credit card transaction inquiries, pre-set automatic transfers and product inquiries;
- *Processing of Cyber-Loan Applications*—our Credit Scoring System allows us to quickly process and approve on-line loan applications;
- *Electronic Certification*—we offer an electronic certification service which permits Internet users to authenticate transactions on a confidential basis through digital signature;
- *www.onkookmin.net*—our Internet portal site offers one-stop access to various types of customer-targeted content, featuring travel and entertainment information and links to Internet partners in such areas as securities trading, insurance and credit cards, and also provides Internet shopping mall services; and
- *Mondex e-Cash*—we offer the Korean banking industry's first electronic cash system which facilitates purchases at affiliated merchants through a "smart" card that allows credit to be transferred electronically through the Internet, telephone, ATM or other digital transfer systems.

—Mobile Banking

Mobile banking services allow customers to use mobile phones or PDAs (Personal Digital Assistants) to make inter-account transfers and balance and other transaction inquires. There are currently three mobile phone service providers in Korea: SK Telecom, KT Freetel and LG Telecom. We launched our services in association with SK Telecom in March 2000 and with KT Freetel in July 2000. We plan to launch our services in association with LG Telecom in October 2001.

The following table sets forth information, for the periods indicated, on the number of users and transactions and the fee revenue of the above services provided to our retail and corporate customers.

	For the year ended December 31,		
	1998	1999	2000
Telephone banking:			
Number of users	897,116	1,187,462	1,673,141
Number of transaction (000)	62,627	92,492	128,693
Fee revenue (millions of Won)	2,361	4,276	5,720
PC banking:			
Number of users	286,096	311,173	317,273
Number of transactions (000)	10,867	14,172	18,190
Fee revenue (millions of Won)	700	993	1,545
Internet banking:			
Number of users	—	67,051	948,133
Number of transactions (000)	—	2,214	35,174
Fee revenue(1) (millions of Won)	—	—	—

(1) Included in PC banking fee revenue.

We do not charge our customers for balance inquiries.

Credit Cards

Credit cards are one of our core retail products. In 1980, we became the first financial institution to issue credit cards and provide credit card services in Korea. In order to manage our credit card business more efficiently, we separated the credit card business from our banking activities and established a subsidiary called Kookmin Credit Card in 1987. We market and distribute credit cards issued by Kookmin Credit Card. As of December 31, 2000, we owned 76.47% of the outstanding shares of Kookmin Credit Card.

The following table sets forth our credit card operations as of the dates and for the periods indicated.

	As of and for the year ended December 31,		
	1998	1999	2000
	(in ₩ billion, except where indicated and percentages)		
Number of cardholders (thousands)	5,298	5,490	8,174
Number of merchants (thousands)	687	936	1,231
Credit card billings	10,586	13,912	37,876
Credit card loans	2,525	3,362	8,321
Delinquency rate for credit card loans(1)	7.9%	2.8%	1.3%

(1) Total delinquent balance at year-end divided by the amount of credit card loans outstanding at year-end. Delinquent balances are balances that are more than three months overdue.

The delinquency rate for credit card loans were high in 1998 primarily as a result of the impact of the economic and financial crisis in Korea on our credit card customers. The delinquency rate for credit card loans decreased during 1999 and 2000 due primarily to the improved economic conditions in Korea, our efforts to collect on past due amounts and charge-offs.

As of December 31, 2000, Kookmin Credit Card had issued 14.9% of the total credit cards issued in Korea based upon Financial Supervisory Commission statistics. Kookmin Credit Card's operating revenue consists principally of annual fees paid by cardholders, cardholder purchase fees, which consist of interest on late and deferred payments, cash advance fees, interest income from credit card loan and fees paid by merchants.

Credit cardholders are required to pay for their purchases within 23 to 46 days after their purchase and, except in the case of installment purchases, accounts which remain unpaid after this period are deemed to be delinquent. Delinquent accounts are charged penalty interest and closely monitored. For installment purchases, Kookmin Credit Card charges interest on unpaid installments at rates which vary according to the terms of repayments. Kookmin Credit Card generates other fees through a processing charge on the merchants, with the average charge equalling approximately 2.5%.

Under non-exclusive license agreements with Mastercard International Incorporated and Visa International Service Association, Kookmin Credit Card also issues Mastercard and Visa credit cards.

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. In addition, recent government initiatives have promoted the use of credit cards in Korea. The Korean government has required commercial merchants to accept credit cards as a means of preventing tax evasion by these merchants and provided tax benefits to businesses that accept credit cards. In addition, the government has introduced a credit card receipt lottery where winners receive cash prizes that they can choose to have deposited to their accounts. There is also a tax deduction for amounts spent using credit cards.

To promote credit card business, we and Kookmin Credit Card offer services targeted to various financial profiles and customer requirements and are concentrating on the following, including:

- offering cards which provide additional benefits such as frequent flyer miles and "Bigman Points" which can be used by the customer to get prizes and cash back;
- offering a gold card and other preferential members' cards which have a higher credit limit and provide additional services in return for a higher fee;
- acquiring new customers through strategic alliances and cross-marketing with wholesalers and retailers;
- encouraging increased use of credit cards by existing customers through special offers for frequent users;
- introducing new features, such as travel services and insurance; and
- developing fraud detection and security systems to prevent the misuse of credit cards and encourage the use of credit cards over the Internet.

We started a debit card business in February 1996 in response to changing customer needs. We charge merchants an average commission of 1.7% of the amounts purchased using a debit card.

Small- and Medium-Sized Enterprise Banking

Our small- and medium-sized enterprise banking has been and will remain as one of our core businesses because of our historical development and our accumulated expertise.

The following table sets forth the balances and percentage of our total lending attributable to our small- and medium-sized enterprise business as of the dates indicated.

	As of December 31,					
	1998		1999		2000	
	(in ₩ billion, except percentages)					
Small- and Medium-Sized Enterprises:						
Loans	₩15,723	37.6%	₩18,720	41.7%	₩22,393	37.7%

We use the term "small- and medium-sized enterprises" as defined in the Small and Medium Industry Basic Act and related regulations. The criteria used in defining small- and medium-sized enterprises is either the number of full-time employees (less than 300), stockholders' equity (equal to or less than ₩8 billion) or sales revenues (equal to or less than ₩30 billion), and such criteria differ according to the industry. In all cases, the number of full-time employees cannot exceed 1,000.

Lending Activities

Our principal loan products for our small- and medium-sized enterprise customers are working capital loans and facilities loans. Working capital loans are provided to finance working capital requirements and include notes discounted and trade financing. Facilities loans are provided to finance the purchase of equipment and the establishment of manufacturing plants. As of December 31, 2000, working capital loans and facilities loans accounted for 88.3% and 11.7%, respectively, of our total small- and medium-sized enterprise loans. As of December 31, 2000, we were the second largest among Korean banks in terms of the total amount of Won denominated loans extended to small- and medium-sized enterprises.

Loans to small- and medium-sized enterprises may be secured by real estate or deposits or unsecured. As of December 31, 2000, secured loans and loans guaranteed by a third party accounted for 53.7% and 21.8%, respectively, of our small- and medium-sized enterprise loans. Among the secured loans, approximately 92.1% were secured by real estate and 7.3% were secured by deposits or securities.

As of December 31, 2000, in terms of outstanding loan balance, 41.6% of our small- and medium-sized enterprise loans was extended to borrowers in the manufacturing industry, 7.0% was extended to borrowers in the construction industry, and 20.5% was extended to borrowers in the retail and wholesale industry. As of December 31, 2000, 32.0% of our small- and medium-sized enterprise loans was extended to customers with an original lending amount of less than ₩300 million per customer, 30.4% was extended to customers with an original lending amount of greater than ₩300 million but less than ₩1 billion, and 11.6% was extended to customers with an original lending amount of greater than ₩1 billion but less than ₩2 billion.

Working capital loans generally have a maturity of one year, but may be extended on an annual basis for an aggregate term of three years. Facilities loans have a maximum maturity of 10 years.

When evaluating the extension of small- and medium-sized enterprise loans, we review the corporate customer's creditworthiness, credit scoring, value of any collateral or third party guarantee.

In order to service small- and medium-sized enterprises and attract high-quality small- and medium-sized enterprise borrowers, we established 12 Business Loan Centers in Korea, seven of which are located in Seoul. These centers provide various services to small- and medium-sized enterprises, including financial and consulting advice for new potential small- and medium-sized enterprise customers and tax and legal advice. These centers also engage in the credit evaluation of loan applicants and appraisal of collateral.

Pricing

We determine pricing of our loans as follows:

Interest rate = Our prime rate *plus* a loan rating adjustment rate *plus or minus* a discretionary adjustment rate

Our prime rate reflects our cost of funding, expenses related to lending and a margin. The current prime rate for loans with a maturity of five years or less is 9.25% and for loans with a maturity of over five years is 10.25%. The loan rating adjustment rate is added to the prime rate to reflect the borrower's credit rating and the value of any collateral or payment guarantee. Lastly, another adjustment rate is added or subtracted to reflect the borrower's current and/or future contribution to our profitability. For overdraft loans, we also add 50 basis points in pricing our loans. 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. As of December 31, 2000, substantially all of our small- and medium-sized enterprise loans had interest rates that were not fixed but were variable in reference to our prime rate or another rate.

Deposit-Taking Activities

We currently offer our small- and medium-sized enterprise customers several types of corporate deposits. The deposit products can be divided into two general categories: demand deposits that have no restrictions on deposits or withdrawals, but which offer a relatively low interest rate, and deposits from which withdrawals are restricted for a period of time, but offer higher interest rates. We also offer installment savings deposits, certificates of deposit and repurchase instruments. We offer varying interest rates on deposit products depending upon the rate of return on our income earning assets, average funding costs and interest rates offered by other nationwide commercial banks.

We also have a "Main Customer" program that categorizes our customers according to their average deposit balance for the most recent three-month period, their contribution to our revenue, and their transaction amounts with us. A customer receives preferential treatment in various areas, including interest rates and transaction fees, depending upon the category to which the customer is classified.

Other Services

—Firm Banking Services

We launched our firm banking services in May 1989. We offer a variety of services, including inter-account fund transfers, transfers of funds from various branches and agencies of a company (such as insurance premium payments) to the account of the headquarters of such company, transfers of funds from various customers of a company to the main account of such company, transaction inquiries and providing companies with files containing transaction history.

As of December 31, 1998, 1999 and 2000, we had 386, 446 and 507 small- and medium-sized enterprise and large corporate customers and 70 million, 100 million and 129 million transactions carried out by our small- and medium-sized enterprise and large corporate customers, respectively. For 1998, 1999 and 2000, we had fee revenue from such services provided to small- and medium-sized enterprise and large corporate customers in the amount of ₩8,592 million, ₩11,451 million and ₩16,423 million, respectively.

—Internet Banking

We began to offer services over the Internet beginning in July 1999. We provide basic banking services such as fund transfers, transaction inquiries and pre-set automatic transfers and other services to aid cash management by our customers.

Large Corporate Banking

Due to our history of development and our current articles of incorporation, large corporate banking has not been our core business. Our current articles of incorporation provides that financial services to large corporate customers must be less than 30% of the total amount of our Won-denominated loans. Within this constraint, we intend to expand our large corporate banking activities on a selective basis.

The following table sets forth the balances and percentage of our total lending attributable to our large corporate banking business as of the dates indicated.

	As of December 31,					
	1998		1999		2000	
	(in ₩ billion, except percentages)					
Large corporate:						
Loans	₩12,170	29.0%	₩9,606	21.4%	₩11,378	19.2%

Large corporate customers include all non-small- and medium-sized enterprise customers and government corporations. Large corporate loans included loans to the Korea Deposit Insurance Corporation, which is a government controlled entity, in the amount of ₩387 billion as of December 31, 1999 and ₩1,587 billion as of December 31, 2000.

Lending Activities

As in the case of our small- and medium-sized enterprise banking business, our principal loan products for our large corporate customers are working capital loans and facilities loans. As of December 31, 2000, working capital loans and facilities loans accounted for 83.5% and 16.5% of our total large corporate loans.

As of December 31, 2000, secured loans and guaranteed loans accounted for 22.8% and 5.6% of our large corporate loans. Among the secured loans, approximately 98.8% were secured by real estate or deposits.

As of December 31, 2000, in terms of outstanding loan balance, 46.2% of our large corporate loans was extended to borrowers in the manufacturing industry, 5.3% was extended to borrowers in the construction industry, and 19.5% was extended to borrowers in the financial and insurance industry.

Working capital loans generally have a maturity of one year but are extended on an annual basis for an aggregate term of three years. Facilities loans have a maximum maturity of 10 years.

As in the case of small- and medium-sized enterprise banking, in evaluating the extension of large corporate loans, we review the corporate customer's creditworthiness, value of any collateral or third party guarantee.

Pricing

We determine pricing of our large corporate loans in the same way as we determine the pricing of our small- and medium-sized enterprise loans. See "Kookmin Bank—Business Overview—Small- and Medium-Sized Enterprise Banking—Pricing". The current prime rate for large corporate loans with a maturity of five years or less is 9.5% and for loans with a maturity of over five years is 10.5%.

Deposit-Taking Activities

We currently offer our large corporate customers several types of corporate deposits. The deposit products can be divided into two general categories: demand deposits that have no restrictions on deposits or withdrawals, but which offer a relatively low interest rate, and deposits from which withdrawals are restricted for a period of time, but offer higher interest rates. We also offer installment savings deposits, certificates of deposit and repurchase instruments. We offer varying interest rates on deposit products depending upon the rate of return on our income earning assets, average funding costs and interest rates offered by other nationwide commercial banks.

Investment Banking

In the past, we have focused on selectively expanding our investment banking activities in order to increase our fee income and diversify our revenue base. We provide project finance and financial advisory services in the area of social overhead capital projects such as highway, port, power and water and sewage projects, as well as structured finance, leveraged buy-out financing, equity and venture financing and M&A brokerage. The main focus of our investment banking operations is project finance and financial advisory services. For the year ended December 31, 2000, we had investment banking revenue of ₩54 billion, consisting of ₩47 billion of interest income and ₩7 billion of fee income, from nine financing arrangements and ten advisory projects.

In December 1998, we merged with Korea Long Term Credit Bank, the then market leader in the Korean project finance market, and were able to secure a leading position in the area of project finance.

Our investment banking operations are managed by 24 employees, 16 in the Project Finance & Structured Finance Division and 8 in the Equity Investment Division.

Firm and Internet Banking

We provide the same firm banking and Internet banking services to large corporate clients as we provide to small- and medium-sized enterprises. Please see "Kookmin Bank—Business Overview—Small- and Medium-Sized Enterprise Banking—Other Services."

Capital Markets Activities

Through our capital markets operations, we invest and trade in debt and equity securities and, to a lesser extent, engage in derivatives and asset-backed securitization activities and make call loans.

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, 1999 and 2000, 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 ₩19,251 billion and ₩19,881 billion and represented 27.0% and 21.9% of our total assets, respectively.

Our trading and investment portfolios consist primarily of Korean treasury securities and debt securities issued by Korean government agencies, local governments or certain government-invested enterprises and debt securities issued by financial institutions. As of December 31, 1999 and 2000, we held debt securities with a total book value of ₩17,293 billion and ₩18,169 billion, respectively, of which held-to-maturity debt securities accounted for ₩7,765 billion and ₩9,004 billion, or 44.9% and 49.6%, respectively, available-for-sale debt securities accounted for ₩7,602 billion and ₩6,718 billion, or 44.0% and 37.0%, respectively, and trading debt securities accounted for ₩1,926 billion and ₩2,447 billion, or 11.1% and 13.5%, respectively.

Our equity securities consist of equities listed on the Korea Stock Exchange and KOSDAQ. As of December 31, 1999 and 2000, equity securities in our available-for-sale portfolio had a book value of ₩565 billion and ₩1,563 billion, or 6.9% and 18.9% of our available-for-sale portfolio and equity securities in our trading portfolio had a book value of ₩1,393 billion and ₩149 billion, or 42.0% and 5.7% of our trading portfolio, respectively.

The following table shows, as of the dates 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, 1999			
	Amortized cost	Gross unrealized gain	Gross unrealized loss	Fair value
		(in ₩ billion)		
Securities available for sale:				
Debt securities				
Korean Treasury securities and government agencies	3,781	66	103	3,744
Corporate	1,032	49	26	1,055
Financial institutions	2,074	21	39	2,056
Foreign governments	29	9	1	37
Mortgage-backed securities and asset-backed securities	—	—	—	—
Other debt securities	699	15	4	710
Subtotal	7,615	160	173	7,602
Equity securities	541	25	1	565
Total securities available for sale	8,156	185	174	8,167
Held to maturity securities:				
Korean Treasury securities and government agencies	3,377	9	—	3,386
Corporate	434	9	8	435
Financial institutions	2,813	1	2	2,812
Foreign governments	188	17	1	204
Mortgage-backed securities and asset-backed securities	20	—	—	20
Bond Market Stabilization Fund	928	19	—	947
Other debt securities	5	—	—	5
Total held-to-maturity securities	7,765	55	11	7,809

	As of December 31, 2000			
	Amortized cost	Gross unrealized gain	Gross unrealized loss	Fair value
		(in ₩ billion)		
Securities available for sale:				
Debt securities				
Korean Treasury securities and government agencies	3,419	121	4	3,536
Corporate[(1)]	1,266	107	10	1,363
Financial institutions[(2)]	1,516	38	5	1,549
Foreign governments	26	6	—	32
Mortgage-backed securities and asset-backed securities	154	3	—	157
Other debt securities	80	1	—	81
Subtotal	6,461	276	19	6,718
Equity securities	1,530	49	16	1,563
Total securities available for sale	7,991	325	35	8,281
Held to maturity securities:				
Korean Treasury securities and government agencies	4,855	260	—	5,115
Corporate[(3)]	529	16	1	544
Financial institutions[(4)]	2,754	12	2	2,764
Foreign governments	99	3	1	101
Mortgage-backed securities and asset-backed securities	766	10	—	776
Other debt securities	1	—	—	1
Total held-to-maturity securities	9,004	301	4	9,301

(1) Include debt securities issued by Korea Electric Power Corporation, which is controlled by the Korean government and whose majority equity interest is owned by the government, in the amount of ₩139 billion.

(2) Include debt securities issued by the central bank in the amount of ₩689 billion and by The Korea Development Bank and Industrial Bank of Korea, which are controlled by the Korean government and whose majority equity interest is owned by the government, in the amount of ₩313 billion.

(3) Include debt securities issued by Korea Electric Power Corporation in the amount of 157 billion.

(4) Include debt securities issued by the central bank in the amount of ₩843 billion and by The Korea Development Bank and Industrial Bank of Korea, which are controlled by the Korean government and whose majority equity interest is owned by the government, in the amount of ₩317 billion.

Derivatives Trading

Until the full-scale launch of our derivative operations in middle of 1999, we had been engaged in limited volumes of derivatives trading, mostly on behalf of our customers. Since then, our trading volume significantly increased from ₩8,525 billion in 1999 to ₩13,730 billion in 2000 and our net trading revenue from derivatives and foreign exchange spot contracts for the year ended December 31, 1999 and 2000 equalled to ₩249 billion and ₩74 billion, respectively.

We provide and trade a range of derivatives products. The derivatives products that we offer include:

- Won interest rate swaps, relating to Korean Won interest rate risks;
- Cross currency swaps, relating to foreign exchange risks, largely for Korean Won against U.S. dollars; and
- Foreign exchange forwards, swaps and options, relating to foreign exchange risks.

To provide more sophisticated and complete treasury risk management services to our clients, we entered into business alliance with Australia's Macquarie Bank in December 1998. Macquarie Bank, established in 1969, is a leading provider of financial services offering a full range of investment banking, commercial banking and retail financial services in over 20 different countries around the world. Through such alliance, we were able to combine Macquarie Bank's derivatives expertise, risk management systems and methodologies with our established local infrastructure and strong market presence.

Our derivative operations focus on addressing the needs of our corporate clients to hedge their risk exposure and to hedge our risk exposure that results from such client contracts. We also engage in derivative trading activities to hedge the interest rate and foreign currency risk exposure that arise from our own assets and liabilities. Many of these hedge-purposed derivative contracts, however, do not qualify for hedge accounting under US GAAP and are accordingly accounted for as trading derivatives in the financial statements. In addition, we engage in proprietary trading of derivatives within our regulated open position limits.

The following shows the gross notional or contractual amounts of derivatives and foreign exchange contracts held or issued for trading purposes as of December 31, 2000.

	As of December 31, 2000		
	Underlying notional amount(1)	Estimated Fair Value Assets	Estimated Fair Value Liabilities
		(in ₩ billion)	
Foreign exchange contracts			
Foreign exchange spot contracts	962	2	2
Forward foreign exchange contracts	8,616	404	603
Foreign exchange futures	1,086	—	—
Foreign exchange options purchased	47	1	—
Foreign exchange options written	23	—	1
Interest rate contracts			
Interest rate swaps	1,837	57	62
Interest rate futures	69	—	—
Interest rate forwards	40	—	—
Cross currency swaps	1,015	44	50
Credit derivatives	559	1	—
Equity contracts	2	—	—
Total	14,256	509	718

(1) Notional amounts in foreign currencies were converted into Won at prevailing exchange rates as of December 31, 2000.

The following table shows the gross notional or contractual amounts and fair values of derivatives held or issued for purposes other than trading as of December 31, 2000.

	As of December 31, 2000		
	Underlying notional amount(1)	Unrealized Gains	Unrealized Losses
		(in ₩ billion)	
Interest rate swaps	427	2	51
Cross currency swaps	10	—	—
Total	437	2	51

(1) Notional amounts in foreign currencies were converted into Won at prevailing exchange rates as of December 31, 2000.

Asset-backed securities activities

We are also active in the Korean asset-backed securities market. We have been participating in a number of ABS transactions in Korea, including in our capacity as an arranger, trustee and liquidity provider. We believe that our participation in the asset-backed securities market will provide us with an alternate source of fee revenues. In 2000, we were involved in 26 asset-backed securitization transactions with an initial aggregate issue amount of ₩11,498 billion.

Call loans

We make call loans and borrow call money in the short-term money market. Call loans are short-term lending among banks and financial institutions in either Korean won or foreign currencies, in amounts exceeding ₩100 million, with maturities of 30 days or less. Typically, call loans have maturities of 1 day. As of December 31, 2000, we had call loans of ₩991 billion and call money of ₩581 billion. The interest rates on these call loans or call money range from 1.1% to 7.4%.

International Banking

Until 1995, our ability to develop our international banking business to the same extent as other Korean commercial banks was limited due to our status as a government-invested bank and restrictions imposed by the Citizens National Bank Act. While domestic banking remains our principal focus, we have placed a priority on selectively expanding our international business.

We engage in various international banking activities, including foreign exchange services and dealing, import and export-related services, offshore lending, syndicated loans and foreign currency securities investment. These services are provided primarily to our domestic customers and overseas subsidiaries and affiliates of Korean corporations. As of December 31, 2000, of our total foreign currency assets of US$7,050 million, total assets of US$3,475 million were managed by our International Finance Department. Since the Korean financial crisis starting in late 1997, we have focused on managing the risk of our existing foreign currency assets while selectively providing financing to and making investments in overseas subsidiaries of Korean companies to maximize our rate of recovery.

In addition to the activities referred to above, we also raise foreign currency funding through our international banking operation. As of December 31, 2000, we had total foreign currency borrowings of US$3,383 million, consisting of long-term borrowings of US$2,559 million and short-term borrowings of US$824 million.

The table below sets forth our overseas subsidiaries and branches.

Business Unit	Location
Subsidiaries	
Kookmin Bank Luxembourg S.A.	Luxembourg
Kookmin Finance Asia Ltd. (H.K.)	Hong Kong
Kookmin Leasing & Finance (H.K.) Ltd.	Hong Kong
Kookmin Bank International Ltd.	England
Branches	
Kookmin Bank, Tokyo Branch	Japan
Kookmin Bank, Auckland Branch	New Zealand
Kookmin Bank, New York Branch	United States
Kookmin Bank, Buenos Aires Branch	Argentina

The principal activities of our overseas branches and subsidiaries are to provide trade financing and local currency funding for Korean companies and Korean nationals in the overseas market and to provide foreign exchange services in conjunction with our headquarters. On a limited basis, our overseas branches and subsidiaries also engage in investing and trading of securities of foreign issuers.

Other Businesses

Trust Account Management Services

—Money Trust Management Services

We provide trust account management services for money trusts, which are trusts for which we generally have broad discretion in investing the assets of the trust. We receive fees for our trust account management services consisting of (i) basic fees that are based upon a percentage of the total assets under management and (ii) performance fees that are based upon the performance of the trust account operation. For the year ended December 31, 2000, our basic fees ranged from 0.4% to 2.0% of total assets under management depending on the type of trust account product. We currently charge performance fees with respect to only two types of trust account products, which are the Specified Money Trust and Real Estate Investment Trust. Until June 2000, in general, we received penalty payments when customers terminated their trust accounts prior to the original contract maturity. Effective July 2000, debt securities purchased with money from trust accounts opened after July 2000 are required to be marked-to-market. In connection with this change in accounting treatment, with the exception of trust account products sold prior to July 2000, we no longer receive penalty payments for early termination, which payments are required to be paid into and form a part of the trust account assets for the benefit of our customers.

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

As of December 31, 2000, the total balance of our money trusts (under Korean GAAP) was ₩14,198 billion. Except for Specified Money Trust accounts, we have investment discretion over all money trusts, which are pooled and managed jointly for each type of trust account. The Specified Money Trust account is established on behalf of individual customers, typically corporations, which direct the investment of trust assets by us.

As of December 31, 2000, the trust assets we managed consisted principally of securities investments and loans from the trust accounts. As of December 31, 2000, under Korean GAAP, our trust accounts had invested in securities in the aggregate amount of ₩12,747 billion, out of which ₩12,359 billion was debt securities. Securities investments consist of government-related debt securities, corporate debt securities, including bonds and commercial paper, beneficiary certificates, equity securities and other securities. Loans made by our trust account operations are similar in type to the loans made by our bank account operations. As of December 31, 2000, under Korean GAAP, our trust accounts had made loans in the principal amount of ₩1,191 billion (excluding loans from the trust accounts to the bank accounts of ₩745 billion) which accounted for approximately 8.01% 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 loans from our banking account. As of December 31, 2000, 50.2% of the amount of loans from our money trust accounts were collateralized or guaranteed.

Our money trust accounts also invest, to a lesser extent, in equity securities, including beneficiary certificates issued by investment trust companies. As of December 31, 2000, equity securities in our money trust accounts amounted to ₩388 billion on a Korean GAAP basis, which accounted for approximately 2.6% of our total money trust assets. Of this amount, ₩259 billion were from Specified Money Trusts and ₩129 billion were from money trusts over which we have investment discretion.

We currently provide trust account management services for 24 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 trusts in which corporate or other similar customers invest funds that earn returns and from which they fund retirement payments to its employees;
- new employee preferential trusts which are only available to employees with annual taxable income of ₩30 million or less and in respect of which investment gains are tax free;
- new individual pension trusts for which payments to the trust receive tax deductions and, at maturity, the investment gains are tax free;
- pension trusts for which payments to the trust receive tax deductions; and
- real estate investment trusts from which funds are invested in real estate and gains are paid based on the investment performance.

For two of the money trusts we manage, which are the Development Trust and Unspecified Money Trust, we have guaranteed the principal amount of an investor's investment as well as a fixed rate of interest. As a result of a change in the Financial Supervisory Commission regulations on January 1, 1996 and 1999, 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-type money trusts. As of December 31, 2000, the balance of the money trusts for which we guaranteed both the principal and interest was ₩61 billion on a Korean GAAP basis (₩59 billion in the Development Trust and ₩2 billion in the Unspecified Money Trust), most of which had a maturity of 1 year or less. The rate of interest that is guaranteed for these trusts ranges from

7.5% to 16.5% per year. As of December 31, 2000, the balance of the money trusts for which we guaranteed only the principal was ₩1,514 billion on a Korean GAAP basis.

We continue to offer pension-type money trusts that provide a guarantee of the principal amount of an investor's investment. While the deposit insurance program established by the Korea Deposit Insurance Corporation previously insured all the losses on the principal amount of a pension-related money trust without any limits, since January 1, 2001, the Korea Deposit Insurance Corporation only insures losses of a customer on the principal amount and interest of a pension-related trust account up to a total of ₩50 million per person and per financial institution. 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 followed by basic fees from that money trust and funds from our general banking operations. In 1999, we made payments of ₩41 billion from our banking accounts to cover shortfalls in our guaranteed return trusts. In 2000, we made payments of ₩158 billion primarily due to raising provisions for loan losses of ₩148 billion in connection with Development Trusts. After these payments from our banking accounts to guaranteed trust accounts, we derived net trust fees and income in respect of money trust account management services of ₩81 billion in 1999 and ₩105 billion in 2000.

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

	As of December 31,	
	1999	**2000**
	(in ₩ billion)	
Principal and interest guaranteed trusts	₩ 704	₩ 61
Principal guaranteed trusts	1,056	1,514
Performance trusts	14,116	12,623
Total	15,876	14,198

The balance of our money trusts decreased 10.6% between December 31, 1999, and December 31, 2000. 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;
- regulatory changes that require investments from money trusts in debt securities to be marked-to-market starting from July 2000, which increased the risk of investment to the trust account customers;
- the exclusion of performance money trusts from the Korea Deposit Insurance Corporation's insurance coverage;
- increased competition from investment trust companies, securities companies, insurance companies and other non-bank financial institutions; and
- a drop in yields resulting from a decrease in interest rates as the Korean economy improved following recent economic and financial difficulties.

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

—Other Trustee and Custodian Services

We also act as a trustee for 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.

Subsidiaries

The following table provides summary information for our subsidiaries which are consolidated in our consolidated financial statements as of and for the year ended December 31, 2000, including contribution to our total assets, net income, operating income and stockholders' equity.

Subsidiary	Percentage of Ownership	Total Assets	Net Income	Operating Income	Shareholders' Equity
	%		(in ₩ million)		
Kookmin Credit Card Co., Ltd.[1]	76.47	9,027,770	325,464	472,055	893,302
Kookmin Leasing Co., Ltd.	89.61	823,629	(302,955)	(322,209)	(435,362)
Kookmin Venture Capital Co., Ltd.	94.11	197,513	17,332	21,666	47,892
Kookmin Data System Corp.	99.98	15,482	1,893	2,484	10,854
Kookmin Futures Co., Ltd.	99.98	48,868	1,548	1,589	21,705
Kookmin Bank Venture Capital	99.99	77,734	(3,816)	(8,945)	66,279
Kookmin Bank Investment Trust Management Co., Ltd.	87.00	37,969	2,991	4,322	37,841
Kookmin Bank Luxembourg S.A.	100.00	358,212	(5,394)	(5,244)	(5,999)
Kookmin Finance Asia Ltd. (H.K.)	100.00	160,510	(5,059)	(5,059)	11,677
Kookmin Leasing & Finance (Hong Kong)[2]	89.61	87,567	(41,376)	(41,376)	(150,575)
Kookmin Bank International (London)	100.00	216,846	9,086	9,086	48,004

(1) We held 74.78% directly and Kookmin Leasing held 1.69%.

(2) Investments in Kookmin Leasing & Finance (Hong Kong) Ltd. are held by Kookmin Leasing Co., Ltd.

Kookmin Credit Card Co., Ltd. was established in September 1987 and conducts credit card operations, consumer installment financing, factoring and provision of payment guarantees. We provide a significant portion of credit card services through our national network.

Kookmin Leasing was established in Korea in October 1984 to engage in leasing industrial equipment. In December 2000, a work-out plan of Kookmin Leasing was finalized. For details, see "Kookmin Bank—Management's Discussion and Analysis of Financial Condition and Results of Operations—Overview—Kookmin Leasing".

Kookmin Venture Capital was established in Korea in November 1986 to invest in and finance venture companies.

Kookmin Data System Corp. was established in Korea in September 1991 to provide software services to us and other financial institutions.

Kookmin Futures was established in Korea in March 1997 to act as a broker-dealer for domestic and overseas futures transactions.

Kookmin Bank Venture Capital was established in Korea in March 1990 to invest in and finance venture companies.

Kookmin Bank Investment Trust Management was established in Korea in October 1989 to engage in the securities investment trust business.

Kookmin Bank Luxembourg was established in Luxembourg in October 1991 to engage in financing activities in the international financial markets.

Kookmin Finance Asia was established in Hong Kong in February 1996 to engage in financing activities.

Kookmin Leasing & Finance (Hong Kong) was established in Hong Kong in May 1991 to invest in and finance foreign subsidiaries of Korean and foreign companies.

Kookmin Bank International (London) was established in England in November 1991 to engage in financing activities.

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 and branches of foreign banks operating in Korea. We also compete for customer funds with other types of financial service 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.

Competition has increased significantly in our traditional core businesses, retail and small- and medium-sized enterprise banking, as a result of other commercial banks reducing their exposure to large corporations in light of recent financial difficulties experienced by them. As a result, our margins on lending activities may decrease in the future.

In addition, general regulatory reforms in the Korean banking industry, accelerated by Korea's economic difficulties since late 1997 and the Korean government's commitments to the International Monetary Fund, have increased competition among banks and financial institutions in Korea. As the reform of the financial sector continues, foreign financial institutions, some 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 three 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, 2000. This merger and acquisition activity in the Korean commercial banking sector may continue and some of the banks resulting from these mergers may be significantly larger and may have more financial resources than us.

Information Technology

We believe that a sophisticated information technology system is crucial to support our operations management and to provide high quality customer service. Our current information system is fully integrated, providing information to all headquarters, offices and branches. While we believe that our current system has sufficient capacity to effectively support our current operations, we plan to continue to upgrade and improve our system by taking the following initiatives:

- developing a next generation information technology system, designed to enhance the processing speed of our systems and make them more user-friendly by realigning our existing and "under development" systems around data and functionalities;
- completing the introduction of a bank-wide integrated customer relationship management system including the development of an online Internet-based customer relationship management system, which are designed to provide us with comprehensive customer information, including transaction history, and thereby allow us to identify potential marketing and cross-marketing opportunities;

- developing a continuous application processing system and a business recovery system, which are designed to ensure operational continuity of our online systems;
- completing a remote back-up center that guarantees immediate recovery in the event of a system failure;
- preparing for the integration of the information technology systems upon our merger with H&CB; and
- replacing and upgrading our IT software and equipment, including servers, CPUs, terminals, automated banking machines such as ATMs and CDs and telecommunications devices.

For the year 2001, we have budgeted ₩176 billion to upgrade and improve our current information technology system.

Employees

As of December 31, 2000, we had 11,010 full-time employees compared to 11,429 as of December 31, 1999 and 11,204 as of December 31, 1998. In addition, we had 3,439 contractual employees with terms ranging from 6 months to 5 years as of December 31, 2000 compared to 3,297 as of December 31, 1999 and 1,942 as of December 31, 1998. The 77.1% increase in the number of contractual employees during the past two years results from our cost-cutting initiative to replace positions with simple job responsibilities previously filled by full-time employees with contractual employees. As of December 31, 2000, we had 4,750 employees in managerial or executive positions.

As of December 31, 2000, 9,259 bank employees were members of the Kookmin Bank chapter of the Korea Financial Industry Union. Every year, usually in May, the union and our management negotiate and enter into a new collective bargaining agreement and negotiate annual wage adjustments.

In December 2000, the members of our chapter of the labor union, together with the labor union representing H&CB employees, went on strike for one week in opposition to the proposed merger with H&CB. On August 2, 2001, the representatives of our labor union adopted a resolution to commence acts of labor dispute and the members of the labor union voted to oppose the appointment of Mr. Jung Tae Kim, the current Chief Executive Officer of H&CB, as the chief executive officer of New Kookmin. On August 17, 2001, our labor union filed a motion with the Seoul District Court seeking a preliminary injunction to prevent Mr. Jung Tae Kim from acting as the appointed chief executive officer of New Kookmin. The labor union alleged that the process for selecting the nominee for the chief executive officer of New Kookmin was in violation of the Bank Act. According to the motion, our labor union is contemplating filing a lawsuit to nullify the appointment of Mr. Kim as the chief executive officer of New Kookmin. The first hearing on the motion was held on September 6, 2001 and the next hearing is scheduled for September 20, 2001. In addition, on September 8, 2001, our labor union announced that it had filed a lawsuit to nullify the merger agreement.

Our subsidiaries had 1,396 full-time employees (including executive officers) as of December 31, 2000 compared to 1,363 as of December 31, 1999 and 1,916 as of December 31, 1998.

Our compensation packages consist of base salary and base bonuses. We also provide performance-based compensation to directors, heads of regional headquarters and employees in positions that require professional skills, such as fund managers and dealers, depending on their annual performance. We plan to gradually expand the provision of performance-based incentive compensation to our employees starting from high level employees to mid-level employees. Recently, we have also implemented a profit-sharing system in order to enhance the performance of our employees. Under this system, we pay annual bonuses to our employees, in addition to base salary, depending on our annual performance and the performance of the branches to which the employees belong.

We provide a wide range of benefits to our employees, including our executive directors. These benefits include medical care assistance, provision of free physical check-ups, assistance for educational expenditures relating to the children of employees, insurance against worksite injuries, low interest housing loans, and in-house and outsourced educational and training opportunities.

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 each employees' annual wages. Our employees are also responsible for payment to the Korean National Pension Corporation of 4.5% of their wages. Our employees are entitled to receive an annuity from the Korean National Pension Corporation in the event they lose, in whole or in part, their earning powers.

Upon termination, our employees are entitled to receive severance payments from us. The amount of such severance payment to an employee is the greater of (i) an amount calculated using our formula based on the length of his or her employment with us and the employee's base compensation at the date of termination or (ii) the minimum severance payment amount stipulated in the Labor Standards Act of Korea.

All of our employees are eligible to participate in our employee stock ownership association plan. We are not required to, and do not, make contributions to this plan. Members of our employee stock ownership association plan have pre-emptive rights to acquire up to 20% of our shares in public offerings pursuant to the Korean Securities and Exchange Act.

Risk Management

Overview

The principal risks to which we are exposed are credit risk, market risk, interest rate risk, liquidity risk and operational risk. To address these and other risks in our business, we have established an integrated risk management system through which we endeavor to manage the risk within acceptable limits and to otherwise ensure the soundness of our assets. The effectiveness of our system is enhanced by our ability to exchange and update data among our principal risk management functions.

— Risk Management Committee

Our Risk Management Committee is our highest level decision-making body, consisting of three non-standing outside directors and one standing director. It is a board-level committee that is delegated by the board of directors with the authority and responsibility to manage our overall risks and advises the board of directors on all risk management related issues. Its major roles include:

- determination of basic principles and principal policies for risk management;
- setting limits for integrated risk levels and each type of risk;
- allocation of risk-adjusted capital to each business group;
- creating and amending the regulations for ALM • Risk Management Council and risk management;
- reviewing the level of risks we are exposed to and the status of risk management; and
- reviewing the decisions of the ALM • Risk Management Council.

Our Risk Management Committee convenes at least quarterly and makes decisions by majority votes of the attending members that must be a majority of the committee members to constitute a quorum.

— ALM • Risk Management Council

Our ALM • Risk Management Council is the execution-level decision making body consisting of two group heads and 11 heads of departments or offices. The ALM • Risk Management Council advises and reports directly to the chief executive officer and is in charge of asset liability management and risk management. Its major roles include:

- development of detailed risk management plans based upon the principles and policies set out by the Risk Management Committee;
- analysis of the risk status; and
- management of the BIS capital adequacy ratio.

Our business groups and departments report to the ALM • Risk Management Council, including the following:

- reports of asset and liability management (ALM) related matters, including changes in risk-weighted assets, BIS capital adequacy ratio and credit portfolio status by industry on a quarterly basis; and
- reports of risk management related matters, including the status of overall risk management, the limit compliance status, the analysis and suggestions for quarterly credit reviews and the results of quarterly stress testing and back testing.

— *Risk Management Group*

Our Risk Management Group assesses, manages and controls the overall risks relating to our assets and liabilities. It consists of the following departments and offices:

- Risk Management Department, which manages and controls the overall risks of our business as described further below;
- Credit Management Department, which coordinates and manages our credit reviews and credit policies;
- Loan Collection Department, which manages payments in arrears and reduces non-performing assets;
- Credit Review Office, which performs credit and loan reviews of our existing assets after loans or other credits are extended; and
- Corporate Restructuring Office, which is in charge of corporate restructuring and related matters.

— *Risk Management Department*

Our Risk Management Department is the main execution body of our risk management system, independent of other business groups to enhance specialty and effectiveness of risk management. Its major roles include:

- implementation of matters delegated by the Risk Management Committee or ALM • Risk Management Council;
- integrated management of various types of risks;
- development of various systems relating to risk management;
- review of risk management practices performed by each business group; and
- centralized management of total interest rate risk.

— Risk Management at the Business Group Level

Our business groups manage risks specifically related to their respective businesses. Our business groups' risk management activities include the following:

- Corporate Financing Department manages credit risk of loans and other credits extended to our corporate customers;
- Foreign Business Department manages credit risk relating to export and import financings;
- Fund Management & Securities Department manages (a) credit risk of won-denominated securities (excluding equity securities), call loans and due from banks, (b) market risk of won-denominated marketable securities, derivatives and debt securities available for sale and (c) liquidity risk of won-denominated assets and liabilities;
- International Finance Department is responsible for (a) credit risk of foreign currency-denominated credits and securities (excluding equity securities), (b) market risk of foreign currency-denominated marketable securities, foreign exchange position and foreign currency-denominated derivatives and (c) liquidity risk of foreign currency-denominated assets and liabilities;
- Trust Business Department is responsible for (a) credit risk of credits and securities (excluding equity securities) in our principal guaranteed and fixed rate trust accounts, (b) market risk of securities and derivatives in our principal guaranteed and fixed rate trust accounts and (c) liquidity risk of assets and liabilities in money trust accounts (excluding specified money trusts); and
- Household Financing Department manages credit risk of loans to individual retail customers.

We establish a total risk limit and continuously monitor its compliance. Our Risk Management Department sets risk limits for each account type, risk type, business group and department. Middle offices in various business groups monitor compliance with their respective limits and the Risk Management Department is responsible for monitoring compliance with the total risk limit. We monitor market risk on a daily basis and credit risk, interest rate risk and liquidity risk on a monthly basis. The Risk Management Department reports the monitoring results to the ALM • Risk Management Council twice a month and to the Risk Management Committee every quarter.

Credit Risk Management

The objectives of our credit risk management are to improve our asset quality and to generate stable profits within an acceptable level of risk. We manage credit risk at various levels of our organization, which is coordinated through our Risk Management Department and Credit Management Department. Within this risk management framework, we manage our credit risk at two levels: individual credit risk at the business group level and total credit risk at the Risk Management Department level. We perform our credit risk management procedures pursuant to the stipulated internal guidelines and regulations and continuously monitor and improve these guidelines and regulations. Our credit risk management procedures include:

- credit evaluation;
- credit analysis and loan approval;
- credit risk measurement and control; and
- credit review and monitoring.

We utilize expected default rates and recovery rates that we calculate through our credit evaluation to determine borrowers' expected loss rates, which are used in credit-related decisions, including pricing, loan approval and establishment of standards for decision-making authority.

— *Credit Evaluation*

Corporate Credit Rating System. For corporate customers' credit evaluation, we have used our Corporate Credit Rating System (CCRS), the results of which are subject to review by the Credit Evaluation Council, if the credit to the customer is over ₩5 billion. We delegate credit evaluation for corporate customers with a total credit of ₩5 billion or less to the branches and business loan centers, which evaluate credit using CCRS. A corporate borrower's credit rating is effective up to one year from the rating date, but we adjust credit ratings whenever we find material changes to borrowers. In addition, the Credit Review Office continuously monitors existing credit ratings and re-evaluate credit ratings when necessary.

Our corporate credit rating system evaluates corporate borrowers' credit risk based on future profitability and growth potential and is comprised of 15 models categorized by industry (5 categories) and asset size (3 categories). We include different evaluation criteria for different models based on our statistical analysis of financial and non-financial characteristics of each model category. Our corporate credit rating system consists of:

- financial evaluation with 13 financial ratios developed based on a customer's financial statements; and
- non-financial evaluation, including evaluation of market dominance, operating capability, funding capability, management capability and reliability developed based on interviews with its officers and employees, and information gathered from outside sources such as rating agencies or industrial associations.

Based on the scores calculated under these evaluations, we assign the borrower one of 10 grades of projected default rates. We also use a "non-performing borrower forecast model" to finalize the ratings. Our non-performing borrower forecast model consists of the following sub-models:

- financial checking model, which checks if there is any financial ratio with an exceptionally low score;
- probability model, which statistically calculates the probability of a default; and
- non-performing symptom checking model, which checks non-quantitative factors that may cause a default.

We monitor and improve the effectiveness of our system using a database that we update continually with actual default records.

A credit evaluation result derived from our corporate credit rating system with respect to total credits over ₩5 billion is reviewed and adjusted by our Credit Evaluation Council, consisting of five or more officers of the Credit Management Department, including credit officers responsible for evaluation of the applicable industry, its forward and backward industries and the corporate group to which the borrower belongs. Our Credit Management Department also performs industry evaluations and corporate group evaluations.

Retail Customer Credit Scoring System (CSS). We use Credit Scoring System (CSS) for individual retail customers. CSS is a decision making tool that we use to approve loans and determine the loan amounts based on each individual's demographic information, transaction history and other relevant credit information. Through CSS, we intend to make our retail credit approval procedures objective, standardized, fast and efficient.

— *Credit Analysis and Loan Approval*

Our Credit Analysis & Loan Approval Department provides the overall credit analysis and loan approval guidelines designed to provide criteria to balance profitability and asset quality under our credit policy and credit risk management policy. Our Credit Analysis & Loan Approval Department consists of teams categorized by industry and by corporate group, which in turn comprise loan officers in charge of specific individual borrowers. We endeavor to achieve our ultimate loan policy objectives of maximizing profitability and market share within the limits set by our credit risk management policy. Accordingly, when we analyze a borrower's credit, we review not only the applicant's individual credit risk but also our overall credit risk level by considering, among other factors, our total exposure, industry portfolio and liquidity.

In addition, our Loan Approval Council reviews all loan approvals except for applications for small amounts of loans, which our branch heads approve. Under "rules on authority for decision-making procedures", our branch council, business loan center council, loan officer council, senior loan officer council and credit council act as Loan Approval Council for different loan ratings and amounts.

— *Credit Risk Measurement and Control*

For credit risk measurement, we have established a Risk Management Department and developed a system designed to quantify credit risk. Our Risk Management Department has operated this system since 1997 and established a credit "value at risk" system in April 2000 (which was the first in Korea) designed to measure and manage the principal risks, credit risk and market risk, with the same measuring tool.

We measure credit risk using data from outside rating agencies as well as internally accumulated data. We measure expected and unexpected losses with respect to our total assets twice a month, which we refer to when we set risk limits for, and allocate capital to, our business groups. The status of our overall credit risk and credit risk by business group, industry and account are measured twice a month and communicated through our information system to the management and the relevant business groups.

To control our credit exposure to individual corporates or corporate groups, we limit and control our total exposure for borrowers that belong to highly leveraged corporate groups as designated by the Financial Supervisory Service, individual corporates with an exposure of ₩50 billion or more and selected financial institutions. Total exposure limits for a corporate group and an individual corporation are 30% and 20%, respectively, of our capital (tier I and tier II capital).

— *Credit Review and Monitoring*

Our Credit Review Office, independent of our operating departments, continuously monitors the existing credit risk primarily with respect to our borrowers and departments that manage our assets. Our Credit Review Office also makes suggestions to maintain our asset quality, including early collections and adjustments of credit rating, total exposure and asset portfolio.

We operate an early warning system for corporate borrowers with a credit of ₩1 billion or more to detect possible problems at an early stage and take measures to cope with them. Our early warning system consists of:

- monitoring, which procedure detects borrowers with possible problems based on 162 statistically meaningful factors, which we call "early warning signals";
- screening, which procedure sorts out borrowers to be subject to the "review" procedures based on the analysis of changes in their credit risks; and
- review, which procedure makes in-depth analysis of borrowers' credit risk to determine credit policy and action plans for the relevant borrowers. Review procedure consists of:
  - an extensive review by our credit analysts of (a) the borrowers with a credit of ₩3 billion or more or (b) all assets managed by the departments subject to review and their risk management procedures, which usually takes a week or more; and
  - a limited review performed by our business loan centers or branches with respect to borrowers with a credit of less than ₩3 billion in accordance with the set guidelines, which generally takes half a day.

In addition, we periodically perform credit reviews of our asset-managing subsidiaries, such as Kookmin Venture Capital and Kookmin Futures.

Market Risk Management

Market risk is the risk of loss arising from changes in the level or volatility of market prices, which can result from changes in interest rates and in foreign exchange and equity markets. Both our trading and non-trading or asset liability management activities incur market risk.

Our Risk Management Committee sets basic direction and principal policies for our market risk management and approves important administrative matters that our ALM • Risk Management Council submits for its review. The head of the Risk Management Group is responsible for market risk management. Our Risk Management Department coordinates with our business groups and sets and monitors compliance with value at risk limits for trading risk as well as limits on interest rate risk based on duration for non-trading risk.

— Market Risk Management for Trading Activities

Our trading activities consist of:

- trading activities for our own account to realize short-term trading profits in Won-denominated debt and stock markets and foreign exchange markets based on our short-term forecast of changes in market situation and customer demand; and
- trading activities involving derivatives such as swap, forward, future and option transactions, primarily to realize profits from arbitrage transactions and, to a lesser extent, to sell derivative products to our customers and to cover market risk incurred from those tradings.

Market risk arising from our trading activities consists of interest rate risk, foreign exchange risk and equity risk.

- Interest rate risk is the principal risk to which our trading position is exposed. Our interest rate risk arises primarily from the Won-denominated debt securities held by the Fund Management & Securities Department and the Trust Business Department and, to a lesser extent, from the Won-denominated debt securities and interest rate derivatives that International Finance Department's derivative desks hold.
- Foreign exchange risk arises from foreign currency-denominated assets and liabilities in both our trading and non-trading accounts and we control our foreign exchange risk on a total position basis by managing the total risk from our assets and liabilities and from our trading and non-trading activities.
- Equity risk arises only from Won-denominated equity securities and our exposure to equity risk is not material as we have continuously reduced our holding of equity securities.

We measure market risk from trading activities to control risk of our business groups and departments that perform trading activities and to measure the risk-adjusted performance of our business groups. We have measured market risk of each business group for each business group's risk-adjusted performance measurement and communicated the results to the relevant business groups since January 2001.

Our market risk measurement model, developed based on RiskWatch®, measures market risk for different products using different measuring methodology:

- For linear products such as equity and debt securities, we use "variance-covariance method" which takes into account the diversification effects among different risk factors as well as within the same risk factor.
- Our variance-covariance method is supplemented by historical simulation and "Monte Carlo" simulation models that we apply to measure market risk of non-linear products such as options.

We use daily "value at risk" or VaR to measure market risk. Our daily VaR is a statistically estimated maximum amount of loss that can occur for a day. We use a 99% confidence interval to measure our daily VaR, which means the actual amount of loss may exceed the VaR, on average, once out of 100 business days.

In addition to VaR, we perform stress testing to measure market risk. As VaR assumes normal market situations, we assess our market risk exposure to abnormal market fluctuations through stress testing. We report the stress test results to the head of the Risk Management Department every week, to the ALM • Risk Management Council every month and to our Risk Management Committee every quarter. We also perform back testing to check the validity of our internal model for market risk measurement.

The following table shows our average, high and low daily VaRs for the six months ended December 31, 2000 and daily VaRs as of December 31, 2000, at a 99% confidence interval, for interest rate risk, foreign exchange risk and equity risk relating to our trading activities. The following figures are calculated for Kookmin Bank only without including our subsidiaries.

Risk categories:	For the six-months ended December 31, 2000 Average	High	Low	As of December 31, 2000
	(in ₩ billion)			
Interest rate risk	6.2	9.2	2.2	6.7
Foreign exchange risk	0.5	2.5	0.2	0.4
Equity risk	7.1	13.0	0.9	0.9
Less: diversification	(3.9)	—(1)	—(1)	(1.0)
VaR for overall trading activities	9.9	—(1)	—(1)	7.0

(1) Diversification effects or overall amounts are not meaningful as the highest and lowest amounts for each category occurred on different days.

—Derivative Trading and Market Risk

Our derivative trading includes interest rate and cross-currency swaps, foreign exchange forwards, stock index and interest rate futures, forward rate agreements and currency options. We use derivative instruments to hedge our market risk as well as to make profits by taking derivative trading positions within acceptable risk limits.

The principal objective of our hedging strategy is to manage our market risk within established limits. Our Fund Management & Securities Department and International Finance Department use the following hedging instruments:

- to hedge interest rate risk from its trading activities, the Fund Management & Securities Department occasionally uses interest rate futures (Korean Treasury Bond Futures);
- to hedge equity risk from its trading activities, the Fund Management & Securities Department selectively uses stock index futures; and
- to hedge interest rate risk and foreign exchange risk from our foreign currency-denominated asset and liability positions as well as our trading activities, the International Finance Department uses interest rate swaps, cross-currency swaps, foreign exchange futures and Euro-dollar futures.

For interest rate risk from our Won-denominated assets and liabilities, we use, on a limited basis, hedging instruments since the Korean derivatives market is not well developed. We principally manage this interest rate risk by managing maturity and duration gaps between our interest-earning assets and interest-bearing liabilities.

While we use derivatives for our hedging purposes, derivative transactions themselves incur market risk as we take trading positions. Derivative trading positions and the related risk arise principally from the following activities of our International Finance Department, none of which incurs material market risk as their sizes are limited:

- arbitrage transactions to make profit from short-term discrepancies between the spot and derivative markets or within the derivative markets;

- sales of tailor-made derivative products that meet various needs of our corporate customers and the relating transactions to reduce our exposure resulting from those sales;

- taking positions in limited cases when we expect short-swing profits based on our market forecasts; and

- trading to hedge our interest rate and foreign currency risk exposure as described above.

We manage market risk from derivative trading at the entire portfolio level rather than for specific derivative products. To control our derivative trading risk limits, we use variance-covariance VaR limits, stress testing limits and stop loss limits. We prepared our risk control and management guidelines for derivative trading based on the regulations and guidelines promulgated by the Financial Supervisory Service.

—Market Risk Management for Non-Trading Activities

Our principal market risk from non-trading activities is interest rate risk. Interest rate risk arises from differences in the maturities or interest rate resetting periods between interest sensitive assets and liabilities. We measure interest rate risk for Won and foreign currency assets and liabilities in our bank accounts (including derivatives) and assets and liabilities in our principal guaranteed trust accounts. Most of our interest-earning assets and interest-bearing liabilities are denominated in Won and our foreign currency denominated assets and liabilities are mostly denominated in U.S. dollars.

Principal objectives of our interest rate risk management are to generate stable net interest revenues and to protect our asset value against interest rate fluctuations. We perform gap analysis and duration gap analysis for interest rate risk management. In the past, we relied primarily on the interest rate gap but we are currently using the duration gap analysis as our principal tool to manage interest rate risk.

Interest rate gap analysis measures changes in net interest revenues by calculating the difference in the amounts of interest-earning assets and interest-bearing liabilities at each maturity or interest resetting date. We perform interest rate gap analysis for Won and foreign currency denominated assets and trust assets on a monthly basis.

For interest rate gap analysis we use or assume the following maturities for different assets and liabilities:

- With respect to our interest-earning assets, we assumed the maturity of prime rate-linked loans was three months; for our debt securities and fixed rate loans, we applied the stated maturities; and assets with maturity over 3 years included the reserves with the Bank of Korea and loans and securities classified as substandard or below.

- With respect to our interest-bearing liabilities, those with maturities of three months or shorter included "non-core" demand deposits under the Financial Supervisory Service guidelines and installment deposits for which stated maturities passed or installments were not made for three months or longer; we applied the respective maturities to the deposits with stated maturities; and we assumed the maturity of "core" demand deposits under the Financial Supervisory Service guidelines to be over three years.

The following table shows our non-consolidated interest rate gap for Korean won-denominated and foreign currency-denominated accounts as of December 31, 2000.

	As of December 31, 2000[(1)]					
	0-3 months	3-6 months	6-12 months	1-3 years	Over 3 years	Total
	(in ₩ billion, except percentages)					
Won-denominated:						
Interest-earning assets						
Due from banks	3,207	48	265	5	2,010	5,535
Loans	36,148	917	884	1,845	3,429	43,223
Securities	1,243	986	1,442	9,220	5,559	18,450
Others	190	123	205	1,035	—	1,553
Total	40,788	2,074	2,796	12,105	10,998	68,761
Interest-bearing liabilities						
Deposits	16,652	8,140	9,524	4,498	10,399	49,213
Borrowings	728	150	232	882	1,242	3,234
Others	2,381	1,867	2,756	842	1,826	9,672
Total	19,761	10,157	12,512	6,222	13,467	62,119
Sensitivity gap	21,027	(8,083)	(9,716)	5,883	(2,469)	6,642
Cumulative gap	21,027	12,944	3,228	9,111	6,642	—
% of total assets	25.8%	15.9%	4.0%	11.2%	8.1%	—

	As of December 31, 2000[(1)]					
	0-3 months	3-6 months	6-12 months	1-3 years	Over 3 years	Total
	(in US$ million, except percentages)					
Foreign currency-denominated:						
Interest-earning assets:						
Due from banks	673	162	—	—	—	835
Loans	899	611	9	2	221	1,742
Securities	185	85	40	125	137	572
Others	601	147	86	0	25	859
Total	2,358	1,005	135	127	383	4,008
Interest-bearing liabilities:						
Deposits	355	120	18	1	177	671
Borrowings	515	607	—	—	—	1,122
Debentures	624	507	—	—	200	1,331
Others	18	140	0	81	82	321
Total	1,512	1,374	18	82	459	3,445
Sensitivity gap	846	(369)	117	45	(76)	563
Cumulative gap	846	477	594	639	563	—
% of total assets	1.0%	0.6%	0.7%	0.8%	0.7%	—

(1) The numbers are prepared on a non-consolidated basis in accordance with Korean GAAP for internal management purposes. If the report had been prepared on a consolidated basis, total interest-earning assets and total interest-bearing liabilities (denominated in both Won and foreign currencies) would increase by approximately ₩9,288 billion and ₩8,052 billion, respectively.

We also perform a duration gap analysis for measurement and management of interest rate risk, which is a more advanced technique than the gap analysis that focuses only on accounting income. We put emphasis on the duration gap analysis because, in the long run, the principal concern of financial institutions with respect to interest rate fluctuations is the net asset value rather than net interest revenue changes. During 2000, our asset and liability duration gap moved between 0.028 and 0.077. Accordingly, our net asset value would have declined by ₩18 billion to ₩48 billion if interest rate increased by 1% point, as our asset duration is longer than our liability duration.

For duration gap analysis we use or assume the following maturities for different assets and liabilities:

- With respect to assets, we applied the respective maturities to the prime rate-linked loans with maturities shorter than six months and assumed six months for those with maturities of 6 months or longer; for our debt securities and fixed rate loans, we applied the stated maturities; and we excluded loans and securities classified as substandard, assuming that they produce no cash flows.

- With respect to liabilities, we applied the respective maturities to the deposits with stated maturities; we assumed the maturity of most of interest-bearing demand deposits to be over five years, and we assumed shorter maturities ranging from 1 month to a year for certain volatile demand deposits based on our experience.

The following table shows, on a non-consolidated basis, duration gaps and net asset value changes when interest rate increases by 1% point as of the specified dates.

Date	Asset duration	Liability duration	Duration gap	Net asset value change (in ₩ billion)
March 31, 2000	0.895	0.854	0.048	₩(26)
June 30, 2000	0.890	0.857	0.032	(19)
September 30, 2000	0.911	0.850	0.077	(48)
December 31, 2000	0.904	0.872	0.028	(18)

We set the interest rate risk limits using historical interest rate volatility of the government bond and duration gaps measured for each interest rate resetting period with respect to the expected asset and liability positions based on our annual business plans. Our Risk Management Department submits gap analysis reports, duration gap analysis reports and interest rate limit compliance reports to our ALM • Risk Management Council on a monthly basis.

The following table summarizes, on a non-consolidated basis, our interest rate risk taking into account asset and liability durations as of December 31, 2000.

	As of December 31, 2000						
	3 months or less	3-6 months	6-12 months	1-2 years	2-3 years	Over 3 years	Total
	(in ₩ billion, except percentages and durations in years)						
Won-denominated:							
Asset position	₩12,861	₩7,633	₩25,537	₩5,872	₩6,222	₩7,629	₩65,754
Liability position	17,927	12,313	12,981	12,795	6,183	3,857	66,056
Gap	(5,066)	(4,680)	12,556	(6,923)	39	3,772	(302)
Asset duration	0.106	0.332	0.471	1.244	2.125	3.038	0.880
Liability duration	0.102	0.327	0.719	1.044	2.126	4.124	0.854
Interest rate volatility	3.79%	3.93%	3.14%	3.27%	3.21%	3.21%	—
Amount at risk	₩ (17)	₩ (59)	₩ 1	₩ (198)	₩ 3	₩ 233	₩ 46.5

	As of December 31, 2000					
	3 months or less	3-6 months	6-12 months	1-3 years	Over 3 years	Total
	(in US$ million, except percentages and maturities in years)					
Foreign currency-denominated:						
Asset position	$ 2,358	$ 1,005	$ 135	$ 127	$ 383	$ 4,008
Liability position	1,512	1,374	18	82	459	3,445
Gap	846	(369)	117	45	(76)	563
Average maturity[(1)]	0.0833	0.3333	0.5833	1.5000	2.5000	
Interest rate volatility	2.50%	2.53%	3.43%	2.92%	2.57%	
Amount at risk	$ 2	$ (3)	$ 2	$ 2	$ (5)	$ (2)

(1) We applied the average durations of our domestically held foreign currency-denominated assets throughout the assets and liabilities denominated in foreign currencies, whether they are held domestically or overseas (by our branches or subsidiaries).

Liquidity Risk Management

Liquidity risk is the risk of insolvency or loss due to disparity between inflow and outflow of funds such as maturity mismatch, including having to fund at an extraordinary high price or dispose of securities at an unfavorable price due to lack of available funds. We manage our liquidity in order to meet our financial liabilities from withdrawals of deposits, withdrawals and pre-terminations of trust funds and repayments at maturity of borrowed funds. We also require sufficient liquidity to fund loans and extend other forms of credits, as well as to make investments in securities. To date, we have not experienced significant liquidity risk, including during 1997 and 1998 when the Korean economy underwent serious difficulties.

For Won-denominated accounts, we have a short-term fund inflow/long-term fund outflow structure. As of December 31, 2000, approximately a half of our Won-denominated deposits consisted of time deposits due on average in approximately six months, while our assets consisted primarily of loans and securities and the average maturity of our loans and securities investments was over one year.

We manage liquidity risk within the limits set on Won and foreign currency accounts in accordance with the regulations of the Financial Supervisory Commission. The Financial Supervisory Commission requires Korean banks to maintain the Won liquidity ratio (defined as won liquid assets (including marketable securities) due within three months divided by Won liabilities due within three months) at least at 100.0% and to report their respective ratios to the Financial Supervisory Service on a quarterly basis. The Financial Supervisory Commission defines liquid assets as any assets that mature within three months.

Our Fund Management & Securities Department, International Finance Department and Trust Business Department are responsible for daily liquidity risk management. They report to the ALM • Risk Management Council the monthly plans for funding and asset management developed based on principal factors affecting our liquidity risk, including interest rate movements, maturity structures of our deposits, lendings and securities, re-deposit ratios and loan roll-over ratios.

The following tables show our liquidity status and limits for Won and foreign currency accounts as of December 31, 2000 in accordance with the regulations of the Financial Supervisory Commission.

	3 months or less
	(in ₩ billion, except percentages)
Won accounts:	
Assets(A)	₩29,412
Liabilities(B)	23,968
Liquidity gap	5,444
Liquidity ratio (A/B)	122.71%
Limit	100.00%

	7 days or less	7 days-1 month	1-3 months
	(in US$ million, except percentages)		
Foreign currency accounts:			
Foreign currency assets	$ 967	$ 597	$ 943
Foreign currency liabilities	693	516	539
Maturity gap	274	81	404
Cumulative gap(A)	274	355	759
Total assets(B)	5,616	5,616	5,616
Liquidity gap ratio(A/B)	4.88%	6.32%	143.42%(1)
Limits	0%	10%	80%(1)

(1) Liquidity ratios

We measure our liquidity ratio and liquidity gap ratio on a monthly basis and report whether they are in compliance with the limits to the ALM • Risk Management Council every month and to the Risk Management Committee every quarter.

ALM System

We use our asset and liability integrated management system, ALM, to manage our interest rate risk and liquidity risk, using the relevant ratios and gaps. Assets and liabilities in Won-denominated accounts, foreign currency denominated accounts and trust accounts are subject to the ALM system. Using the

ALM system, we measure and manage liquidity related ratios and interest rate related gaps on a monthly basis.

Operational Risk Management

Operational risk is difficult to quantify and subject to different definitions. We define our operational risk as the risk related to the overall management of our bank other than credit risk, market risk, interest rate risk and liquidity risk. Our operational risk includes management risk, administrative risk, information technology risk, reputation risk and legal risk.

We manage operational risk at different levels. Heads of our operating department who regularly check the status based on our internal operational risk checklist report any notable issues to our Risk Management Department and make monthly and quarterly reports to the ALM • Risk Management Council.

Our Audit Committee and Compliance Officer, together with our Audit & Examination Department and Compliance Department, play an important role in our operational risk management. The Audit Committee performs audits of, among other matters, our overall management and accounting, and has the Audit & Examination Department as its execution body. The Compliance Officer is elected by the board of directors and is in charge of our legal matters and internal control system, including establishment of internal control policies and monitoring of its management. The Compliance Department is its execution body and reports to the Compliance Officer. It is responsible for legal risk management.

Our Audit Committee and Audit & Examination Department perform the following audits:

- general audit that includes full-scale audits performed biannually for the overall operations, sectional audits of selected operations performed when necessary, real-time audits for selected transactions and periodic and irregular spot audits;
- special audit performed when our Audit Committee or standing auditor deems necessary or pursuant to requests by the president or the supervisory authorities such as the Financial Supervisory Service; and
- day-to-day audit performed by the standing auditor for material transactions or operations that are subject to approval of heads of our business groups or higher executives.

Assets and Liabilities

The tables below set out selected financial highlights regarding our banking operations and individual assets and liabilities, as presented under US GAAP.

Loans

As of December 31, 2000, our total loan portfolio was ₩59,397, an increase of 32.2% from ₩44,945 billion at December 31, 1999. As of December 31, 2000, approximately 93.6% of our total loans were Won denominated loans. The increase in the portfolio primarily reflects an increase in the commercial and industrial loans and credit card loans.

Loan Types

The following table presents loans by type for the periods indicated. Except where we specify otherwise, all loan amounts stated below are before deduction for loan loss reserves. Total loans reflect our loan portfolio, including past due amounts.

	As of December 31,				
	1996(1)	1997(1)	1998	1999	2000
	(in ₩ billion)				
Domestic					
Corporate					
Commercial and Industrial(2)	11,459	13,144	23,699	24,667	29,795
Construction	471	742	1,882	1,724	2,168
Lease Financing	903	1,227	1,327	882	592
Other Commercial	682	1,073	985	1,053	1,216
Total—Corporate	13,515	16,186	27,893	28,326	33,771
Consumer					
Credit Cards	2,104	2,205	2,525	3,362	8,321
Mortgages and Real Estate	3,588	4,110	4,519	6,034	8,068
Other Consumer	4,667	5,761	5,913	6,143	8,151
Total—Consumer	10,359	12,076	12,957	15,539	24,540
Total domestic	23,874	28,262	40,850	43,865	58,311
Foreign					
Corporate					
Commercial and Industrial	608	1,055	1,017	1,080	1,086
Total foreign	608	1,055	1,017	1,080	1,086
Total gross loans	24,482	29,317	41,867	44,945	59,397

(1) Adjustments were necessary to reconcile the aggregate loan balance from Korean GAAP to a comparable US GAAP basis.

(2) Commercial and industrial loans include ₩447 billion and ₩1,832 billion of loans to Korean government and government related agencies (including the Korea Deposit Insurance Corporation) as of December 31, 1999 and 2000, respectively.

The following table sets out the adjustments necessary to reconcile the aggregate loan balance for 1996 and 1997 from Korean GAAP to a basis comparable to the later years disclosed above.

	As of December 31	
	1996	1997
	(in ₩ billion)	
Total loan balance under Korean GAAP	27,828	33,074
Add/(less) adjustments to US GAAP:		
De-consolidation of trust accounts	(2,738)	(2,846)
Reclassification of items not classified as loans under US GAAP	(608)	(911)
Total loan balance under US GAAP	24,482	29,317

Loan Concentrations

We limit our exposure to any single borrower to 20.0% 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 30.0% of our total Tier I and Tier II capital.

— *Twenty Largest Exposures by Borrower*

As of December 31, 2000, our twenty largest exposures totaled ₩13,553 billion and accounted for 16.5% of our total exposures. The following table sets forth, as of December 31, 2000, our total exposures to these top twenty borrowers.

Company	Loans: Won currency	Loans: Foreign currency	Equity securities	Debt securities	Guarantees and acceptances	Total exposures	Amounts classified as substandard or below[1]
				(in ₩ billion)			
Korea Deposit Insurance Corporation	1,587	—	—	3,032	—	4,619	—
The Bank of Korea	—	—	—	1,973	—	1,973	—
Korea Asset Management Corporation	—	—	5	1,185	—	1,190	—
LG Electronics	458	41	—	69	14	582	—
The Korea Development Bank	—	—	—	551	—	551	—
Korea Electric Power Corporation	170	37	—	320	—	527	—
Korea Land Development Corporation	—	—	—	424	—	424	—
Hynix Semiconductor	72	298	—	16	37	423	370
SK Corporation	20	18	—	29	324	391	—
Chohung Bank	—	—	—	325	—	325	—
Hyundai Oil Refinery of Korea	26	74	—	—	224	324	—
KOHAP	265	18	1	2	26	312	283
SK Global	140	52	—	5	60	257	—
Korea Highway Corporation	—	—	5	280	—	285	—
New Airport Highway	265	—	—	—	—	265	—
Hyundai Merchant Marine	129	119	—	10	—	258	248
Samsung Heavy Industries	130	13	—	10	87	240	—
Korean Airlines	172	35	—	3	—	210	—
Korea Agricultural & Rural Infrastructure	206	—	—	—	—	206	—
Hyundai Motor Company	29	119	—	20	23	191	—
Total	3,669	824	11	8,254	795	13,553	901

(1) Classification is based primarily on the Financial Supervisory Commission's asset classification criteria.

As of December 31, 2000, we had total exposures of ₩312 billion to KOHAP, of which ₩283 billion were classified as substandard or below under the Financial Supervisory Commission's asset classification guidelines. KOHAP is engaged in the production and sale of synthetic fiber and polyester. KOHAP is experiencing financial difficulties primarily as a result of the impacts of over-supply in the industry and the adverse financial and economic conditions in Korea and in Asia. For the years ended December 31, 1999 and 2000, KOHAP incurred net losses of ₩645 billion and ₩1,267 billion, respectively. As of December 31, 2000, KOHAP had accumulated carried-forward deficit of ₩2,968 billion.

During 1998 and 1999, creditors of KOHAP entered into and amended a workout plan for KOHAP. According to this plan, ₩495 billion of KOHAP's debt was converted into equity as of December 31, 2000 and ₩2,224 billion of debt will be subject to such conversion in the future. Under this plan, ₩75 billion of our loans to KOHAP will be converted into equity.

As of December 31, 2000, our allowance against our loans and guarantees to KOHAP was ₩132 billion, or 42.7% of the aggregate principal amount of our loans and guarantees to KOHAP.

In July 2001, creditors of KOHAP decided to split KOHAP into two companies, namely to transfer potentially profitable assets and operations into one company and the remaining assets into the other company, as a part of restructuring of KOHAP. The details of this process are expected to be finalized following due diligence by an independent accounting firm.

—Exposure to Chaebols

As of December 31, 2000, 10.4% of our total exposure was to the thirty largest chaebols. The following table shows, as of December 31, 2000, our total exposures and the asset quality assigned with respect to the ten chaebol groups to which we have the largest exposure.

	As of December 31, 2000						
	Loans						
Chaebol	Won currency	Foreign currency	Equity securities	Debt securities	Guarantees and acceptances	Total exposures	Amounts classified as substandard or below(1)
				(in ₩ billion)			
Hyundai	550	695	5	145	226	1,621	825
SK	541	168	4	122	411	1,246	—
LG	525	296	1	218	179	1,219	—
Samsung	364	202	13	366	116	1,061	3
Hanjin	321	193	—	5	1	520	—
Hyundai Oil	38	75	—	—	225	338	—
Kohap	278	28	1	4	26	337	331
Dong Bu	115	91	—	—	37	243	—
Kumho	92	92	—	4	—	188	—
Hanhwa	144	7	—	37	—	188	—
Total	2,968	1,847	24	901	1,221	6,961	1,159

(1) Classification is based primarily on the Financial Supervisory Commission's asset classification criteria.

The following table shows information relating to our total exposure to former Daewoo Group companies as of December 31, 2000.

	As of December 31, 2000						
	Loans						
Company	Won currency	Foreign currency	Equity securities	Debt securities	Guarantees and acceptances	Total exposures	Amounts classified as substandard or below(1)
				(in ₩ billion)			
Daewoo Corporation	105	25	—	2	12	144	142
Daewoo Electronics	39	75	—	1	—	115	114
Ssangyong Motors	98	25	—	—	5	128	125
Daewoo Motors	35	21	—	6	—	62	56
Daewoo Heavy Industries	34	—	—	—	—	34	34
Daewoo Telecom	5	—	—	7	—	12	5
Orion Electronics	4	—	—	13	—	17	4
Daewoo Heavy Industries and Machinery	2	5	3	—	—	10	—
Daewoo Shipping	1	—	3	—	—	4	—
Daewoo Electronic Components	1	9	—	—		10	10
Total	324	160	6	29	17	536	490

(1) Based on the Financial Supervisory Commission's asset classification criteria.

The following table shows information relating to our Hyundai Group total exposure as of December 31, 2000.

Company	Loans: Won currency	Loans: Foreign currency	Equity securities	Debt securities	Guarantees and acceptances	Total exposures	Amounts classified as substandard or below(1)
	As of December 31, 2000 (in ₩ billion)						
Hynix Semiconductor	72	298	—	16	37	423	370
Hyundai Merchant Marine	129	119	—	10	—	258	248
Hyundai Motor Company(2)	29	119	—	20	23	191	—
Inchon Iron & Steel(2)	83	4	4	—	50	141	—
Hyundai Petrochemicals	105	23	—	—	—	128	128
Hyundai Corporation	—	64	—	—	61	125	—
Hyundai Engineering & Construction	78	—	—	34	—	112	78
Hyundai Heavy Industries	—	6	1	7	53	67	—
Kia Motors Corporation(2)	23	33	—	2	2	60	—
Other	31	29	—	56	—	116	1
Total	550	695	5	145	226	1,621	825

(1) Classification is based primarily on the Financial Supervisory Commission's asset classification criteria.

(2) While these companies were disaffiliated from the Hyundai Group in September 2000 following approval from the Korean Fair Trade Commission, we continued to monitor these companies with the Hyundai Group as of December 31, 2000.

Recently, a number of Hyundai Group companies have been experiencing financial difficulties, as a result of, among other things, their liquidity positions.

Since December 31, 2000, eight domestic commercial banks which have made loans to Hyundai Engineering & Construction agreed to provide the following assistance:

- extend loans secured by real estate in the aggregate amount of ₩340 billion, out of which our portion is ₩20 billion;
- extend working capital loans in the amount of ₩390 billion, out of which our portion is ₩21 billion;
- convert loans into equity in an amount of ₩1,400 billion in respect of which our portion is ₩76 billion; and
- participate in a rights offering with the creditors' portion being ₩750 billion in respect of which our portion is ₩45 billion.

In May 2001, it was decided during the special shareholders' meeting that the capital of the company be reduced by a ratio of 5.99 to 1. The investment trust companies that are creditors of Hyundai Engineering & Construction will not participate in the conversion of their loans into equity or the rights offering. In June 2001, we purchased ₩69 billion in aggregate principal amount of bonds convertible into equity of Hyundai Engineering & Construction. Since December 31, 2000, we made additional loans in the amount of ₩41 billion to Hyundai Engineering & Construction, all of which was subsequently repaid.

In May 2001, domestic commercial banks, investment trust companies and certain other financial institutions serving Hynix Semiconductor agreed to provide the following assistance under the condition that the company successfully raises US$1 billion through an offering of global depositary shares.

- purchase convertible bonds and/or convert loans into convertible bonds in the amount of ₩1 trillion, out of which our portion is ₩30 billion for the purchase of convertible securities using cash and ₩31 billion of loans for conversion into convertible bonds;
- extend the maturity of certain loans in an aggregate amount of US$868 million, out of which our portion is US$65 million; and

- purchase by investment trust company creditors of corporate bonds in the amount of ₩680 billion, out of which ₩42 billion will be used to repay our loans.

In June 2001, Hynix Semiconductor successfully issued US$1.2 billion of global depositary shares representing common shares.

Since December 31, 2000, we made no additional loans to Hynix.

In March 2001, ten domestic commercial banks which have made loans to Hyundai Petrochemical agreed to provide the following assistance:

- make working capital loans in the amount of ₩115 billion, out of which our portion is ₩18 billion.

- extend the maturity for the loans which matured as of March 10, 2001 and the loans that mature on June 30, 2001, for six months from the original maturity date.

Since December 31, 2000, we made additional loans in the amount of ₩31 billion and additional guarantees in the amount of US$13 million to Hyundai Petrochemical.

Since December 31, 2000, we made no additional loans to Hyundai Merchant Marine.

— Loan Concentration by Industry

The following table shows the aggregate balance of our domestic and foreign corporate loans, by industry concentration, as of December 31, 2000.

Industry	Aggregate loan balance	Percentage of total loan balance
	(in ₩ billion)	(percentages)
Manufacturing	15,523	44.5
Retail and wholesale	5,541	15.9
Hotel, leisure or transportation	2,905	8.3
Government and government agencies	1,832	5.3
Construction	2,232	6.4
Finance and insurance	1,445	4.1
Other	5,379	15.5
Total	34,857	100.0

— Loan Concentration by Size of Loans

The following table shows the aggregate balances of our loans, by outstanding loan amount, as of December 31, 2000.

	Aggregate loan balance	Percentage of total loan balance
	(in ₩ billion)	(percentages)
Commercial and industrial loans		
Up to ₩10 million	234	0.4
Over ₩10 million to ₩50 million	3,344	5.6
Over ₩50 million to ₩100 million	2,642	4.4
Over ₩100 million to ₩500 million	8,097	13.6
Over ₩500 million to ₩1 billion	2,585	4.4
Over ₩1 billion to ₩5 billion	3,580	6.0
Over ₩5 billion to ₩10 billion	1,886	3.2
Over ₩10 billion to ₩50 billion	4,835	8.1
Over ₩50 billion to ₩100 billion	1,320	2.3
Over ₩100 billion	1,272	2.2
Sub-total	29,795	50.2

	Aggregate loan balance	Percentage of total loan balance
	(in ₩ billion)	(percentages)
Construction loans		
Up to ₩10 million	7	0.0
Over ₩10 million to ₩50 million	157	0.3
Over ₩50 million to ₩100 million	184	0.3
Over ₩100 million to ₩500 million	586	1.0
Over ₩500 million to ₩1 billion	211	0.4
Over ₩1 billion to ₩5 billion	397	0.7
Over ₩5 billion to ₩10 billion	109	0.2
Over ₩10 billion to ₩50 billion	517	0.8
Over ₩50 billion to ₩100 billion	0	0.0
Over ₩100 billion	0	0.0
Sub-total	2,168	3.7
Lease financing		
Sub-total	592	1.0
Other corporate		
Up to ₩10 million	10	0.0
Over ₩10 million to ₩50 million	117	0.2
Over ₩50 million to ₩100 million	120	0.2
Over ₩100 million to ₩500 million	213	0.4
Over ₩500 million to ₩1 billion	101	0.2
Over ₩1 billion to ₩5 billion	287	0.4
Over ₩5 billion to ₩10 billion	61	0.1
Over ₩10 billion to ₩50 billion	307	0.5
Over ₩50 billion to ₩100 billion	0	0.0
Over ₩100 billion	0	0.0
Sub-total	1,216	2.0
Credit Cards		
Up to ₩10 million	8,321	14.0
Sub-total	8,321	14.0
Household — mortgage and real estate loans		
Up to ₩10 million	623	1.1
Over ₩10 million to ₩50 million	3,805	6.4
Over ₩50 million	3,640	6.1
Sub-total	8,068	13.6
Household — other consumer loans		
Up to ₩10 million	4,627	7.8
Over ₩10 million to ₩50 million	2,975	5.0
Over ₩50 million	549	0.9
Sub-total	8,151	13.7

	Aggregate loan balance	Percentage of total loan balance
	(in ₩ billion)	(percentages)
Foreign commercial and industrial loans		
Up to ₩10 million	0	0.0
Over ₩10 million to ₩50 million	5	0.0
Over ₩50 million to ₩100 million	9	0.0
Over ₩100 million to ₩500 million	32	0.1
Over ₩500 million to ₩1 billion	29	0.0
Over ₩1 billion to ₩5 billion	238	0.4
Over ₩5 billion to ₩10 billion	198	0.3
Over ₩10 billion to ₩50 billion	208	0.4
Over ₩50 billion to ₩100 billion	215	0.4
Over ₩100 billion	152	0.2
Sub-total	1,086	1.8
Total	59,397	100.0

Maturity Analysis

The following table sets out the scheduled maturities (time remaining until maturity) of our loan portfolio as of December 31, 2000. The amounts disclosed are before deduction of attributable loan loss reserves.

We roll over our working capital loans and consumer loans (which are not payable in installments) after we conduct our normal loan review in accordance with our loan review procedures. Working capital loans may be extended on an annual basis for an aggregate term of three years and consumer loans may be extended for another term of up to 12 months for an aggregate term of ten years.

	As of December 31, 2000			
	1 year or less	Over 1 year but not more than 5 years	Over 5 years	Total
	(in ₩ billion)			
Domestic				
Corporate				
Commercial and Industrial	22,053	6,870	872	29,795
Construction	1,813	351	4	2,168
Lease Financing	120	338	134	592
Other Commercial	1,101	113	2	1,216
Total—Corporate	25,087	7,672	1,012	33,771
Consumer				
Credit Cards	8,321	—	—	8,321
Mortgages and Real Estate	6,052	1,930	86	8,068
Other Consumer	6,115	2,035	1	8,151
Total—Consumer	20,488	3,965	87	24,540
Total domestic	45,575	11,637	1,099	58,311
Foreign				
Corporate				
Commercial and Industrial	897	109	80	1,086
Total foreign	897	109	80	1,086
Total gross loans	46,472	11,746	1,179	59,397

Interest Rate Sensitivity

The following table shows loans by interest rate sensitivity as of December 31, 2000.

	As of December 31, 2000 (in ₩ billion)
Fixed rate[1]	14,050
Variable or adjustable rates[2]	45,347
Total gross loans	59,397

(1) Fixed rate loans are loans for which the interest rate is fixed for the entire term.

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

For additional information regarding our management of interest rate risk, see "Kookmin Bank—Business Overview—Risk Management—Market Risk Management—Market Risk Management for Non-Trading Activities".

Non-Accrual Loans and Past Due Accruing Loans

We generally do not recognize interest income on non-accrual loans unless it is collected. Generally, loans are placed on non-accrual status when payments of interest and/or principal become past due by one day. Interest is no longer recognized on these loans from the date the loan is placed on non-accrual status. Loans are not reclassified as accruing until interest and principal payments are up-to-date and future payments of principal and interest are reasonably assured.

Interest foregone is the interest due on non-accrual loans that has not been accrued in our books of account. For the year ended December 31, 2000, we would have recorded gross interest income of ₩549 billion compared to ₩687 billion for the year ended December 31, 1999 on loans accounted for on a non-accrual basis throughout the year, or since origination for loans held for part of the year, had the loans been current with respect to their original contractual terms. The amount of interest income on those loans that was included in our net income for the years ended December 31, 2000 and December 31, 1999 was ₩296 billion and ₩368 billion, respectively.

The category "accruing but past due one day" includes loans which are still accruing interest but on which principal or interest payments are contractually past due one day or more. We continue to accrue interest on loans that are fully secured by cash on deposit or on which there are financial guarantees from the government, Korea Deposit Insurance Fund or certain financial institutions.

The following table shows, at the dates indicated, the amount of loans that are placed on a non-accrual basis and accruing loans which are past due one day or more.

	As of December 31,		
	1998	1999	2000
	(in ₩ billion, except percentages)		
Loans accounted for on a non-accrual basis			
Corporate	3,121	2,852	2,414
Consumer	1,599	1,405	1,734
Sub-total	4,720	4,257	4,148
Accruing loans which are contractually past due one day or more as to principal or interest[1]			
Corporate	151	74	68
Consumer	—	—	—
Total	4,871	4,331	4,216

(1) Includes accruing loans which are contractually past due 90 days or more in the amount of ₩59 billion of corporate loans, ₩30 billion of corporate loans and ₩10 billion of corporate loans as of December 31, 1998, 1999 and 2000, respectively.

Troubled Debt Restructurings

The following table presents, at the dates indicated, our loans which are "troubled debt restructurings" as defined under US GAAP. These loans consist principally of corporate loans that are accruing interest at rates lower than the original contractual terms as a result of a variation of terms upon restructuring.

	As of December 31,		
	1998	1999	2000
	(in ₩billion)		
Loans not included in "non-accrual and past due loans" which are classified as "troubled debt restructurings"	2,262	3,385	2,691

For the year ended December 31, 2000, interest income that would have been recorded under the original contract terms of restructured loans amounted to ₩298 billion, out of which ₩165 billion was reflected as interest income during 2000.

Potential Problem Loans

As of December 31, 2000, we had ₩1,339 billion of loans which are current as to payment of principal and interest but where there exists serious doubt as to the ability of the borrower to comply with repayment terms in the near future. 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 or potential problem loan disclosures provided above. As of December 31, 2000, we had debt securities with an amortized cost of ₩50 billion and a market value of ₩52 billion on which interest was past due.

Credit 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. There are two types of voluntary workouts. The first type of voluntary workout was established in 1998 as a result of adverse economic and financial difficulties in Korea beginning in late 1997. 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 were able to convene a meeting of creditors for workout and commence preparation of a workout plan with respect to such borrower. The workout plan was 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 imposed penalties on financial institution creditors that fail to abide by the guidelines and procedures set forth in the accord. The accord was replaced with an agreement entered into among financial institutions on December 1, 2000, which permits each financial institution to opt out from the creditors' committee in charge of carrying out a workout plan.

Under the second type of workout procedure, we and other financial creditors voluntarily restructure a borrower's credit without applying the accord procedures described above.

On July 18, 2001, the National Assembly of Korea adopted the Corporate Restructuring Promotion Act, which is expected to become effective in September 2001. Under this new act, all creditor financial institutions of a borrower are required to participate in a creditors' committee. The Corporate Restructuring Promotion Act will be mandatorily applicable to more than 420 financial institutions in Korea, which include commercial banks, insurance companies, investment trust companies, securities companies, merchant banks, the Korea Deposit Insurance Corporation and the Korea Asset Management Corporation. Under this new act, the approval of creditor financial institutions holding not less than 75% of the total debt outstanding of a borrower will finalize such borrower's restructuring plan, including debt restructuring and provision of additional funds, which plan will be binding on all the creditor financial institutions of the borrower, except that any creditor financial institution that disagrees with the final restructuring plan approved by the creditors' committee will have the right to request the creditors' committee to purchase its claims at a mutually agreed price. In the event that the creditors' committee and the dissenting creditor financial institution fails to come to an agreement, a coordination committee consisting of seven experts will be set up to resolve the matter. There is a risk that these procedures may require us to participate in a plan that we do not agree with or may require us to sell our claims at prices that we do not believe are adequate.

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 Corporate Restructuring Office of the Loan Collection Department. As of December 31, 2000, ₩2,727 billion or 3.4% of our total loans and debt securities were under restructuring.

Upon approval of the workout plan, a credit exposure 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, 2000, our ten largest exposures that had been negotiated in workouts, were in composition or were under court receivership.

	As of December 31, 2000						
	Loans						
Company	Won currency	Foreign currency	Equity securities	Debt securities	Guarantees and acceptances	Total exposures	Amounts classified as substandard or below(1)
				(in ₩ billion)			
KOHAP	265	18	1	2	26	312	309
Daewoo Corporation	105	25	—	2	12	144	142
Ssangyong Motor Company	98	25	—	—	5	128	128
Korea Housing Guarantee	100	—	—	11	—	111	100
Korea Non-Bank Lease Finance Company	5	111	—	—	—	116	116
Daewoo Electronics	39	75	—	1	—	115	114
Korea Development Leasing Corporation	79	33	2	—	—	114	112
Dongah Construction Industrial	96	12	—	—	—	108	108
Chohung Capital	4	91	3	—	—	98	95
Kabool Spinning & Textile	83	—	—	—	—	83	81
Total	874	390	6	16	43	1,329	1,305

(1) Based on the Financial Supervisory Commission's asset classifications.

Fast Track Debenture Refinancing Program

Primarily due to the Korean financial and economic crisis starting from late 1997, Korean companies increased the issuance of corporate debt securities to resolve liquidity problems. As a result, Korean companies may be faced with liquidity difficulties in 2001 when these corporate debt securities mature. According to the Financial Supervisory Service, the amount of corporate debt securities maturing in 2001 for Korean companies is estimated to be approximately ₩65 trillion. Excluding the exposures to (i) companies under workouts, corporate reorganizations or compositions to which alternative relief and remedies, as supervised by the creditors and/or the courts, are available and (ii) companies whose debt securities have domestic credit ratings of A or above, which the government believes will not experience difficulties in rolling-over their debt securities, the estimated exposure was ₩25 trillion.

On December 26, 2000, the Korean government announced a policy plan to resolve potential liquidity problems faced by Korean companies. In accordance with this policy, commercial banks, the Korea Development Bank and the Korea Credit Guarantee Fund, which is a government affiliated and controlled fund, entered into an agreement, effective January 4, 2001, to assist seven companies to repay all of their corporate debt securities maturing in 2001 (also referred to as "qualified debt securities") and obtain certain financing in connection with such repayment. The seven companies are Hynix Semiconductor, Hyundai Engineering & Construction, Hyundai Merchant Marine, Hyundai Petrochemical, Koryeo Industrial Development, Ssangyong Cement Industrial and Sung Shin Cement Manufacturing Industrial (also referred to as "qualified companies"). (Koryeo is no longer entitled to this assistance policy since it is now subject to court reorganization proceedings.)

Under the agreement, each of the qualified companies may issue to the Korea Development Bank unsecured debentures (which is included in loans in the balance sheet), with maturities of one year or one and a half years, in the aggregate principal amount of up to 80% of the repayment amount on their qualified debt securities. The actual issuance amount of the debentures may vary depending on the financial condition and cash flow position of each of the qualified companies. Under the agreement, the qualified companies are required to use the entire proceeds from the issuance of the debentures to repay the qualified debt securities and to make up for the shortfall, which is equal to 20% of the repayment amount of the qualified debt securities.

The Korea Development Bank, after purchasing the debentures as initial purchaser, will take the following actions:

- allocate 20% of the debentures to the various commercial banks depending upon the proportion of the qualified debt securities and other exposure to qualified companies held by the commercial banks as of December 31, 2000;
- reserve 70% of the debentures as collateral for the issuance of collateralized bond obligations and collateralized loan obligations guaranteed by the Korea Credit Guarantee Fund; and
- hold 10% of the debentures for its own account.

We estimated our pro rata share of the debentures to be ₩160 billion. As of July 31, 2001, we purchased ₩74 billion of debentures issued by the qualified companies, including ₩39 billion issued by Hynix Semiconductor (of which debentures ₩31 billion have subsequently been swapped for convertible bonds issued by Hynix Semiconductor pursuant to the financial assistance package described under "—Exposure to Chaebols"), ₩6 billion issued by Hyundai Merchant Marine, ₩6 billion issued by Hyundai Engineering & Construction (which debentures have subsequently been swapped for equity issued by Hyundai Engineering & Construction pursuant to the financial assistance package described under "—Exposure to Chaebols"), ₩1 billion issued by Hyundai Petrochemicals, ₩7 billion issued by Ssangyong Cement and ₩16 billion issued by Sung Shin Cement. In connection with these transactions, we have received repayment of ₩285 billion of qualified debt securities. Under the agreement, we estimate that we may be required to purchase additional debentures in the amount of up to ₩86 billion between August 2001 through the end of 2001, including ₩36 billion from Hynix Semiconductor, ₩26 billion from Hyundai Engineering & Construction, ₩15 billion from Sung Shin Cement, ₩18 billion from Hyundai Merchant Marine, ₩3 billion from Ssangyong Cement and ₩7 billion from Hyundai Petrochemical. However, we cannot assure you that our commitment amount will not be increased as a result of an amendment to the agreement, including in accordance with the government's policy.

Provisioning Policy

We base our provisioning on the following loan classifications that classify corporate and consumer loans, with the exception of credit card receivables which are classified based on the number of days past due, as required by the Financial Supervisory Commission:

Loan Classification	Loan Characteristics
Normal	Loans made to customers whose financial position, future cash flows and nature of business are deemed financially sound. No problems in recoverability are expected.
Precautionary	Loans made to customers whose financial position, future cash flows and nature of business show potential weakness, although there is no immediate risk of non-repayment.
Substandard	Loans to customers whose adverse financial position, future cash flows and nature of business have a direct effect on the repayment of the loan.
Doubtful	Loans to customers whose financial position, future cash flows and nature of business are so weak that significant risk exists in the recoverability of the loan, to the extent the outstanding amount exceeds any collateral pledged.
Loss	Loans where write-off is unavoidable.

We consider the following loans to be impaired loans:

- loans classified as "substandard" or below according to the Financial Supervisory Commission's asset classification guidelines;
- loans that are 30 days past due;
- loans to companies that have received a "yellow" warning from the Korean Federation of Banks, which warning indicates that the company has been in arrears for more than three months on loans in the amount of ₩15 million or more; and
- loans which are "troubled debt restructurings" as defined under US GAAP.

We establish specific loan loss allowances for corporate loans based on whether a particular loan is impaired or not. Loan loss allowances for impaired loans are, in general, established by discounting the estimated future cash flow (both principal and interest) we expect to receive on a particular loan. Where the impaired loan or a portion of the impaired loan is secured by collateral or a guarantee, the fair value of the collateral or the guarantee payment is considered in establishing the level of the allowance. Alternatively, for impaired loans that are considered collateral dependent, the amount of impairment is determined by reference to the fair value of the collateral. In addition, for foreign loans which are considered impaired, the fair value has been determined by reference to observable market prices. We also establish allowances for losses for corporate loans that have not been individually identified as impaired. These allowances are based on historical performance and charge-off information.

The following table sets out, at the dates indicated, the percentage of our loan loss reserves allocable to impaired borrowers based on their loan classification.

	As of December 31	
	1999	2000
	(percentages)	
Normal	3.4	3.4
Precautionary	14.2	6.2
Substandard	36.7	26.6
Doubtful	73.1	75.3
Loss	95.9	86.7

For loan losses on consumer loans, we establish allowances based on historical performance, previous loan loss history and charge-off information.

For leases, we establish allowances based on a historical loss analysis adjusted for specific circumstances related to individual borrowers of the leased asset to the borrower and the potential limited resale market for the leased asset.

The actual amount of incurred credit losses may vary from the estimate of incurred losses due to changing economic conditions or changes in industry or geographic concentrations. We have procedures in place to monitor differences between estimated and actual incurred credit losses, which include detailed periodic assessments by senior management of both individual loans and credit portfolios and the models used to estimate incurred credit losses in those portfolios.

Management regularly evaluates the adequacy of the overall allowance for credit losses and we believe that the allowance for credit losses reflects management's best estimate of probable credit losses as of each balance sheet date.

Loan Aging Schedule

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

As of December 31,	Normal		Past due 1-3 months		Past due 3-6 months		Past due more than 6 months		Total
	Amount	%	Amount	%	Amount	%	Amount	%	Amount
	(in ₩ billion, except percentages)								
1998	34,157	81.6	4,229	10.1	2,210	5.3	1,271	3.0	41,867
1999	41,823	93.1	918	2.0	968	2.2	1,236	2.8	44,945
2000	55,992	94.3	1,579	2.7	1,016	1.7	810	1.4	59,397

Non-Performing Loans

Non-performing loans are defined as loans greater than 90 days past due. These loans are generally rated "substandard" or below. For further information on the 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, as of the dates indicated, certain details of our total non-performing loan portfolio.

	As of December 31,		
	1998	1999	2000
	(in ₩ billion, except percentages)		
Total non-performing loans	3,419	2,134	1,762
As a percentage of total loans	8.2%	4.7%	3.0%

The above table does not reflect the amount of loans classified as substandard or below that we sold to Korea Asset Management Corporation in connection with a government program to assist the Korean banking industry and other parties. For details of this transaction, see "Kookmin Bank—Management's Discussion and Analysis of Financial Condition and Results of Operations—Overview—Sales of Substandard or Below Loans to Korea Asset Management Corporation."

Analysis of Non-Performing Loans

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

	As of December 31,		
	1998	1999	2000
	(in ₩ billion)		
Domestic			
Corporate			
Commercial and Industrial	2,147	1,496	1,160
Construction	162	61	142
Lease financing	234	123	116
Other corporate	62	55	17
Total corporate	2,605	1,735	1,435
Consumer			
Credit cards	200	93	98
Mortgage and Real Estate	198	103	86
Other consumer	259	103	80
Total consumer	657	299	264
Total domestic	3,262	2,034	1,699
Foreign			
Corporate			
Commercial and Industrial	157	100	63
Total foreign	157	100	63
Total non-performing loans	3,419	2,134	1,762

Top Twenty Non-Performing Loans

As of December 31, 2000, our twenty largest non-performing loans accounted for 8.2% of our total non-performing loan portfolio. The following table shows, at the date indicated, certain information regarding our twenty largest non-performing loans.

	As of December 31, 2000		
	Industry	Gross principal outstanding	Allowance for loan losses
		(in ₩ billion)	
Borrower A	Construction	27	11
Borrower B	Real Estate and Leasing	13	10
Borrower C	Construction	10	7
Borrower D	Real Estate and Leasing	9	7
Borrower E	Real Estate and Leasing	9	7
Borrower F	Financial Services	8	7
Borrower G	Real Estate and Leasing	8	6
Borrower H	Manufacturing	7	3
Borrower I	Construction	7	2
Borrower J	Construction	7	1
Borrower K	Manufacturing	5	1
Borrower L	Transportation and Storage	5	2
Borrower M	Real Estate and Leasing	5	5
Borrower N	Construction	4	3
Borrower O	Construction	4	1
Borrower P	Manufacturing	4	1
Borrower Q	Real Estate and Leasing	3	2
Borrower R	Transportation and Storage	3	1
Borrower S	Construction	3	1
Borrower T	Manufacturing	3	1
Total		144	79

Non-Performing Loan Strategy

One of our primary objectives is to prevent our loans from becoming non-performing. Through our corporate credit rating system, we believe that we have reduced our risks relating to future non-performing loans. Our credit rating system is designed to prevent our loan officers from extending new loans to borrowers with high credit risks based on the borrower's credit rating. Our early warning system is designed to bring any sudden increase in a borrower's credit risk to the attention of our loan officers, who then closely monitor such loans.

Notwithstanding the above, if a loan becomes non-performing, an officer at the branch level responsible for monitoring non-performing loans will commence due diligence of the borrower's assets, send a notice demanding payment or a notice that we will take legal action and prepare for legal action.

At the same time, we also initiate our non-performing loan management process, which begins with:

- identifying loans subject to a proposed sale by assessing the estimated losses from such sale based on the estimated recovery value of collateral, if any, for such non-performing loans;
- identifying loans subject to charge-off based on the estimated recovery value of collateral, if any, for such non-performing loans and the estimated rate of recovery of unsecured loans; and
- on a limited basis, identifying corporate loans subject to normalization efforts based on the cash-flow situation of the borrower.

Once the details of a non-performing loan are identified, we pursue early solutions for recovery. While the overall process is the responsibility of the Loan Collection Department, actual recovery efforts on non-performing loans are handled by several of our departments or units, depending on the amount of, and the existence of security interest on, such loans. The following table shows the types of non-performing loans and the department or unit responsible for the collection of such loans.

Loan type	Responsible department or unit
Secured or guaranteed loans:	
If the principal amount is less than ₩20 million per borrower	The branch or office that extended the non-performing loan subject to collection efforts.
If the principal amount is equal to or greater than ₩20 million per borrower	The Loan Collection Team within the Loan Collection Department. As of December 31, 2000, the Loan Collection Team had 23 regular employees, who were located in the Loan Collection Department and four regional headquarters.
Unsecured and non-guaranteed loans:	The Loan Collection Agents within the Loan Collection Department. As of December 31, 2000, we had 118 employees operating as our Loan Collection Agents located in the Loan Collection Department and nine regional headquarters. These agents are hired on a fixed term contractual basis and receive compensation based on their performance or recovery of the non-performing loans.
Loans subject to workouts, judicial reorganization or composition proceedings:	The Corporate Restructuring Office is responsible for the recovery of these loans through conversion of debt into equity, restructuring of payment terms and asset sales. Once the corporate borrower's financial condition and operations are normalized, then the loans of such borrower are retransferred to the branch or office from which they originated.

The officers or agents of the responsible departments and units mentioned above use a variety of methods to resolve non-performing loans, including:

- making phone calls and paying visits to the borrower requesting payment;
- performing additional due diligence on the borrower's assets; and
- if necessary, initiating legal action such as foreclosures, attachments and litigation.

In order to promote speedy recovery on loans subject to foreclosures and litigation, our policy is to permit the branch responsible for handling these loans to transfer them to the Loan Collection Department, to one of the regional headquarters or another branch located closer to the courts handling the matter.

For secured or guaranteed loans, or unsecured or non-guaranteed loans with the principal amount equal to or greater than ₩10 million, our policy is to commence legal action within four months after default. For loans to insolvent or bankrupt borrowers, we take legal action immediately. For all other loans, we commence legal action within five months after the default.

In addition to making efforts to collect on these non-performing loans, we also undertake measures to reduce the level of our non-performing loans, which include:

- selling our non-performing loans to third parties including the Korea Asset Management Corporation; and
- entering into asset-backed securitization transactions with respect to our non-performing loans.

Allocation of Allowance for Loan Losses

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,					
	1998		1999		2000	
	(in ₩ billion, except percentages)					
Domestic						
Corporate						
Commercial and Industrial	1,549	60.1%	1,813	69.2%	1,474	61.5%
Construction	172	6.7	135	5.1	174	7.3
Lease financing	148	5.8	82	3.1	97	4.1
Other corporate	36	1.4	116	4.4	108	4.5
Total corporate	1,905	74.0	2,146	81.8	1,853	77.4
Consumer						
Credit cards	76	3.0	43	1.6	115	4.8
Mortgage and Real Estate	108	4.2	77	2.9	86	3.6
Other consumer	289	11.2	134	5.2	146	6.1
Total consumer	473	18.4	254	9.7	347	14.5
Foreign(1)	198	7.6	223	8.5	194	8.1
Total allowance for loan losses	2,576	100.0	2,623	100.0	2,394	100.0

(1) Consists of loans to corporations.

Our total allowance for loan losses increased by ₩47 billion, or 1.8%, from ₩2,576 billion to ₩2,623 billion as of December 31, 1998 and 1999, respectively. During 2000, the allowance for loan losses decreased by ₩229 billion, or 8.7%, to ₩2,394 billion as of December 31, 2000. As of December 31, 1998, 1999 and 2000, 81.6%, 90.3% and 85.5% of our total allowance for loan losses, respectively, were in respect to our corporate loan portfolio (including all foreign loans), which reflects our assessment of the financial difficulties experienced by our corporate borrowers in connection with the economic problems which began in late 1997.

The allowance for corporate loan losses increased by ₩266 billion, or 12.6%, from ₩2,103 billion to ₩2,369 billion as of December 31, 1998 and 1999, respectively, despite a ₩463 billion, or 7.0%, decrease in the level of impaired corporate loans from ₩6,574 billion to ₩6,111 billion. The change in the level of the corporate allowance for loan losses was principally related to the further deterioration in the credit quality of ten large impaired loans, with an aggregate of ₩1,058 billion outstanding as of December 31, 1999. This resulted in an increase to the allowance of ₩211 billion, largely manifested through additional provisions for loan restructurings and workouts. Excluding the effect of these loans and the related specific allowances, the ratio of the allowance for corporate loan losses to outstanding corporate loans remained essentially unchanged at 6.1% as of December 31, 1999 as compared to 6.0% as of December 31, 1998, reflecting the stabilizing effects on our remaining corporate loan portfolio of the improving Korean economy in 1999.

The allowance for corporate loan losses decreased by ₩322 billion, or 13.6%, from ₩2,369 billion to ₩2,047 billion as of December 31, 1999 and 2000, respectively. This change is the result of two counter effects. The first was an increase in the specific allowance related to eight loans that became impaired during 2000 and the second is the improved performance of much of the rest of our corporate loan portfolio. As of December 31, 2000, the aggregate outstanding balances and specific allowances for the eight loans mentioned above amounted to ₩1,024 billion and ₩189 billion, respectively. Despite these large additions to impaired corporate loans and an increase in the outstanding balance of corporate loans from ₩28,347 billion to ₩34,856 billion, the overall level of impaired corporate loans decreased by ₩584 billion from ₩6,111 billion to ₩5,527 billion as of December 31, 1999 and 2000, respectively. This decrease, combined with a reduction in the proportion of loans rated substandard and below to total corporate loans from 15.5% to 13.0%, contributed to a reduction of ₩290 billion in total charge-offs in 2000 relative to 1999. These lower charge-offs, and the resulting reduction in the allowance for corporate loan losses, reflected the sustained improvement in the Korean economy through 2000.

In the consumer sector, our allowance for loan losses decreased 46.3% from ₩473 billion as of December 31, 1998 to ₩254 billion as of December 31, 1999. This decrease is a result of our efforts to identify and charge off consumer loans that we deemed unrecoverable based on our loan charge-off policy. Allowance for loan losses, however, increased 36.6% from ₩254 billion as of December 31, 1999 to ₩347 billion as of December 31, 2000 primarily as a result of increased lending volume, which more than offset the impact of a decrease in non-performing loans.

Analysis of the Allowance for Loan Losses

The following table presents an analysis of our loan loss experience for each of the years indicated.

	As of December 31,	
	1999	2000
	(in ₩ billion, except percentages)	
Balance at the beginning of the period	2,576	2,623
Amounts charged against income	1,010	262
Allowance relating to loans repurchased from the Korea Asset Management Corporation	67	26
Gross charge-offs		
Domestic:		
Corporate		
Commercial and Industrial	530	372
Construction	55	39
Lease financing	109	82
Other corporate	38	56
Consumer		
Credit cards	73	54
Mortgage and Real Estate	34	7
Other consumer	125	53
Foreign	116	67
Total gross charge-offs	(1,080)	(730)

	As of December 31,	
	1999	2000
	(in ₩ billion, except percentages)	
Recoveries:		
Domestic:		
Corporate		
Commercial and Industrial	18	117
Construction	2	8
Lease financing	—	—
Other corporate	—	2
Consumer		
Credit cards	22	47
Mortgage and Real Estate	4	26
Other consumer	3	11
Foreign	1	2
Total recoveries	50	213
Net charge-offs	(1,030)	(517)
Balance at the end of the period	2,623	2,394
Ratio of net charge-offs during the period to average loans outstanding during the period	2.4%	1.0%

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. However, we charge off loans subject to our charge-off policy at an early stage in order to maximize accounting transparency and reduce our non-performing loan ratio.

—Loans To Be Charged-Off

Loans are charged-off if they are deemed to be uncollectible by falling under any of the following categories:

- loans for which collection is not foreseeable due to insolvency or bankruptcy, dissolution or the shutting down of the business of the debtor;
- 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 on which collection is not possible through legal or any other means;
- payments in arrears in respect of credit cards, which are overdue for more than six months;
- payments outstanding on unsecured consumer loans, which have been overdue for more than six months; or
- the portion of loans classified as "estimated loss", net of any recovery from collateral, which is deemed to be uncollectible.

—Procedure for Charge-off Approval

An application for loans to be charged-off is submitted by a branch to the Loan Collection Department on an individual loan basis for loans with a principal amount equal to or greater than ₩30 million and on a portfolio or aggregate basis for loans with a principal amount less than ₩30 million. An application for charge off must be submitted promptly after the loan is classified as estimated loss. The Loan Collection Department evaluates and approves the application. Then, we must seek an approval from the Financial Supervisory Commission for our charge-offs and the Financial Supervisory Commission typically approves our application for charge-offs. At the same time, we refer to the approval of the charge-off by the Loan Collection Department to the Audit & Examination Department of our bank for their review of compliance with our internal procedures for charge-offs. Upon approval by the Financial Supervisory Commission, for loans with a principal amount greater than or equal to ₩1.5 billion, we must get approval from our Management Council.

—Treatment of Loans Charged-Off

Once loans are charged-off, we classify these loans as charged-off loans. We continue our collection efforts in respect of these loans through third-party collection agencies including the Korea Asset Management Corporation, KM Credit Information and Solomon Credit Information.

—Treatment of Collateral

If a collateralized loan is overdue for more than a year, we will petition a court to foreclose and sell the collateral through a court-supervised auction. In our experience, the filing of this petition with the court generally encourages the debtor to repay the overdue loan. If a debtor ultimately fails to repay and the court grants its approval for foreclosure, we will sell the collateral and recover the full principal amount and accrued interest up to the sales price, net of expenses incurred from the auction.

—US GAAP Financial Statement Presentation

Our US GAAP financial statements includes as charges-offs all consumer loans that are overdue for more than six months and all corporate loans classified as a "estimated loss".

Investment Portfolio

—Investment Policy

We invest in and trade Won-denominated and, to a lesser extent, foreign currency-denominated securities for our own account to:

- maintain the stability and diversification of our assets;
- maintain adequate sources of back-up liquidity to match our funding requirements; and
- supplement income from our core lending activities.

Our investment and trading activities in securities are supervised by the International Banking & Capital Market Group and the Risk Management Department. In making securities investments, we take into account a number of factors, including macroeconomic trends, industry 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, we must limit our investments in equity securities to 60.0% of our total Tier I and Tier II capital amount and we must also limit our investments in bonds with a maturity in excess of three years (other than monetary stabilization bonds issued by the Bank of Korea and national government bonds) to 60.0% of our total Tier I and Tier II capital. Generally, we are also prohibited from purchasing or retaining permanent ownership interests in equity securities of other banking institutions or acquiring more than 15.0% of the shares with voting rights issued by any other corporation (other than for the purpose of establishing or acquiring a subsidiary). Further information on the regulatory environment governing our investment activities is set out in "Supervision and Regulation—Principal Regulations Applicable to Banks in Korea—Restrictions on Investments in Property" and "—Restrictions on Shareholdings in Other Companies".

The following table sets out the definitions of the three categories of investments held by us:

Investment Category	Definition
Held-to-maturity securities	Held-to-maturity securities are securities for which we have the positive ability and intent to hold to maturity and 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. Such write-downs are reflected as realized losses in our income statement.
Securities available for sale	Securities are classified as available for sale when our 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. Non-temporary declines in the fair value of securities available for sale below cost result in write-downs of the fair value. Such write-downs are reflected as realized losses in our income statement.
Trading securities	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.

—Book Value and Market Value

The following table sets out the book value and market value of securities in our investment portfolio as of the dates indicated.

	As of December 31, 1998		As of December 31, 1999		As of December 31, 2000	
	Book Value	Market Value	Book Value	Market Value	Book Value	Market Value
			(in ₩ billion)			
Available for Sale						
Equity securities	229	229	565	565	1,563	1,563
Debt securities						
Korean treasury securities and government agencies	3,127	3,127	3,744	3,744	3,536	3,536
Debt securities by financial institutions	1,391	1,391	2,056	2,056	1,549	1,549
Corporate debt securities	812	812	1,055	1,055	1,363	1,363
Debt securities issued by foreign government	69	69	37	37	32	32
Mortgage-backed securities and asset-backed securities	—	—	—	—	157	157
Other debt securities	551	551	710	710	81	81
Total—Available for Sale	6,179	6,179	8,167	8,167	8,281	8,281
Held to Maturity						
Debt securities						
Korean treasury securities and government agencies	3,411	3,600	3,377	3,386	4,855	5,115
Debt securities issued by financial institutions	6,595	6,687	2,813	2,812	2,754	2,764
Corporate debt securities	818	833	434	435	529	544
Debt securities issued by foreign government	272	273	188	204	99	101
Mortgage-backed securities and asset-backed securities	—	—	20	20	766	776
Bond Market Stabilization Fund	—	—	928	947	—	—
Other debt securities	3	3	5	5	1	1
Total—Held to Maturity	11,099	11,396	7,765	7,809	9,004	9,301
Trading						
Equity securities	2,647	2,647	1,393	1,393	149	149
Debt securities						
Korean treasury securities and government agencies	32	32	1,021	1,021	1,755	1,755
Debt securities issued by financial institutions	351	351	734	734	537	537
Corporate debt securities	37	37	152	152	155	155
Debt securities issued by foreign government	6	6	9	9	—	—
Other trading securities	—	—	10	10	—	—
Total—Trading	3,073	3,073	3,319	3,319	2,596	2,596
Total securities	20,351	20,648	19,251	19,295	19,881	20,178

—Maturity Analysis

The following table categorizes our securities by maturity and weighted average yield as of December 31, 2000.

	Within 1 year	Weighted average yield(1)	Over 1 but within 5 years	Weighted average yield(1)	Over 5 but within 10 years	Weighted average yield(1)	Over 10 years	Weighted average yield(1)	Securities not due at a single maturity	Weighted average yield(1)
	(in ₩ billion, except percentages)									
Available for sale										
Korean treasury securities and government agencies	580	10.2%	2,867	10.0%	37	8.2%	—	—	52	9.9%
Debt securities issued by financial institutions	340	7.8	1,120	8.3	79	9.9	10	7.7	—	—
Corporate debt securities	591	9.8	655	8.3	110	5.8	7	1.0	—	—
Debt securities issued by foreign government	4	7.7	5	10.4	23	8.0	—	—	—	—
Mortgage-backed and asset-backed securities	35	9.6	122	8.7	—	—	—	—	—	—
Other debt securities(2)	81	8.3	—	—	—		—	—	—	—
Total	1,631	9.5	4,769	9.4	249	7.8	17	5.2	52	9.9
Held to maturity										
Korean treasury securities and government agencies	430	10.7	4,397	9.0	17	11.3	—	—	11	15.7
Debt securities issued by financial institutions	2,432	7.8	308	8.2	14	7.4	—	—	—	—
Corporate debt securities	200	8.7	293	8.1	35	2.1	1	0.9	—	—
Debt securities issued by foreign government	19	7.7	58	6.3	22	7.7	—	—	—	—
Mortgage-backed and asset-backed securities	196	9.1	565	9.1	5	10.0	—	—	—	—
Other(2)	—	—	1	—	—	—	—	—	—	—
Total	3,277	8.3	5,622	8.9	93	5.4	1	0.9	11	15.7
Trading securities										
Korean treasury securities and government agencies	12	8.1	1,658	7.4	86	7.1	—	—	—	—
Debt securities issued by financial institutions	32	5.9	505	7.1	—	—	—	—	—	—
Corporate debt securities	22	6.8	122	8.9	10	9.8	—	—	—	—
Total	66	6.6	2,285	7.4	96	7.4	—	—	—	—

(1) The weighted average yield for the portfolio represents the yield to maturity for each individual security, weighted using its book value (which is the amortized cost in the case of held to maturity securities and the fair value in the case of available for sale securities).

(2) Other debt securities represent beneficiary certificates issued by other financial institutions.

—Concentrations of Risk

As of December 31, 2000, we held the following securities of individual issuers where the aggregate book value of those securities exceeded 10.0% of our stockholders' equity at such date.

	As of December 31, 2000	
	Book Value	Market Value
	(in ₩ billion)	
Name of issuer:		
Korean Government	4,474	4,552
Korea Deposit Insurance Corporation	3,032	3,159
Bank of Korea	1,973	1,977
Korea Asset Management Corporation	1,190	1,225
The Korea Development Bank	568	573
Korea Land Corporation	424	426
Total	11,661	11,912

Our stockholders' equity as of December 31, 2000 was ₩3,745 billion.

Except for the Korean government, all of these issuers are controlled by the government and the government owns a majority equity interest in the Korea Asset Management Corporation, the Korea Development Bank and Korea Land Corporation.

Credit-Related Commitments

We have other credit-risk concentrations that are not reflected on the balance sheet, which primarily consist of guarantees, commercial letters of credit and unused line of credit. Guarantees include guarantees for loans, debentures, trade financing arrangements and guarantees for other financings.

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

	As of December 31,	
	1999	2000
	(in ₩ billion)	
Guarantees	998	979
Commercial letters of credit	1,031	1,017
Unused lines of credit:		
Commercial(1)	6,130	12,052
Consumer(2)	19,245	41,419
Commitments to extend credit:		
Original term to maturity of more than one year	71	—
Interest rate swaps (unrealized gain)	3	2
Cross currency swaps (unrealized gain)	0.6	0.3

(1) The increase in commercial unused lines of credit as of December 31, 2000 was primarily due to an increase in unused lines of credit for general loans from ₩1,230 billion as of December 31, 1999 to ₩4,129 billion as of December 31, 2000 and an increase in liquidity support for asset securitization vehicles from ₩267 billion as of December 31, 1999 to ₩2,667 billion as of December 31, 2000.

(2) Of this amount, ₩15,795 billion and ₩36,392 billion as of December 31, 1999 and 2000, respectively, relate to the unused credit card limits that may be cancelled by us at any time.

Funding

We obtain funding for our lending activities from a variety of sources, both domestic and foreign. Our principal source of funding is customer deposits. In addition, we acquire funding through call money, borrowings from the Bank of Korea, other short-term borrowings and other long-term debt.

Our primary funding strategy has been to achieve low-cost funding by increasing the average balances of low-cost retail deposits. Customer deposits accounted for 67.3% of total funding as of December 31, 1999, and 70.7% of our total funding as of December 31, 2000.

In addition, we acquire funding through the issuance of bonds. Our borrowings consist mainly of borrowings from financial institutions, the government and government-affiliated funds. 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.

—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.

	1999		2000	
	Average balance(1)	Average rate paid	Average balance(1)	Average rate paid
	(in ₩ billion, except percentages)			
Demand deposits:				
Non-interest bearing	1,568	—%	1,677	—%
Interest-bearing	12,665	2.95	16,321	2.73
Time deposits:				
Certificates	778	6.68	1,878	6.87
Other time deposits	18,958	8.49	23,840	7.47
Savings deposits	2,535	9.98	2,820	9.54
Mutual installment deposits(2)	3,575	9.12	4,676	8.77
Average total deposits	40,079	6.52	51,212	5.93

(1) Average balances represent quarterly balances.

(2) Mutual installment deposits are interest-bearing deposits offered by us which enable customers to become eligible for our loans while they maintain an account with us. The customer's account does not have to secure loan amounts once made but is a requirement for loan eligibility. Prior to qualifying for a loan a customer must make required periodic 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 "Kookmin Bank—Business Overview—Retail Banking—Deposit-Taking Activities."

—Certificates of Deposit and Other Time Deposits

The following table presents the balance and remaining maturities of time deposits, certificates of deposit and mutual installment deposits which had a fixed maturity in excess of ₩100 million or more as of December 31, 2000.

	As of December 31, 2000			
	Certificates of deposit	Other time deposits	Mutual installment deposits	Total
	(in ₩ billion)			
Maturing within three months	1,104	6,169	276	7,549
After three but within six months	1,197	3,337	428	4,962
After six but within 12 months	53	2,288	357	2,698
After 12 months	—	393	360	753
Total	2,354	12,187	1,421	15,962

A majority of our time certificates of deposits and other time deposits issued by our foreign offices is in the amount of US$100,000 or more.

—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,	
	1999	2000
	(in ₩ billion, except percentages)	
Call Money		
Year-end balance	1,333	581
Average balance(1)	1,215	1,214
Maximum balance	1,541	879
Average interest rate(2)	5.68%	5.11%
Year-end interest rate	0.90–7.75%	5.50–6.85%
Borrowings from the Bank of Korea(3)		
Year-end balance	1,196	860
Average balance(1)	1,397	892
Maximum balance	2,192	1,122
Average interest rate(2)	4.51%	4.71%
Year-end interest rate	3.00–8.50%	3.00–8.50%
Other short-term borrowings(4)		
Year-end balance	3,619	5,509
Average balance(1)	2,713	4,049
Maximum balance	4,837	6,740
Average interest rate(2)	7.56%	7.38%
Year-end interest rate	4.0–10.39%	5.4–9.98%

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

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

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

(4) Other short-term borrowings include borrowings from trust accounts, bills sold, borrowings in domestic and foreign currency, short-term secured borrowings 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 and call money. These short-term borrowings are secured by government securities totaling ₩1,829 billion as of December 31, 2000.

Properties

Our registered office and corporate headquarters are located at 9-1, 2-ga, Namdaemoon-ro, Jung-gu, Seoul 100-703, Korea. The office building has an area of approximately 23,084 square meters. In addition to our registered headquarters, we have two adjoining headquarter buildings in Yoido, Seoul, Korea, with areas of approximately 33,616 square meters and 11,372 square meters.

In addition, we own three training institute buildings in Korea, one located in Ilsan with an area of approximately 12,223 square meters built on a 207,659 square meter site, another located in Daechon with an area of approximately 7,363 square meters built on a 4,158 square meter site and the third located in Sokcho with an area of approximately 14,029 square meters built on a 15,584 square meter site. We also own a complex in Seoul, Korea which houses our IT center, which has an area of approximately 17,270 square meters.

As of December 31, 2000, we had a countrywide network of 591 branches. 204 of these facilities are housed in buildings owned by us, while the 387 remaining branches are leased properties. We also have subsidiaries in Hong Kong, Luxembourg and the United Kingdom and branches in Argentina, Japan, New Zealand and the United States. We do not own any material properties outside of Korea.

The net book value of all the properties owned by us at December 31, 2000 was ₩1,153 billion.

Legal Proceedings

We and our subsidiaries are not a party to any legal or administrative 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.

Major Stockholders

The following table presents information regarding the beneficial ownership of our shares at December 31, 2000 by each person or entity known to us to own beneficially more than 5% of our outstanding shares.

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

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

Beneficial Owner	Number of shares of common stock	Percentage of total shares of common stock (%)
Goldman Sachs Capital Koryo, L.P.[(1)]	33,176,344	11.07%
The Government of Korea[(2)]	19,407,241	6.48
The Bank of New York[(3)]	18,598,517	6.21

(1) Includes 162,994 shares of common stock owned by Goldman Sachs International and excludes 16,961,310 shares of common stock which may be obtained by Goldman Sachs Capital Koryo, L.P. upon conversion of US$200 million in convertible bonds.

(2) The Korea Deposit Insurance Corporation currently owns 24,000,000 shares of our preferred stock, which, unless repurchased by us, can be converted into an equal number of shares of common stock. We intend to repurchase these shares of our preferred stock from the Korea Deposit Insurance Corporation prior to the merger.

(3) As depositary bank.

As of December 31, 2000, directors and their affiliates, including the Chairman, President and CEO, collectively owned 2,439,581 shares of our common stock and our executive officers, excluding our Chairman, President and CEO, owned 11,293 shares of our common stock.

Other than as set forth above, no other person or entity known by us to be acting in concert, directly or indirectly, jointly or separately, owned 5.0% or more of the outstanding shares of our common stock or exercised control or could exercise control over us as of December 31, 2000.

Under the terms of the investment agreement, (i) we are required to use our best efforts to cause one nominee of Goldman Sachs Capital Koryo to be appointed as a non-executive director to our board of directors and, our board of directors is required to use its best efforts to nominate and recommend an additional nominee of Goldman Sachs Capital Koryo for election as a non-executive director when such position becomes available and (ii) for so long as Goldman Sachs Capital Koryo's investment meets a minimum threshold, we are required to consult with it before we or any of our subsidiaries enter into any agreement or understanding with respect to (A) a merger, including the merger with H&CB, share exchange or consolidation involving any financial institution or (B) the acquisition of a substantial portion of the assets of any other financial institution. Pursuant to the investment agreement, we will pursue the merger with H&CB or any other merger or other significant transactions described above only if Goldman Sachs Capital Koryo agrees with us that the transaction is in our best interest and in the best interest of our shareholders.

Compensation of Directors and Officers

The aggregate of the remuneration paid and benefits-in-kind paid by us to the Chairman, President and CEO, our other executive director, our non-executive directors and our executive officers for the year ended December 31, 2000 was ₩2,307 million. In addition, for the year ended December 31, 2000, we set aside ₩352 million for allowances for severance and retirement benefits for the Chairman, President and CEO, the other executive director, and our executive officers.

In addition, we have granted stock options to our Chairman, President and CEO and other directors and executive officers as described below. In 2000, we recognized ₩148 million as compensation expense for the stock options granted under our incentive stock option plan.

In 2000, our Chairman, President and CEO was granted an option to purchase 70,000 shares of common stock at an exercise price of ₩13,900 per share. During 2001, he also was granted an option to purchase 70,000 shares of common stock at an exercise price of ₩16,600 per share. However, the 2001 option grant is conditional with respect to 20,000 shares of common stock and this option will only be exercisable if certain conditions are met with respect to the price of our common stock on the Korea Stock Exchange.

In 2000, our other executive director was granted an option to purchase 25,000 shares of common stock at an exercise price of ₩13,900 per share, and in 2001 was granted an option to purchase 25,000 shares of common stock at an exercise price of ₩16,600 per share.

Our executive officers, except our Chairman, President and CEO and our other executive director, each received during 2000 an option to purchase 20,000 shares of common stock at an exercise price of ₩13,900 per share. Each of these executive officers also received during 2001 an option to purchase 20,000 shares of common stock at an exercise price of ₩16,600 per share.

During 2000, each of our non-executive directors was granted an option to purchase 5,000 shares of common stock at an exercise price of ₩13,900 per share. During 2001, each non-executive director was granted an option to purchase 5,000 shares of common stock at an exercise price of ₩16,600 per share.

During 2001, personnel in managerial positions (other than our executive officers) were granted options to purchase an aggregate of 83,000 shares of common stock at an exercise price of ₩16,600 per share.

All the stock options granted in 2000 are exercisable during a two-year period starting from the third anniversary of the day after the option grant date. The option grant date for these options was March 18, 2000.

All stock options granted to directors and officers in 2000 were approved at the shareholders' meeting held in March 2000. However, such stock options were declared to be invalid by the Seoul Court of Appeals on June 19, 2001 as a result of a claim that such options were granted at the shareholders' meeting in March 2000 without complying with Korean law procedures relating to the holding of a shareholders' meeting. On July 6, 2001 we appealed the decision to the Supreme Court of Korea. However, the agenda for our extraordinary general meeting will include ratification of these stock options granted in March 2000.

All of the options granted to date in 2001 are exercisable during a five-year period starting from the third anniversary of the day after the option grant date. The option grant date for these options was March 15, 2001.

Related Party Transactions

We regularly engage in transactions with entities affiliated with the government, which owns 6.48% of our shares. Generally, these transactions include the extension of loans, the purchase of debt securities and other ordinary course activities relating to our banking business.

As of December 31, 1998, 1999 and 2000 and June 30, 2001, respectively, we had an aggregate of ₩289 million, ₩295 million, ₩476 million and ₩75 million, respectively, in loans outstanding to our executive officers and directors. In addition, as of December 31, 1998, 1999 and 2000 and June 30, 2001, respectively, we had an aggregate of ₩33 billion, ₩22 billion, ₩0.6 billion and ₩2 billion, respectively, in loans and ₩22 billion, ₩51 billion, ₩20 billion and ₩42 billion, respectively, in guarantees outstanding to a company and its affiliates for which one of our non-executive directors is the chief executive officer. All these loans and guarantees were made in the ordinary course of business.

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.

H&CB

Unless otherwise indicated, all references in this section to "we", "us" and "our" are to H&CB.

Selected Financial Information

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, 1999 and 2000 and as of December 31, 1998, 1999 and 2000 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, independent accountants.

You should read the following data with the more detailed information contained in "H&CB—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 results for any future period. All per share data have been restated to reflect the effects of stock dividends.

Consolidated income statement data

	Year ended December 31,			
	1998	1999	2000	2000(1)
	(in ₩ billion, except per common share data)			(in US$ million, except per common share data)
Interest and dividend income	4,571	4,242	5,255	4,148
Interest expense	(3,200)	(2,817)	(3,452)	(2,725)
Net interest income	1,371	1,425	1,803	1,423
Provision for loan losses, guarantees and acceptances	(396)	(298)	(377)	(297)
Non-interest income	531	790	636	502
Non-interest expense	(1,274)	(1,109)	(1,309)	(1,033)
Income tax expense	(102)	(267)	(244)	(193)
Minority interest	(2)	—	(3)	(2)
Net income	128	541	506	400
Per common share data:				
Net income—basic (in ₩/US$)(2)	1,249	4,753	4,218	3.33
Net income—diluted (in ₩/US$)(3)(4)	1,242	3,116	3,569	2.82
Weighted average common shares outstanding—basic (in thousands of common shares)	102,451	113,748	119,969	—
Weighted average common shares outstanding—diluted (in thousands of common shares)	102,961	173,497	141,778	—
Cash dividend declared per common share (₩/US$)(5)	500	—	150	0.11
Common shares outstanding at the end of the year	89,233	109,063	119,969	

(1) Won amounts are expressed in U.S. Dollars at the rate of ₩1,267/US$1.00, the noon buying rate in effect on December 31, 2000.

(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 directors and 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. 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	2000	2000[(1)]
	(in ₩ billion)			(in US$ million)
Cash and deposits	1,871	1,599	1,484	1,171
Restricted deposits	663	931	426	336
Call loans and securities purchased under resale agreements	467	76	720	568
Trading assets	1,184	2,371	2,549	2,012
Securities available for sale	7,768	4,360	5,782	4,564
Held-to-maturity securities	225	2,660	2,182	1,722
Loans, net	25,110	30,869	44,927	35,460
Premises and equipment, net	677	745	827	653
Other assets	2,372	1,666	2,059	1,625
Total assets	40,337	45,277	60,956	48,110
Deposits	27,544	33,379	47,279	37,316
Short-term borrowings	2,621	2,225	2,267	1,789
Secured borrowings	1,437	533	1,247	984
Long-term debt	4,759	3,776	3,703	2,923
Other liabilities	3,867	3,608	4,097	3,233
Total liabilities	39,228	43,521	58,593	46,245
Minority interest	6	—	7	5
Stockholders' equity	1,103	1,756	2,356	1,860
Total liabilities, minority interest and stockholders' equity	40,337	45,277	60,956	48,110

(1) Won amounts are expressed in U.S. Dollars at the rate of ₩1,267/US$1.00, the noon buying rate in effect on December 31, 2000.

Profitability ratios

	As of December 31,		
	1998	1999	2000
	(percentages)		
Net income as a percentage of:			
Average total assets[(1)]	0.34	1.29	0.91
Average stockholders' equity[(1)]	14.98	34.61	25.88
Dividend payout ratio[(2)]	25.11	—	2.93
Net interest spread[(3)]	3.26	3.10	2.95
Net interest margin[(4)]	3.85	3.58	3.44
Cost-to-income ratio[(5)]	66.98	50.07	53.67
Cost-to average assets ratio[(6)]	3.39	2.65	2.36

(1) Average balances are based upon quarterly balances.

(2) Represents the ratio of total cash dividends paid on common stock as a percentage of net income.

(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	1999	2000
	(percentages)		
Total capital adequacy (BIS) ratio for H&CB[(1)]	10.79	11.74	9.92[(2)]
Tier 1 capital adequacy ratio	5.64	6.93	5.48
Tier 2 capital adequacy ratio	5.15	4.81	4.57
Average stockholders' equity as a percentage of average total assets	2.27	3.72	3.52

(1) Our capital adequacy ratios are computed in accordance with the guidelines issued by the Financial Supervisory Service. The computation is based on our consolidated financial statements prepared in accordance with Korean GAAP. See "H&CB—Management's Discussion and Analysis of Financial Condition and Results of Operations—Financial Condition—Capital".

(2) We have a minority equity investment in 2000 in ING Life Insurance Korea Co., which is deducted from total capital pursuant to the guidelines of the Financial Supervisory Service instead of being deducted directly from Tier 1 or Tier 2.

Asset quality ratios

	As of December 31,		
	1998	1999	2000
	(percentages)		
Non-performing loans as a percentage of total loans(1)	9.97	7.59	4.55
Non-performing loans as a percentage of total assets(1)	6.47	5.39	3.45
Allowance for loan losses as a percentage of non-performing loans	47.91	52.75	62.58
Allowance for loan losses as a percentage of total loans	4.78	4.01	2.85

(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 three years.

	Year ended December 31,								
	1998			1999			2000		
	Average Balance(1)	Interest Income(2)(3)(5)	Average Yield	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%	796	62	7.79%
Call loans and securities purchased under resale agreements	981	160	16.31	416	25	6.01	674	36	5.34
Trading securities(6)	214	12	5.61	1,501	130	8.66	2,346	118	5.03
Investment securities(4)(6)	5,953	766	12.63	7,585	676	9.20	8,406	803	9.18
Loans									
Credit Cards	811	138	17.02	947	165	17.42	1,993	351	17.61
Construction loans	1,848	259	14.02	1,776	212	11.94	1,075	95	8.84
Households—residential mortgages	16,125	2,096	13.00	16,093	1,934	12.02	22,669	2,401	10.59
Households—other consumer loans	2,074	319	15.38	4,338	505	11.64	5,569	670	12.03
Corporate—other	5,742	651	11.34	5,421	460	8.49	8,530	712	8.35
Other interest-earning assets	379	48	12.66	374	31	8.29	378	7	1.85
Total interest-earning assets	35,547	4,571	12.86	39,778	4,242	10.66	52,436	5,255	10.02
Cash and due from banks	1,025			1,169			1,542		
Foreign exchange contracts and derivatives	99			94			119		
Premises and equipment	676			731			779		
Due from customers on acceptance	403			265			314		
Loan loss allowance	(761)			(1,285)			(1,262)		
Other non-interest earning assets	623			1,219			1,536		
Total average non-interest earning Assets	2,065			2,193			3,028		
Total average assets	37,612	4,571	12.15	41,971	4,242	10.11	55,464	5,255	9.47

	Year ended December 31,								
	1998			1999			2000		
	Average Balance(1)	Interest Expense(5)	Average Yield	Average Balance(1)	Interest Expense(5)	Average Yield	Average Balance(1)	Interest Expense(5)	Average Yield
	(in ₩ billion, except percentages)								
Liabilities									
Interest bearing Liabilities									
Deposits									
Demand deposits	4,571	155	3.39%	6,370	169	2.65%	8,212	184	2.24%
Certificate of deposits	704	108	15.34	63	4	6.35	54	3	5.56
Time deposits	13,580	1,474	10.85	18,159	1,599	8.81	27,875	2,229	8.00
Savings deposits	473	28	5.92	777	31	3.99	977	38	3.89
Mutual installment deposits	5,645	550	9.74	4,957	474	9.56	4,370	425	9.73
Call money	665	67	10.08	383	19	4.96	662	29	4.38
Borrowings from Bank of Korea	1,403	158	11.26	485	16	3.30	73	4	5.48
Other short-term borrowings	1,250	138	11.04	947	94	9.93	1,215	101	8.31
Secured borrowings	624	74	11.86	489	27	5.52	1,657	113	6.82
Long-term debt	4,417	448	10.14	4,646	384	8.27	3,723	326	8.76
Total average interest-bearing Liabilities	33,332	3,200	9.60	37,276	2,817	7.56	48,818	3,452	7.07
Non Interest bearing liabilities									
Demand deposits	92			124			135		
Foreign exchange contracts and derivatives	105			11			9		
Acceptances to customers	403			265			314		
Other non-interest bearing liabilities	2,826			2,733			4,233		
Total average non-interest bearing liabilities	3,426			3,133			4,691		
Total average liabilities	36,758	3,200	8.71	40,409	2,817	6.97	53,509	3,452	6.45
Stockholders' equity	854			1,562			1,955		
Total Liabilities and equity	37,612	3,200	8.51	41,971	2,817	6.71	55,464	3,452	6.22

(1) Average balances are based (a) for H&CB, on daily balances and (b) for subsidiaries and US GAAP adjustments to all such balances, on quarterly balances.

(2) The amount of loan fees included in the interest income computation are ₩312 million for the year ended December 31, 2000, ₩135 million for the year ended December 31, 1999 and ₩98 million for the year ended December 31, 1998.

(3) Interest income figures include interest income recognized 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	2000
Net interest spread(1)	3.26%	3.10%	2.95%
Net interest margin(2)	3.85%	3.58%	3.44%
Asset liability ratio(3)	106.65%	106.71%	107.41%

(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 and for 2000 compared to 1999. 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			Fiscal 2000 vs. Fiscal 1999		
	Increase/(decrease) due to changes in			Increase/(decrease) due to changes in		
	Volume	Rate	Total	Volume	Rate	Total
	(in ₩ billion)					
Interest-earning assets						
Cash and interest-earning deposits	(8)	(10)	(18)	(41)	(1)	(42)
Call loans and securities purchased under resale agreements	(64)	(71)	(135)	14	(3)	11
Trading securities	108	10	118	56	(68)	(12)
Investment securities	143	(233)	(90)	128	(1)	127
Loans						
Credit cards	24	3	27	184	2	186
Construction loans	(10)	(37)	(47)	(71)	(46)	(117)
Households—residential mortgages	(4)	(158)	(162)	717	(246)	471
Households—other consumer loans	279	(93)	186	148	13	161
Commercial and industrial	(35)	(156)	(191)	260	(8)	252
Other interest earning assets	(1)	(16)	(17)	—	(24)	(24)
Total interest income	432	(761)	(329)	1,395	(382)	1,013
Interest-bearing liabilities						
Deposits						
Demand deposits	52	(38)	14	44	(29)	15
Certificate of deposits	(63)	(41)	(104)	(1)	(0)	(1)
Other time deposits	437	(312)	125	788	(158)	630
Savings deposits	14	(11)	3	8	(1)	7
Mutual installment deposits	(66)	(10)	(76)	(57)	8	(49)
Call money and securities sold under repurchase agreements	(22)	(26)	(48)	12	(2)	10
Borrowings from Bank of Korea	(68)	(74)	(142)	(19)	7	(12)
Other short-term borrowings	(31)	(13)	(44)	24	(17)	7
Secured borrowings	(13)	(34)	(47)	78	8	86
Long-term debt	22	(86)	(64)	(80)	22	(58)
Total interest expense	262	(645)	(383)	797	(162)	635
Total net interest income	170	(116)	54	598	(220)	378

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.

Trend Information

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. 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 Korean 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. During 2000 and in particular, the fourth quarter of 2000, the economic recovery of Korea slowed. The economic indicators in the first half of 2001 have been mixed, and it is uncertain as to how the Korean economy will perform in the near term.

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 Korean government ordered 12 commercial banks that did not meet the minimum capital adequacy ratio requirements as of December 31, 1997, to submit to the Korean Financial Supervisory Commission a detailed plan for improving their capital adequacy ratio to 8% within two years. After reviewing these plans, the Financial Supervisory Commission determined that five of the 12 banks were no longer commercially viable. The Financial Supervisory Commission 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 Financial Supervisory Commission 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 Financial Supervisory Commission 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 the Korea Asset Management Corporation and bonds issued by the Korea Asset Management Corporation 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 Korean government to promote low-income housing; and
- payment of ₩681 billion in cash from the Korea Deposit Insurance Corporation which we used to purchase bonds issued by the Korea Deposit Insurance Corporation 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 Korean government, through the Korea Deposit Insurance Corporation, 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. The Korea Deposit Insurance Corporation paid us cash for the shares of preferred stock which we used to purchase the Korea Deposit Insurance Corporation bonds in an aggregate principal amount of ₩297 billion, which mature in March 2004 and bear interest at 1% 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 the Korea Deposit Insurance Corporation, we have the right to repurchase the shares of preferred stock purchased by the Korea Deposit Insurance

Corporation 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 Korea Deposit Insurance Corporation owns 17,790,000 shares of our preferred stock, which we plan to repurchase prior to the merger. We pay dividends on this preferred stock at a rate of 1% per year.

Under the terms of the purchase agreement with the Korea Deposit Insurance Corporation, if we do not repurchase 8,895,000 shares of the outstanding 17,790,000 shares of preferred stock currently owned by the Korea Deposit Insurance Corporation 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 the Korea Deposit Insurance Corporation. 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 Korea Deposit Insurance Corporation would represent 14.0% of our common stock on a fully diluted basis.

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.

—Sale of certain loans and other assets to the Korea Asset Management Corporation

In connection with the acquisition of DongNam, we were granted the right to sell to the Korea Asset Management Corporation 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 the Korea Asset Management Corporation 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 the Korea Deposit Insurance Corporation the difference between that price and the value of the assets when we acquired them. Alternatively, we could request compensation from the Korea Asset Management Corporation 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 the Korea Asset Management Corporation 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 the Korea Asset Management Corporation any loans or assets purchased from DongNam.

—Sales of Substandard or Below Loans to the Korea Asset Management Corporation

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 Korean government required the Korea Asset Management Corporation 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 the Korea Asset Management Corporation 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 the Korea Asset Management Corporation, recording a loss of ₩8 billion;
- in September 1998, we sold an aggregate of ₩299 billion substandard or below loans to the Korea Asset Management Corporation, recording a loss of ₩61 billion;
- in December 1999, we sold an aggregate of ₩8 billion substandard or below loans to the Korea Asset Management Corporation, recording a loss of ₩2 billion; and
- in 2000, we did not sell any substandard or below loans to the Korea Asset Management Corporation.

Pursuant to the purchase agreement with the Korea Asset Management Corporation, the purchase price of the substandard or below loans can be adjusted by the Korea Asset Management Corporation 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, the Korea Asset Management Corporation can require us to repurchase any substandard or below loan we have sold to them in the event that:

- 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 the Korea Asset Management Corporation 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 the Korea Asset Management Corporation to exercise its right to require us to repurchase loans sold is without limit. As of December 31, 2000, we had been required to repurchase loans in an aggregate amount of ₩75 billion from the Korea Asset Management Corporation (₩47 billion net of loan loss allowances). As of December 31, 2000 we had guaranteed ₩59 billion of loans against which we had recorded a recourse liability of ₩2 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. Even if we merge with Kookmin Bank, some of the banks resulting from these other mergers may be 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. See "Risk Factors—Risks relating to the combined business of Kookmin Bank and H&CB—Competition in the Korean banking industry is intense, and New Kookmin may experience declining margins on its business as a result. "Risk Factors—Risks relating to Korea—Structural reforms occurring in the Korean economy and financial sector may have a substantial impact on the business of New Kookmin" and "H&CB—Business Overview—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—Risks relating to H&CB's business—H&CB now faces full competition in its core mortgage business, which may result in a further decrease of its market share and adversely affect New Kookmin's margins".

Exposure to Chaebols and the Korea Housing Guarantee Co., Ltd.

We have significant exposure to chaebols and to the Korea Housing Guarantee Co., Ltd. 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 Korea Housing Guarantee Co., Ltd. has experienced substantial liquidity problems. If the quality of the credits extended to chaebols declines or if the Korea Housing Guarantee Co., Ltd. fails to resolve its financial problems, substantial additional allowances may be required, which would adversely affect our results of operations. See "H&CB—Business Overview—Assets and Liabilities—Concentration of Total Exposure", "Risk Factors—Risks relating to the combined business of Kookmin Bank and H&CB—Kookmin Bank and H&CB have exposure to the largest Korean commercial conglomerates known as "chaebols" and, as a result, recent and any future financial difficulties of chaebols may have an adverse impact on us" and "—Risks relating to H&CB's business—H&CB's largest exposure is to the Korea Housing Guarantee Co., Ltd, which has experienced substantial financial difficulties".

Housing Finance Credit Guarantee Fund

Prior to January 1, 1999, we managed the Housing Finance Credit Guarantee Fund 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 Korean government's restructuring plan to merge and dissolve various government funds, the management of the Housing Finance Credit Guarantee Fund was transferred to the Korea Credit Guarantee Fund. We received a management fee for managing the Housing Finance Credit Guarantee Fund until the end of 1998. The fee we received was equal to 1% per year of the average guarantee balance guaranteed by the Housing Finance Credit Guarantee Fund. The Housing Finance Credit Guarantee Fund 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 Housing Finance Credit Guarantee Fund, we earned fees of ₩9 billion. We continue to receive a fee from the Housing Finance Credit Guarantee Fund for underwriting mortgage loans which they guarantee. This fee is equal to 20% of the annual guarantee fees (net of fines and penalties) the Housing Finance Credit Guarantee Fund receives on these loans. In the years ended December 31, 1999 and 2000, these fees amounted to ₩4 billion and ₩4.5 billion, respectively.

Changes in Exchange Rates, Interest Rates and Securities Valuations

Exchange rates, interest rates and stock prices fluctuated significantly in Korea during 1998, 1999 and 2000. 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, known as "KOSPI", the Won to U.S. Dollar exchange rates and benchmark Won borrowing interest rates for the periods indicated.

	Mar. 31, 1998	June 30, 1998	Sep. 30, 1998	Dec. 31, 1998	Mar. 31, 1999	June 30, 1999	Sep. 30, 1999	Dec. 31, 1999	Mar. 31, 2000	June 30, 2000	Sept. 30, 2000	Dec. 31, 2000	Mar. 31, 2001	June 30, 2001
KOSPI	481.04	297.88	310.32	562.46	618.98	883.00	836.18	1,028.07	860.94	821.22	613.22	504.62	523.22	595.13
Won/US$ exchange rates[(1)]	1,386	1,376	1,393	1,206	1,228	1,157	1,217	1,136	1,106	1,115	1,115	1,267	1,332	1,303
Benchmark interest rates[(2)]	20.28%	18.00%	11.90%	8.00%	8.10%	7.96%	9.95%	9.95%	10.19%	9.59%	9.23%	8.45%	8.00%	7.43%

(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 Market Stabilization Fund 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 contributed ₩872 billion in cash to the Bond Market Stabilization Fund. In exchange for our contribution, we received an 8.1% interest in the Bond Market Stabilization Fund.

On March 27, 2000, the Korean government elected to dissolve the Bond Market Stabilization Fund in advance of the scheduled maturity and distributed most of the securities held within the Bond Market Stabilization Fund to the participating financial institutions. We received cash of ₩872 billion and purchased certain securities totaling ₩846.7 billion previously held by the Bond Market Stabilization Fund and cash of approximately ₩7.8 billion. The total fair value of all investments sold to participating financial institutions was approximately ₩26.6 trillion. These securities consisted of national and local government bonds, financial debentures issued by government-invested corporations and corporate bonds with credit ratings of mostly A or higher as rated by Korean credit rating agencies.

On dissolution of the Bond Market Stabilization Fund, a portion of the securities previously held by the Bond Market Stabilization Fund were transferred to two trusts, which we refer to as the "Trusts", and we received a 100% of the interest in one of the trusts, known as "Trust I". Trust I is separately identifiable from the other trust, known as "Trust II", is managed by a third party and received ₩23.6 billion of assets from the Bond Market Stabilization Fund. We consolidate Trust I. We manage Trust II which is beneficially owned by the other participating financial institutions. Trust II received ₩273.4 billion of assets from the Bond Market Stabilization Fund.

As part of the dissolution agreement, the participating financial institutions agreed that any losses experienced by the participants on their share of investments purchased from the Bond Market Stabilization Fund would be shared with other participating financial institutions according to their share of the Trusts until August 31, 2002, the scheduled maturity of the trusts. The mechanism by which this operates is that in the event that any of the purchased investments go through court receivership, workout or mediation, the participating financial institutions holding those securities are able to sell these securities to the Trusts at the fair value calculated by using the yield on the dissolution date. The Money Trust Committee, consisting of six participating financial institutions including H&CB and Kookmin Bank, has the authority to approve the repurchase of securities by the Trusts. As we own approximately 7.94% of the Trusts in total, we are exposed to 7.94% of the potential loss on securities which are sold back to the Trusts. The dissolution agreement does not address commitments to purchase investments which exceed the assets of the Trusts.

In April 2001, the Money Trust Committee trustees approved a repurchase by the Trusts of securities issued by Hyundai Engineering & Construction Co., Ltd. with a total face amount of ₩234.0 billion for ₩238.0 billion.

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 "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".

Operating Results

Net Interest Income

The following table shows, for the periods indicated, the principal components of our net interest income.

	Year ended December 31,			Year ended December 31,	
	1998	1999	2000	1998/1999	1999/2000
	(in ₩ billion)			(% change)	
Interest income and dividends					
Interest and fees on loans	3,463	3,276	4,229	(5.4)	29.1
Interest and dividends on investment securities	766	676	803	(11.7)	18.8
Interest and dividends on trading securities	12	130	118	983.3	(9.2)
Call loans and securities purchased under resale agreements	160	25	36	(84.4)	44.0
Interest from deposits in other banks	122	104	62	(14.8)	(40.4)
Other interest income	48	31	7	(35.4)	(77.4)
Total interest and dividend income	4,571	4,242	5,255	(7.2)	23.9

	Year ended December 31,			Year ended December 31,	
	1998	1999	2000	1998/1999	1999/2000
	(in ₩ billion)			(% change)	
Interest expense					
Deposits	2,315	2,277	2,879	(1.6)	26.4
Call money	67	19	29	(71.6)	52.6
Other borrowed funds	296	110	105	(62.8)	(4.5)
Secured borrowings	74	27	113	(63.5)	318.5
Long-term debt	448	384	326	(14.3)	(15.1)
Total interest expense	3,200	2,817	3,452	(12.0)	22.5
Net interest income	1,371	1,425	1,803	3.9	26.5
Net interest margin(1)	3.85%	3.58%	3.44%	(7.0)	(3.9)

(1) The ratio of net interest income to average interest earning assets. See "H&CB — Selected Financial Information—Selected Statistical Information—Average Balance Sheet and Related Interest".

—Comparison of 2000 to 1999

Net interest income increased 26.5% from ₩1,425 billion in 1999 to ₩1,803 billion in 2000 as a result of a 23.9% increase in interest income, which more than offset a 22.5% increase in interest expense.

Interest income. Interest income increased 23.9% from ₩4,242 billion in 1999 to ₩5,255 billion in 2000 principally due to a ₩12,658 billion increase in the average volume of interest earning assets from ₩39,778 billion in 1999 to ₩52,436 billion in 2000, which more than offset a decline of 64 basis points in the gross yield on interest earning assets from 10.66% in 1999 to 10.02% in 2000.

Interest and fees on loans increased 29.1% from ₩3,276 billion in 1999 to ₩4,229 billion in 2000 primarily due to a 39.4% increase in the average loan volume from ₩28,575 billion in 1999 to ₩39,836 billion in 2000. Our loan growth was due to an increase in the average volume of all of our loan categories except construction loans. The loan growth was due to increased loan demand, as we were able to offer lower interest rates compared to most banks and other financial institutions in Korea because funding from deposits, which is a relatively inexpensive form of funding, increased significantly in 2000 as described below. The increase in deposits also provided us with the opportunity to increase our lending volume. The loan growth more than offset the result of a decline in the gross yield from 11.46% in 1999 to 10.62% in 2000. The gross yield decreased as a result of the decrease in the general levels of interest rates due to the general slowdown in the growth of the Korean economy in 2000.

Interest income on investment securities increased 18.8% from ₩676 billion in 1999 to ₩803 billion in 2000. Our investment securities portfolio consists primarily of debt securities issued or guaranteed by the Korean government and the increase in interest income in 2000 was primarily due to an increase in the average volume of these securities which more than offset a slight decrease in gross yield. The average volume of investment securities increased 10.8% from ₩7,585 billion in 1999 to ₩8,406 billion in 2000 as a result of the fact that our funding increased in 2000 due to an increase in deposits and we used a portion of the increase to invest in investment securities. The gross yield on our investment securities decreased from 9.20% in 1999 to 9.18% in 2000.

Interest income on call loans and securities purchased under resale agreements increased 44.0% from ₩25 billion in 1999 to ₩36 billion in 2000. The increase was due to an increase in average volumes which more than offset a decrease in gross yields. The average volume increased 62.0% from ₩416 billion in 1999 to ₩674 billion in 2000 as a result of increased demand, as many people transferred their deposits from banks they perceived as weaker to banks they perceived as stronger, which in turn led to increased demand by such banks for call loans from us to meet their liquidity requirements.

The increase in interest income from loans, investment securities and call loans and securities purchased under resale agreements was partially offset by decreases in interest income on cash and interest-bearing deposits in other banks and interest and dividend income on trading securities. Interest income on cash and interest bearing deposits in other banks decreased from ₩104 billion in 1999 to ₩62 billion in 2000 primarily as a result of a decrease in average volume. The average volume of our cash and interest bearing deposits in other banks decreased from ₩1,327 billion in 1999 to ₩796 billion in 2000. Interest and dividend income on trading securities decreased from ₩130 billion in 1999 to ₩118 billion in 2000, as lower average yields more than offset higher average balances. The decline in interest rates together with the general slowdown in the growth of the Korean economy resulted in lower yielding assets in 2000.

Interest Expense. Interest expense increased 22.5% from ₩2,817 billion in 1999 to ₩3,452 billion in 2000, as a result of a ₩11,542 billion increase in the average volume of interest bearing liabilities from ₩37,276 billion in 1999 to ₩48,818 billion in 2000, which more than offset a decline of 49 basis points in the cost of interest bearing liabilities from 7.56% in 1999 to 7.07% in 2000.

Interest expense on deposits increased 26.4% from ₩2,277 billion in 1999 to ₩2,879 billion in 2000. The increase was primarily the result of an increase in the average volume of interest bearing deposits, which more than offset a decrease in the average interest rates paid on our interest bearing deposits. The average volume of interest-bearing deposits increased 36.8% from ₩30,326 billion in 1999 to ₩41,488 billion in 2000. The increase was primarily due to a 53.5% increase in the average volume of time deposits other than certificates from ₩18,159 billion in 1999 to ₩27,875 billion in 2000 and a 28.9% increase in the average volume of interest bearing demand deposits from ₩6,370 billion in 1999 to ₩8,212 billion in 2000. 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. The average interest rate paid on our time deposits other than certificates, which accounted for 67.2% of our average interest-bearing liabilities in 2000, decreased from 8.81% in 1999 to 8.00% in 2000. The average interest rate paid on our interest-bearing demand deposits, which accounted for 19.8% of our average interest-bearing liabilities in 2000, decreased from 2.65% in 1999 to 2.24% in 2000.

The average balance of other borrowed funds decreased 10% to ₩1,288 billion in 2000 from ₩1,432 billion in 1999. As a result, interest expense on other borrowed funds decreased 4.5% to ₩105 billion in 2000 from ₩110 in 1999. The average balance of secured borrowings increased 238.9% to ₩1,657 billion in 2000 from ₩489 billion in 1999, which resulted in an increase in interest expense of 318.5% to ₩113 billion in 2000 from ₩27 billion in 1999. Secured borrowing consist primarily of bonds collateralized by certain of our loans and securities, and secured deposits. In 2000, we entered into three collateralized borrowing facilities totalling ₩519 billion, where we issued bonds collateralized by certain of our loans and securities.

Interest expense on long-term debt decreased 15.1% from ₩384 billion in 1999 to ₩326 billion in 2000 as a result of decreases in volume, which more than offset an increase in interest rate by 49 basis points. Our average borrowing rate increased because of our issuance of approximately ₩666 billion of finance debentures at rates between 8.65% and 9.65%. Interest expense from call money increased 52.6% from ₩19 billion in 1999 to ₩29 billion in 2000, primarily as a result of increases in volume.

Net interest margin. Primarily as a result of falling interest rates in Korea, our net interest margin decreased 3.9% from 3.58% in 1999 to 3.44% in 2000. 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.

—Comparison of 1999 to 1998

Net interest income increased 3.9% from ₩1,371 billion in 1998 to ₩1,425 billion in 1999 as a result of a 12.0% decrease in interest expense which more than offset a 7.2% decrease in interest income.

Interest income. Interest income decreased 7.2% from ₩4,571 billion in 1998 to ₩4,242 billion in 1999 as a result of the following factors:

- a decline of 220 basis points in the gross yield on interest earning assets from 12.86% in 1998 to 10.66% 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 5.4% from ₩3,462 billion in 1998 to ₩3,276 billion in 1999 as a result of a decline in the gross yield from 13.02% in 1998 to 11.46% 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 Bank of Korea, 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 Bank of Korea decreased from ₩1,403 billion in 1998 to ₩485 billion in 1999. The level of borrowings from the Bank of Korea was higher in 1998 as a result of the fact that the Bank of Korea made low cost funding available on 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 Bank of Korea 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 Bank of Korea decreased from 11.3% in 1998 to 3.3% in 1999.

Interest expense on long-term debt decreased 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. Primarily as a result of falling interest rates in Korea, our net interest margin decreased 7.0% from 3.85% in 1998 to 3.58% 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.

Provision 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, provision increased to ₩378 billion in 2000 primarily due to the increase in loan volume. The following table shows, for the periods indicated, certain information regarding our non-performing loans.

	As of December 31,		
	1998	1999	2000
	(in ₩ billion, except percentages)		
Total non-performing loans(1)	2,628	2,440	2,104
Non-performing loans as a percentage of total loans(1)	10.0	7.6	4.6
Non-performing loans as a percentage of total assets(1)	6.5	5.4	3.5
Allowance for loan losses as a percentage of non-performing loans(1)	47.9	52.7	62.6
Allowance for loan losses as a percentage of total loans	4.8	4.0	2.9

(1) Non-performing loans are defined as those loans which are past due more than 90 days.

As of December 31, 2000, the balance of allowances for loan losses increased 2.3% from ₩1,287 billion in 1999 to ₩1,327 billion in 2000 while loan volume increased 43.8%. The contributing factors for these changes were an increase in loan charge-offs in 2000 and an increase in consumer loan volume, which are reserved at lower ratios than commercial loans.

The following table shows, for the periods indicated, our total loan loss allowance by category of borrower.

	As of December 31,		
	1998	1999	2000
	(in ₩ billion)		
Commercial and industrial	844	871	1,063
Construction	301	237	43
Household			
Residential mortgages	17	19	21
Other consumer loans	45	92	117
Credit cards	52	68	72
Total	1,259	1,287	1,317

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	2000
Impaired loans to total commercial loans	47.6%	38.9%	25.5%
Allowance for commercial loan losses to commercial loans	15.7%	15.4%	10.8%
Allowance for commercial loan losses to impaired loans	33.0%	39.6%	39.5%

For further information on the volume of lending to these individualized loan categories see, "H&CB—Business Overview—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 "H&CB—Business Overview—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 Korea Housing Guarantee Co., Ltd. See "H&CB—Business Overview—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 Korea Housing Guarantee Co., Ltd. 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.

During 2000, we experienced a significant decline in the level of our impaired loans. Factors contributing to such decline include lower incidence of defaults, the results of our improved credit evaluation model and new underwriting policies implemented in 1999, completion of an asset securitization transaction, and implementation of government regulations which identified impaired borrowers and required charge-off of these loans. Results of the underwriting policies implemented in 1999 have allowed us to identify impaired loans more quickly and limit further credit extension to these borrowers as we apply a more stringent credit analysis and have become more responsive to changes in the condition of the borrower or its industry. We were also successful in completion of an asset securitization transaction in December 2000. We sold ₩162 billion of non-performing loans to a special purpose vehicle in exchange for cash proceeds of ₩76 billion, thereby decreasing the amount of impaired loans held at year end. Furthermore, in accordance with a mandate by the Korean Financial Supervisory Commission, all Korean banking institutions were required to charge-off loans to certain borrowers. Although we classified these loans as impaired and had reserves against the balances, this government-sponsored mandate decreased our impaired loans and related allowances and contributed to our increase of loans charged offs. As a result, we experienced a significant increase in the amount of commercial loans charged off compared to 1999. In addition, the general slowdown in the growth of the Korean economy in 2000 has allowed us to identify and focus on individual impaired borrowers. We have assessed each borrower's ability to repay its outstanding loans and in some situations have determined collection to be remote.

The following table shows, for the periods indicated, certain information regarding our non-performing loans to the consumer sector including loans to individuals, credit card loans and residential mortgage loans.

	As of December 31,		
	1998	**1999**	**2000**
Non-performing consumer loans to total consumer loans	9.8%	6.6%	2.7%
Allowance for consumer loan losses to total consumer loans	0.6%	0.7%	0.6%
Allowance for consumer loan losses to non-performing consumer loans	6.1%	10.8%	21.6%

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. In 2000, we charged off ₩92 billion in non-performing consumer loans. Due to these additional charge-offs, the proportion of non-performing consumer loans to total consumer loans decreased from 6.6% in 1999 to 2.7% in 2000. The proportion of allowances for consumer loan losses to total consumer loans decreased slightly but the proportion of allowances for consumer loan losses to non-performing consumer loans increased to 21.6% due to the reduced non-performing loan balance following the a significant charge-offs.

During 2000, the ratio of allowance for loan loss to total loans for credit card and other retail loans fell as a result of a significant increase in new loans, most of which were current as of December 31, 2000 and the improvement in the quality of our consumer loans due to improved economic conditions.

Non-Interest Income

The following table sets forth for the periods indicated the components of our non-interest income.

	Year ended December 31,			Year ended December 31,	
	1998	**1999**	**2000**	**1998/1999**	**1999/2000**
	(in ₩ billion)			**(% change)**	
Trust fees	156	162	106	3.8	(34.6)
Commission received on management of the NHF and other funds	146	156	163	6.8	(4.5)
Other fees and commission income	103	142	217	37.9	52.8
Net trading revenue	81	157	154	93.8	(1.9)
Net gain (loss) on securities	17	53	(131)	231.3	(347.2)
Other non-interest income	29	121	127	310.2	(5.0)
Total non-interest income	531	791	636	49.0	(19.6)

—Comparison of 2000 to 1999

Our non-interest income decreased 19.6% from ₩791 billion in 1999 to ₩636 billion in 2000. We had net losses on securities of ₩131 billion in 2000 compared to a net gain of ₩53 billion in 1999. In 2000, our capital market activities incurred net losses due to the negative performance of the stock market in Korea. In addition, losses on impairment of debt securities increased 358% in 2000 primarily due to debt securities holdings in Daewoo and Samsung Motors.

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, decreased 34.6% from ₩162 billion in 1999 to ₩106 billion in 2000 due primarily to a 25.7% decrease in the balance of our trust account assets from ₩8,279 billion in 1999 to ₩6,151 billion in 2000. 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;
- exclusion of performance money trusts from the Korea Deposit Insurance Corporation's insurance coverage; and
- a drop in yields as a result of a decrease in interest rates.

Other fees and commission income increased 52.8% from ₩142 billion in 1999 to ₩217 billion in 2000. The main contributing factor for this increase resulted from fees and commissions income related to our credit card operations. The credit card average balance increased 110.5% to ₩1,993 billion in 2000 from ₩947 billion in 1999.

Net trading revenue decreased 1.9% from ₩157 billion in 1999 to ₩154 billion in 2000. Net trading revenue represents net realized and unrealized gains on securities and derivatives in our trading portfolio.

Commissions received on management of the National Housing Fund and other funds increased 4.5% from ₩156 billion in 1999 to ₩163 billion in 2000. These commissions consist primarily of the commissions we receive for managing the National Housing Fund. These commissions increased from ₩152 billion in 1999 to ₩159 billion in 2000 as a result of an increase in the assets of the National Housing Fund.

Other non-interest income increased from ₩121 billion in 1999 to ₩127 billion in 2000.

—Comparison of 1999 to 1998

Our non-interest income increased 49.0% 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. 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 ₩16 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 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 "H&CB—Business Overview—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 National Housing Fund 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 National Housing Fund. These commissions increased from ₩137 billion in 1998 to ₩152 billion in 1999 as a result of an increase in the assets of the National Housing Fund.

Non-Interest Expense

The following table shows, for the periods indicated, the components of our non-interest expense.

	Year ended December 31,			Year ended December 31,	
	1998	**1999**	**2000**	**1998/1999**	**1999/2000**
	(in ₩ billion)			**(% change)**	
Salaries and employee benefits	610	518	509	(15.1)	(1.7)
Trust performance payments	206	53	95	(74.3)	79.2
Equity net loss of affiliates	6	20	3	233.3	(84.8)
Depreciation and amortization	62	76	107	22.6	40.8
Administrative expenses	126	159	238	26.2	49.7
Loss on sale of loans	61	1	20	(98.4)	1,900.0
Credit card fees	14	20	37	42.9	85.0
Other fees and commission expenses	87	109	162	25.3	48.6
Taxes and dues	31	33	37	6.5	12.1
Other non-interest expenses	71	120	101	69.0	(15.8)
Total non-interest expense	1,274	1,109	1,309	(13.0)	18.0

—Comparison of 2000 to 1999

Non-interest expense increased 18.0% from ₩1,109 billion in 1999 to ₩1,309 billion in 2000. The increase was primarily due to substantial increases in administration expenses, loss on sale of loans, trust performance guarantees and depreciation and amortization.

Administrative expenses, which include professional fees, consulting fees, marketing expenses and data processing costs, increased 49.7% from ₩159 billion in 1999 to ₩238 billion in 2000 due to our utilization of additional consulting services, our increased marketing activities and the upgrade of our information technology.

Our loss on sale of loans of ₩20 billion in 2000 primarily relate to losses recognized on the sale of non-performing loans through an asset-backed facility.

Trust performance payments expense increased from ₩53 billion in 1999 to ₩95 billion in 2000. 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. The expense in 2000 related to amounts we paid under these guarantees to reimburse investors for losses they experienced as a result of a weaker stock market in Korea. Depreciation and amortization increased 40.8% from ₩76 billion in 1999 to ₩107 billion in 2000. In 2000, we purchased approximately ₩104 billion of equipment including our computer systems which led to increased depreciation. In addition, amortization expense for the goodwill of Jooeun Leasing Co. was ₩10.9 billion in 2000.

Salaries and employee benefits decreased 1.7% from ₩518 billion in 1999 to ₩509 billion in 2000. The number of our regular employees decreased from 8,286 employees as of December 31, 1999 to 8,145 employees as of December 31, 2000, and the number of our contractual employees decreased from 4,165 contractual employees as of December 31, 1999 to 3,711 contractual employees as of December 31, 2000.

Other non-interest expense decreased 15.8% from ₩120 billion in 1999 to ₩101 billion in 2000, primarily due to reduced expenses related to costs of homes sold by Jooeun Industrial from ₩62 billion in 1999 to ₩50 billion in 2000.

—Comparison of 1999 to 1998

Non-interest expense decreased 13.0% from ₩1,274 billion in 1998 to ₩1,109 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 ₩53 billion in 1999. See "H&CB—Business Overview—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 the Korea Asset Management Corporation in accordance with the Korean government's program to assist financial institutions in Korea. See "H&CB—Management's Discussion and Analysis of Financial Condition and Results of Operations—Trend Information—The Acquisition of DongNam Bank—Sales of Substandard or Below Loans to the Korea Asset Management Corporation". The decrease in 1999 results from the fact that we sold significantly fewer loans to the Korea Asset Management Corporation in 1999 as compared to 1998.

Administrative expenses, depreciation and amortization and other fees and commission expenses increased during 1999. Administrative expenses 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 the Korea Deposit Insurance Corporation 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 22.6% from ₩62 billion in 1998 to ₩76 billion in 1999 as a result of acquisitions of furniture, equipment and leasehold improvements.

Other non-interest expenses increased 69.0% from ₩71 billion in 1998 to ₩120 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

—Comparison of 2000 to 1999

Income tax expense decreased from ₩268 billion in 1999 to ₩244 billion in 2000 as a result of our decreased income. The statutory tax rate was 30.8% in each of 1999 and 2000. Our effective rate of income tax decreased slightly from 33.1% in 1999 to 32.4% in 2000.

As a result of the above, our net income was ₩506 billion in 2000 as compared to ₩541 billion in 1999.

—Comparison of 1999 to 1998

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 four major business segments: Retail Banking, Credit Card, Corporate Banking and Treasury and Investment Management. We did not classify Credit Card as a separate segment until 2000. Financial information for 1999 has been restated for comparison purposes. Separate segment financial information for credit cards in 1998 is not available. 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,			Year ended December 31,	
	1998	**1999**	**2000**	**1998(1)/1999**	**1999/2000**
	(in ₩ billion)			(% change)	
Interest income	2,450	2,298	3,061	(6.2)	33.2
Interest expense	(1,317)	(1,309)	(1,841)	(0.6)	40.6
Provision for loan losses	(74)	(18)	(69)	(75.7)	283.3
Non-interest income	46	—	2		
Non-interest expense including depreciation	(797)	(616)	(659)	(22.7)	7.0
Segment result	308	355	494	15.3	39.2

(1) The result of the Credit Card operations is included in retail banking in 1998.

—Comparison of 2000 to 1999

Our Retail Banking segment products include consumer loans and mortgages, deposits and other savings and investment products. Our overall segment result increased 39.2% from ₩355 billion in 1999 to ₩494 billion in 2000.

Interest income from retail banking activities increased 33.2% from ₩2,298 billion in 1999 to ₩3,061 billion in 2000. We have continued to carry 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.

Interest expense increased 40.6% from ₩1,309 billion in 1999 to ₩1,841 billion in 2000. The volume of deposit and savings products has increased significantly as customers continue to withdraw their deposits from banks they perceive to be weaker, and open accounts with banks they perceive to be stronger, such as us. However, this was partially offset by the lower interest rates paid on these products as the general level of interest rates fell.

Non-interest income increased from ₩0 billion in 1999 to ₩2 billion in 2000.

Non-interest expense, which includes depreciation, increased by 7.0% from ₩616 billion in 1999 to ₩659 billion in 2000.

—Comparison of 1999 to 1998

Our overall Retail Banking segment result increased 15.3% from ₩308 billion in 1998 to ₩355 billion in 1999. Had we included the result of our Credit Card segment in 1999, our overall Retail Banking segment result would have been ₩429 billion.

Interest income from retail banking activities decreased 6.2% from ₩2,450 billion in 1998 to ₩2,298 billion in 1999. Had we included the result of Credit Card segment in 1999, our interest income would have been ₩2,461 billion. Lower lending rates in the domestic market resulting from stabilized market conditions after the economic crisis of 1997 and 1998 offset a significant increase in consumer loans during the year. 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.

Interest expense decreased 0.6% from ₩1,317 billion in 1998 to ₩1,309 billion in 1999. Had we included the result of our Credit Card segment in 1999, our interest expense would have been ₩1,377 billion. 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 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 decreased from ₩46 billion in 1998 to none in 1999. Had we included the result of our Credit Card segment in 1999, our non-interest income would have been ₩63 billion. 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 22.7% from ₩797 billion in 1998 to ₩616 billion in 1999. Had we included the result of Credit Card segment in 1999, our non-interest expense would have been ₩687 billion. We had lower severance benefit liabilities in 1999 following the fall in headcount at the end of 1998.

Credit Cards

	Year ended December 31,		Year ended December 31,
	1999	2000	1999/2000
	(in ₩ billion)		(% change)
Interest income	162	333	105.6
Interest expense	(68)	(135)	98.5
Provision for loan losses	(13)	(45)	246.2
Non-interest income	66	108	63.6
Non-interest expense including depreciation	(73)	(98)	34.2
Segment result	74	163	120.3

—Comparison of 2000 to 1999

Our Credit Card segment handles domestic as well as overseas credit and debit card operations. Our overall segment result increased by 120.3% from ₩74 billion in 1999 to ₩163 billion in 2000 due to the 110.5% increase in average credit card balance discussed below.

Interest income increased 105.6% from ₩162 billion in 1999 to ₩333 billion in 2000 due to a 110.5% increase in average credit card balance from ₩947 billion in 1999 to ₩1,993 billion in 2000, together with higher average yield.

Interest expense increased 98.5% from ₩68 billion in 1999 to ₩135 billion in 2000 due to an increased average credit card balance described above. Interest expense is calculated based on internal transfer cost for the use of funds.

Non-interest income increased 63.6% from ₩66 billion in 1999 to ₩108 billion in 2000. Non-interest income is derived from commissions and fees which are charged based on the balance of credit and the frequency of usage, both of which increased. Non-interest expense, which includes depreciation, increased 34.2% from ₩73 billion in 1999 to ₩98 billion in 2000 due to the increased fees and commissions paid to other banks and credit card companies for our credit card transactions.

Corporate Banking

	Year ended December 31,			Year ended December 31,	
	1998	**1999**	**2000**	**1998/1999**	**1999/2000**
	(in ₩ billion)			**(% change)**	
Interest income	968	655	825	(32.3)	26.0
Interest expense	(663)	(410)	(563)	(38.2)	37.3
Provision for loan losses	(749)	(302)	(287)	(59.7)	(5.0)
Non-interest income	664	359	364	(46.0)	1.4
Non-interest expense including depreciation	(429)	(236)	(356)	(45.0)	50.8
Segment result	(209)	66	(17)	(131.6)	(125.8)

—Comparison of 2000 to 1999

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 went from a profit of ₩66 billion in 1999 to a loss of ₩17 billion in 2000.

The segmental loss in 2000 was due to the provision for losses against our commercial loans, guarantees and acceptances.

Interest income increased 26.0% from ₩655 billion in 1999 to ₩825 billion in 2000 due to higher volumes of corporate lending, which was partially offset by lower interest rates. Interest expense represents the internal transfer cost for the use of funds. As a result, increased volume caused interest expense to increase by 37.3% from ₩410 billion in 1999 to ₩563 billion in 2000.

Non-interest income increased 1.4% from ₩359 billion in 1999 to ₩364 billion in 2000.

Non-interest expense, which includes depreciation, increased 50.8% from ₩236 billion in 1999 to ₩356 billion in 2000, primarily due to increases in expenses related to 43.8% increase in corporate loan volume. In addition, contributions to Credit Guarantee Fund increased 77.8% in 2000.

—Comparison of 1999 to 1998

Our overall Corporate Banking 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 U.S. 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 U.S. Dollar was less significant in 1999 compared to 1998.

Treasury and Investment Management

	Year ended December 31,			Year ended December 31,	
	1998	1999	2000	1998/1999	1999/2000
	(in ₩ billion)			(% change)	
Interest income	904	872	910	(3.5)	4.4
Interest expense	(823)	(897)	(905)	9.0	0.9
Provision for loan losses	—	—	25	—	100.0
Non-interest income	160	217	274	35.6	26.3
Non-interest expense including depreciation	(388)	(268)	(227)	(30.9)	(15.3)
Segment result	(147)	(76)	77	48.3	(201.3)

—Comparison of 2000 to 1999

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 ₩76 billion in 1999 to a profit of ₩77 billion in 2000.

Interest income increased 4.4% from ₩872 billion in 1999 to ₩910 billion in 2000. Our investments in interest-bearing securities increased as a result of increased funding available from our deposit base, which more than offset lower yields as a result of declining interest rates in Korea.

Interest expense increased by 0.9% from ₩897 billion to ₩905 billion, as higher funding levels were partially offset by reduction in interest rates.

Non-interest income increased 26.3% from ₩217 billion in 1999 to ₩274 billion in 2000 due to increased gains on our securities portfolios. Non-interest expense, which includes depreciation, decreased 15.3% from ₩268 billion in 1999 to ₩227 billion in 2000 due to lower administrative expenses in 2000 which resulted from the transfer of our trading activity to Jooeun Investment Management Trust Co., Ltd. Administration expenses incurred by Jooeun Investment Management Trust Co., Ltd. are included in our "Other" segment.

—Comparison of 1999 to 1998

Our Treasury and Investment Management 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,			Year ended December 31,	
	1998	**1999**	**2000**	**1998/1999**	**1999/2000**
	(in ₩ billion)			**(% change)**	
Cash and due from banks and other financial institutions	1,665	1,281	1,154	(23.1)	(9.9)
Restricted deposits	663	931	426	40.4	(54.2)
Interest-bearing deposits in other banks	206	318	330	54.4	3.8
Call loans and securities purchased under resale agreements	467	76	720	(83.7)	847.4
Trading assets	1,184	2,371	2,549	100.3	7.5
Securities available for sale	7,768	4,360	5,782	(43.9)	32.6
Held-to-maturity securities	225	2,660	2,182	1,082.2	(18.0)
Loans[(1)]	26,354	32,134	46,208	21.9	43.8
Premises and equipment, net	677	744	827	9.9	11.2
Due from customers on acceptances	382	265	363	(30.6)	37.0
Accrued interest and dividend receivable	485	378	381	(22.1)	0.8
Security deposits	566	511	517	(9.7)	1.2
Other assets	939	512	798	(45.5)	55.9
Total assets	41,581	46,541	62,237	11.9	33.7

(1) Before adjustment for deferred origination costs and allowance for loan losses.

Our assets increased from ₩41,581 billion in 1998 to ₩46,541 billion in 1999 and ₩62,237 billion in 2000 principally due to increased lending. Our loans increased from ₩26,354 billion in 1998 to ₩32,134 billion in 1999 and ₩46,208 billion in 2000. This increase was due largely to an increase in consumer lending. Consumer lending increased from ₩19,061 billion in 1998 to ₩24,938 billion in 1999 and ₩36,627 billion in 2000. Residential mortgage lending increased from ₩15,890 billion in 1998 to ₩17,246 billion in 1999 and ₩20,987 billion in 2000. Installment loans to individuals increased from ₩302 billion in 1998 to ₩2,266 billion in 1999 and ₩4,675 billion in 2000. Commercial lending decreased from ₩7,292 billion in 1998 to ₩7,196 billion in 1999 but increased to ₩10,581 billion in 2000. The increase in overall 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 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 but decreased to ₩2,182 billion in 2000 generally resulting from maturities and redemptions of such securities. Our trading assets increased from ₩1,184 billion in 1998 to ₩2,371 billion in 1999 and ₩2,548 billion in 2000. The first full year of our expanded securities trading activities was 1999.

The growth in these assets was offset, in part, by a 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. In 2000, our securities available for sale increased to ₩5,782 billion primarily due to the reinvestment of proceeds from held-to-maturity securities and purchases of securities from increased funding sources. Cash and due from banks and other financial institutions decreased from ₩1,665 billion in 1998 to ₩1,281 billion in 1999 and ₩1,154 billion in 2000.

For further information on our assets, see "H&CB—Business Overview—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,			Year ended December 31,	
	1998	1999	2000	1998/1999	1999/2000
	(in ₩ billion)			(% change)	
Due to depositors					
Non-interest bearing	177	109	94	(38.4)	(13.8)
Interest bearing	27,367	33,270	47,185	21.6	41.8
Call money	179	758	51	323.5	(93.3)
Trading liabilities	19	4	31	(78.9)	675.0
Other borrowed funds	2,879	1,466	2,216	(49.1)	51.2
Acceptances outstanding	382	265	364	(30.6)	37.4
Accrued interest and dividends payable	2,333	2,523	2,678	8.1	6.1
Other liabilities	1,133	816	1,024	(28.0)	25.5
Secured borrowings	437	534	1,247	22.2	133.5
Long-term debt	4,759	3,775	3,703	(14.5)	(1.9)
Total liabilities	39,228	43,521	58,593	10.9	34.6
Minority interest	6	—	7	(100.0)	100.0
Total stockholders' equity	1,103	1,756	2,356	43.6	34.2
Total liabilities, minority interest, and stockholders' equity	40,337	45,277	60,956	12.2	34.6

Our total liabilities increased from ₩39,228 billion in 1998 to ₩43,521 billion in 1999 and ₩58,593 billion in 2000. The increase was primarily due to an increase in interest bearing deposits and, to a lesser extent, secured borrowings which was partially offset by a decrease in long term debt.

Our interest bearing deposits increased from ₩27,367 billion in 1998 to ₩33,270 billion in 1999 and ₩47,185 billion in 2000 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. Our secured borrowings increased more than 134% from ₩534 billion in 1999 to ₩1,247 billion in 2000, as we entered into three collateralized borrowing facilities totalling ₩519 billion where we issued bonds collateralized by certain of our loans and securities.

Our long term debt decreased from ₩4,759 billion in 1998 to ₩3,775 billion in 1999 and ₩3,703 billion in 2000. This was due primarily to the maturing of domestic and foreign currency debt 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 Korea Deposit Insurance Corporation in connection with the acquisition of DongNam Bank. As of December 31, 2000, the number of shares of such preferred stock decreased to 17,790,000. However, our investment in Korea Deposit Insurance Corporation bonds offsets the preferred stock since both instruments are related to the same transaction. In January and February 2000, we purchased 41,510,000 shares of preferred stock from the Korea Deposit Insurance Corporation and we have the right to repurchase the remainder prior to January 31, 2004.

For further information on our sources of funding, see "H&CB—Business Overview—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 Korean Financial Supervisory Service, which have been formulated based on the capital adequacy accord reached by the Basle Committee of Banking Supervision, Bank for International Settlements (BIS) 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 special mention 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 Korean Financial Supervisory Service.

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 Financial Supervisory Service and BIS guidelines.

	Year ended December 31,			Year ended December 31,	
	1998	1999	2000	1998/1999	1999/2000
	(in ₩ billion)			(% change)	
Tier 1 capital	1,113	1,794	2,088	61.2	16.4
Tier 2 capital	1,014	1,244	1,739	22.7	39.8
Less: Investment in non-consolidated subsidiary—		—	(47)		100.0
Total capital	2,127	3,037	3,780	42.8	24.5
On-balance sheet risk weighted assets	18,563	24,927	35,596	34.3	42.8
Off-balance sheet risk weighted assets	1,141	944	2,507	(17.3)	165.6
Total risk weighted assets	19,704	25,871	38,103	31.3	47.3
Tier I capital adequacy ratio	5.64	6.93	5.48		
Tier II capital adequacy ratio	5.15	4.81	4.57		
Total capital adequacy ratio	10.79	11.74	9.92(1)		

(1) We have a minority equity investment in 2000 in ING Life Insurance Korea Co., which is deducted from total capital pursuant to the guidelines of the Financial Supervisory Service instead of being deducted directly from Tier 1 or Tier 2.

Prior to the merger, we plan to repurchase all of the remaining 17,790,000 shares of preferred stock for ₩89 billion issued to the Korea Deposit Insurance Corporation in connection with our acquisition of DongNam Bank. 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 Financial Supervisory Commission 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 "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 "H&CB—Business Overview—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 ₩27,543 billion, ₩33,379 billion and ₩47,279 billion in 1998, 1999 and 2000, which represented approximately 78%, 84% and 87% 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 ₩3,059 billion, ₩2,379 billion and ₩2,266 billion for 1998, 1999 and 2000 and represented 9%, 6% and 4% of our total funding, respectively. 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. These borrowings amounted to ₩2,228 billion, ₩1,998 billion and ₩2,030 billion for 1998, 1999 and 2000 and represented 47%, 49% and 55% of our total long term debt or 6%, 5% and 4 % of our total funding, respectively.

Recent Accounting Pronouncements

SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities"

In June 1998, the Federal Accounting Standards Board, known as "FASB", issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133) as amended by Statement of Financial Accounting Standards No. 137 "Accounting for Derivative Instruments and Hedging Activities—Deferral of Effective Date of Financial Accounting Standards Board Statement No. 133", and Statement of Financial Accounting Standards No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities—an amendment of SFAS No. 133". SFAS No. 133 establishes accounting and reporting standards for derivative financial instruments, including certain derivatives used for hedging activities and derivatives embedded in other contracts. SFAS No. 133 is effective for us beginning January 1, 2001. Adjustments resulting from initial adoption of the new standards will be reported in a manner similar to the cumulative effect of a change in accounting principle and will be reflected in net income or accumulated other comprehensive income based upon existing hedging relationships, if any.

SFAS No. 133 requires all derivatives to be recognized on the balance sheet at fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, depending on the type of hedge transaction. Derivatives which are not designated as hedging instruments are adjusted to fair value through current-period earnings.

For fair-value hedge transactions in which H&CB is hedging changes in an asset's, liability's, or firm commitment's fair value, changes in the fair value of the derivative instrument should generally be offset in the income statement by changes in the hedged item's fair value for the risk being hedged.

For cash-flow hedge transactions in which H&CB is hedging the variability of cash flows related to a variable-rate asset, liability, or a forecasted transaction, changes in the fair value of the derivative instrument are reported in other comprehensive income. The gains and losses on the derivative instrument that are reported in other comprehensive income are reclassified as earnings in the periods in which earnings are impacted by the variability of the cash flows of the hedged item. The ineffective portion of all hedges will be recognized in current-period earnings.

We may make changes to risk management strategies outside of our trading activities, and it also anticipates a significant increase in the complexity of the accounting and record keeping requirements for these hedging activities.

The FASB and the Derivative Implementation Group continue to deliberate additions to SFAS No. 133. Their conclusions and the effects may require changes in H&CB's interpretation of the standard and affect our accounting in this area. Adoption of this standard may cause volatility in quarterly earnings and equity, prospectively, due to the methods used to measure hedges and our decision to no longer apply hedge accounting to certain business strategies.

SFAS No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities"

In September 2000, the FASB issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities—a replacement of SFAS No. 125". SFAS No. 140 revises the standards for accounting for securitisations, other transfers of financial assets, collateral and restricts the use of special purpose vehicles in transfers. SFAS No. 140 requires certain new disclosures, but it carries over most of SFAS No. 125's provisions without reconsideration. Generally, the new provisions of this standard are to be applied prospectively and became effective March 31, 2001. However, certain recognition and classification requirements for collateral and disclosures for collateral and securitisation transactions are required as of December 31, 2000 and have been adopted by H&CB. Adoption of the remaining provisions of this revised accounting standard is not expected to have a material impact on H&CB.

Jooeun Leasing

On January 20, 2000, H&CB acquired an additional 35% of Jooeun Leasing Co., Ltd. through a debt to equity swap bringing H&CB's total ownership to 85%. The swap was the result of a memorandum of understanding between Jooeun Leasing and its creditors. H&CB converted its loans to Jooeun Leasing to an equity investment in the amount of ₩82.3 billion on January 20, 2000 and, correspondingly, Jooeun Leasing issued 16.4 million shares of its common stock to H&CB.

As of December 31, 2000, H&CB holds 85% and included the net assets of the Jooeun Leasing and related minority interest in its consolidated balance sheet as of the acquisition date. The purchase of the additional 35% has been accounted for under the purchase method and accordingly, the results of operations for Jooeun Leasing have been incorporated in H&CB's consolidated statement of income from the date of acquisition.

Net liabilities of Jooeun Leasing at the date of acquisition was ₩37.0 billion. The excess of consideration given over the net assets acquired has been recorded as goodwill of ₩54.6 billion. The goodwill will be amortized using the straight-line method over a period of 5 years. In accordance with the memorandum of understanding related to the transaction, Jooeun Leasing's maturities on debt of ₩244.2 billion were extended until the end of 2005.

The memorandum of understanding requires H&CB to provide two additional loans in the amount of ₩100 billion upon request by Jooeun Leasing. Loans totalling ₩47 billion have been extended as of March 31, 2001. The remaining ₩53 billion will be granted during the year following March 31, 2002.

The following unaudited pro forma consolidated statements of income are presented as if the acquisition of the majority interest in Jooeun Leasing had occurred at the beginning of the period presented.

	1999
	(in ₩ million, except per share data) (unaudited)
Revenue	4,267,189
Net income	485,068
Earnings per share: (₩)	
Basic	4,264.41
Diluted	2,795.83

The unaudited pro forma consolidated results of operation include adjustments to give effect to amortization of goodwill and related income tax effects. The unaudited pro forma information is not necessarily indicative of the results of operations that would have occurred had the purchase occurred at the beginning of the years presented or of future consolidated results.

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.

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 Financial Supervisory Commission.

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,					
	1996	**1997**	**1998**	**1999**	**2000**	**2000[1]**
	(in ₩ billion, except per common share data)					**(in US$ million, except per common share data**
Interest income	2,600	3,204	4,664	4,265	4,873	3,846
Interest expense	(2,061)	(2,412)	(3,481)	(3,030)	(3,537)	(2,792)
Net interest income	539	792	1,183	1,235	1,336	1,054
Provision for possible loan losses[2]	(79)	(229)	(1,115)	(393)	(469)	(370)
Net interest income after provision for possible loan losses	460	563	68	842	867	684
Non-interest revenue[3]	490	1,552	1,560	1,274	1,389	1,096
Non-interest expense[4]	(837)	(1,978)	(1,870)	(1,396)	(1,553)	(1,226)
Operating income	113	137	(242)	720	703	554
Non-operating loss, net	4	22	(178)	(79)	17	13
Income before income tax expense	117	159	(420)	641	720	567
Income tax expense[5]	(26)	(57)	(9)	(219)	(210)	(165)
Minority interest in earnings of consolidated subsidiaries, net	—	4	12	30	(2)	(1)
Other[6]	2	2	3	3	6	5
Net income	93	108	(414)	455	514	406
Per common share data:						
Earnings per share—basic (₩/US$)	2,095	2,141	5,073	4,862	4,701	3.71
Earnings per share—diluted[7] (₩/US$)	—	—	—	4,862	3,937	3.11
Cash dividends per common share[8]						
To the public (₩/US$)	600	500	—	150	150	0.118
To the government (₩/US$)	500	500	—	150	150	0.118

(1) Won amounts are expressed in U.S. Dollars at the rate of ₩1,267/US$1.00, the noon buying rate in effect on December 31, 2000.

(2) 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,					
	1996	1997	1998	1999	2000	2000[1]
	(in ₩ billion)					(in US$ million)
Cash and due from banks	2,277	3,339	2,601	2,840	2,050	1,618
Foreign exchange[2]	231	911	565	—	—	—
Loans[3]	19,674	23,299	25,309	32,964	46,656	36,824
Less: allowance for doubtful accounts[4]	—	—	—	(1,634)	(1,270)	(1,002)
Call Loans[5]	560	673	841	—	—	—
Trading securities[6]	—	—	9,980	3,284	3,236	2,554
Investment securities[6]	4,086	5,486	884	7,404	8,069	6,369
Customers' liabilities on guarantees[7]	229	1,251	936	—	—	—
Credit card accounts[8]	662	725	812	—	—	—
Premises and equipment[9]	1,574	1,696	1,680	944	1,014	800
Other assets[10]	1,281	2,029	3,703	2,870	2,131	1,682
Total assets	30,574	39,409	47,311	48,672	61,886	48,845
Deposits	21,289	23,830	29,822	34,358	47,821	37,743
Borrowings[11]	1,101	2,514	4,269	4,142	3,569	2,817
Call money[12]	310	1,571	179	—	—	—
Guarantees outstanding[7]	229	1,251	936	—	—	—
Provisions[13]	899	1,442	2,468	—	—	—
Bonds payable	2,732	3,528	2,978	2,434	3,248	2,564
Other liabilities[14]	2,955	3,972	5,327	5,586	4,700	3,710
Total liabilities	29,515	38,108	45,979	46,520	59,338	46,834
Minority interests in consolidated subsidiaries[15]	23	26	8	—	7	6
Shareholders' equity	1,036	1,275	1,324	2,152	2,541	2,005
Total liabilities, minority interest and shareholders' equity	30,574	39,409	47,311	48,672	61,886	48,845

(1) Won amounts are expressed in U.S. Dollars at the rate of ₩1,267/US$1.00, the noon buying rate in effect on December 31, 2000.

(2) Foreign exchange represents holdings of foreign currency and bills bought in foreign currencies. From 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. For December 31, 2000 it was ₩44 billion and ₩470 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, 1996, 1997 and 1998 was ₩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 Financial Supervisory Commission. 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 Financial Supervisory Commission 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 Financial Supervisory Commission regulations, loans are classified as normal, special mention, 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,and 2000. The amount of call loans at that date was ₩97 billion,and ₩428 billion respectively.

(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 1996 and 1997 were ₩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 US 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 and 2000. The amount of credit card loans at that date was ₩1,237 billion, and ₩2,911 billion, respectively.

(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 1996, 1997 and 1998 were ₩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 and 2000. The balance of call money at that date was ₩758 billion, and ₩135 billion, respectively.

(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,				
	1996	1997	1998	1999	2000
	(percentages)				
Net income as a percentage of:					
Average total assets	0.33	0.34	(0.95)	0.91	0.92
Average stockholders' equity	10.87	9.38	(31.86)	26.15	21.84
Dividend payout ratio(1)	26.28	29.62	—	14.26	13.83
Net interest spread(2)	2.33	2.73	3.33	2.97	2.55
Net interest margin(3)	2.20	2.86	3.35	3.12	2.67
Cost-to-income ratio(4)	81.34	84.37	68.17	55.62	56.98
Cost-to average assets ratio(5)	2.95	6.27	4.29	2.81	2.80

(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,				
	1996	1997	1998	1999	2000
	(in percentages)				
Total capital adequacy (BIS) ratio(1)	8.27	10.29	10.79	11.74	9.92(2)
Tier I	5.59	5.45	5.64	6.93	5.48
Tier II	2.68	4.84	5.15	4.81	4.57
Average stockholders' equity as a percentage of average total assets	3.03	3.66	2.98	3.50	4.23

(1) The capital adequacy ratios are computed in accordance with the guidelines issued by the Financial Supervisory Service. The computation is prepared on a consolidated Korean GAAP basis.

(2) We have a minority equity investment in 2000 in ING Life Insurance Korea Co., which is deducted from total capital pursuant to the guidelines of the Financial Supervisory Service instead of being deducted directly from Tier 1 or Tier 2.

Asset quality ratios

	As of December 31,				
	1996	1997	1998	1999	2000
	(in ₩ billion, except percentages)				
Non-performing loans(1)	326	497	2,973	2,512	2,284
Non-performing loans as a percentage of total loans	1.64	2.05	10.42	7.62	4.90
Non-performing loans as a percentage of total assets	1.09	1.34	6.70	5.16	3.69
Allowance for loan losses as a percentage of non-performing loans	55.73	74.65	52.06	63.46	52.40
Allowance for loan losses as a percentage of total loans	0.92	1.53	5.42	4.84	2.57

(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 Financial Supervisory Service, we also took into account the repayment capability of borrowers. Since 1999, the Financial Supervisory Service 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 "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 H&CB's 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.

	2000
	(in ₩ million)
Income statement	
Net income as reported	506,061
Adjustments:	
Item No.	
1. Provision for loan losses	(47,888)
2. Loan sale accounting	49,214
3. Deferred loan costs	(13,765)
4. Valuation of investment securities and derivatives	10,500
5. Depreciation of fixed assets	(3,410)
6. Capitalization of software costs	(5,820)
7. Sale of subsidiary	(23,709)
8. Jooeun Leasing Goodwill	10,920
11. Other	(1,919)
	(25,877)
Tax effect of adjustments	33,383
Adjusted net income according to Korean GAAP	513,567
Adjusted net income per share (in ₩)	
Basic	4,700.77
Fully diluted	3,937,40
Weighted average number of shares (in millions)	109,063
Shareholders' equity as reported	2,355,971
Adjustments:	
Item No.	
1. Allowance for loan losses	(119,139)
2. Loan sale accounting	(9,969)
3. Deferred loan costs	(35,809)
4. Valuation of investment securities and hedging derivatives accounting	(70,596)
5. Revaluation of fixed assets	207,249
6. Capitalization of software costs	(5,820)
9. Reversal of dividend	(17,249)
10. KDIC bonds purchased in connection with preferred shares	88,950
11. Other	32,357
	69,974
Tax effect of adjustments	115,974
Adjusted shareholders' equity according to Korean GAAP	2,541,919

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 the Financial Supervisory Commission's 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, 2000:

	2000
	(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.

For transfers that do qualify as a loan for US GAAP, we would recognize any benefit in the securitization trust and derecognize the loans where we have surrendered control. The basis of our retained beneficial interest and the sold loan interests are based upon a relative fair value allocation of the basis of the loans transferred.

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 our 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, all computer software costs from technological feasibility established to be marketable are capitalized and amortized over greater of either current revenue divided by total estimated revenue or straight line method. Korean GAAP requires software costs to be expensed when paid and no capitalization is required for the related costs.

7. Under US GAAP, sales of investee shares by the investor are accounted for as gain or losses equal to the difference between the selling price and carrying amount (under the equity method) of the stock sold. Korean GAAP accounts for the difference through additional-paid-in capital.

8. Under US GAAP, the acquisition of Jooeun Leasing is treated as a purchase whereupon goodwill is recorded equal to the difference between the fair value of the shares at the date of acquisition and the consideration given over the net assets acquired. Korean GAAP accounted for this difference as additional-paid-in capital.

9. Dividend 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.

10. Under US GAAP, we disclose that the Korea Deposit Insurance Corporation 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 Korea Deposit Insurance Corporation bonds gross were not met. Under Korean GAAP, the respective Korea Deposit Insurance Corporation bonds are included within securities available for sale.

11. Other represents various items, including such items as stock options, amortization of intangibles, lease accounting, interest recognition on restructured loans, foreign currency transactions, stock

issue costs and consolidation, where Korean GAAP differs from US GAAP. These items have been aggregated as they are individually insignificant in both their nature and amount.

During the six months ended June 30, 2001, we recognized unrealized gains on a certain pool of debt securities that would be classified as available for sale under US GAAP. Such gains, which amounted to ₩68 billion would not be recognized under US GAAP.

Also during the six months ended June 30, 2001, we also recognized gains on adjustments to our estimate of impairment on investments in non-consolidated subsidiaries of approximately ₩73 billion. Such inter-company gains would not be recognized as US GAAP would not accept the presentation of non-consolidated financial statements.

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 this prospectus as Annex VI. 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, our results of operations for the first six months of 2001 may not be indicative of our results of operations for the full 2001 year.

Non-consolidated semi-annual Korean GAAP income statement data

	Six Months Ended June 30,	
	2000	**2001**
	(in ₩ billion)	
Interest income	2,299	2,540
Interest expense	(1,571)	(1,775)
Net interest income	728	765
Provision for possible loan losses	(110)	(123)
Net interest income after provision for possible loan losses	618	642
Non-interest revenue(1)	390	940
Non-interest expense(1)	(494)	(757)
Operating income	514	825
Non-operating gains, net	28	6
Income before income tax expense	542	831
Income tax expense	(167)	(259)
Net income	375	572

(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 our non-consolidated semi-annual financial statements.

Non-consolidated semi-annual Korean GAAP balance sheet data

	As of June 30,	
	2000	2001
	(in ₩ billion)	
Cash and due from banks	2,901	2,832
Loans		
Less: allowance for doubtful accounts	38,490	48,166
Trading securities	2,315	3,646
Investment securities	8,525	7,742
Premises and equipment	861	868
Other assets	2,323	3,095
Total assets	55,415	66,349
Deposits	42,248	49,128
Borrowings	2,664	3,885
Debentures	2,597	4,185
Other liabilities	5,551	6,003
Total liabilities	53,060	63,201
Total shareholders' equity	2,355	3,148
Total liabilities and shareholders' equity	55,415	66,349

Our non-consolidated net interest income increased by 5.1% from ₩728 billion in the first half of 2000 to ₩765 billion in the first half of 2001 as a result of a 10.5% increase in non-consolidated interest income, which more than offset a 13.0% increase in non-consolidated interest expense.

The increase in non-consolidated interest income from ₩2,299 billion in the first half of 2000 to ₩2,540 billion in the first half of 2001 was due primarily to a 26.4% increase in interest on loans, from ₩1,762 billion in the first half of 2000 to ₩2,227 billion in the first half of 2001. This increase was partially offset by a decrease in interest on investment securities from ₩408 billion in the first half of 2000 to ₩266 billion in the first half of 2001. The increase in interest on loans was attributable to a 33.0% increase in average loan volume for the first half of 2001 compared to the first half of 2000, in line with the increase in our deposits described below. Our outstanding loans increased from ₩45,030 billion as of December 31, 2000 to W 48,166 billion as of June 30, 2001. The gross yield on loans changed slightly from 10.6% in the first half of 2000 to 10.7% in the first half of 2001. The gross yield on investment securities decreased from 9.5% in the first half of 2000 to 5.1% in the first half of 2001. Toward the end of 2000, we exchanged many of our trading investments for beneficiary interest certificates. We account for all increases in the value of the beneficiary interest certificates, whether derived from interest and dividends or from changes in market prices, as gain in valuation of trading securities. When we owned the trading securities outright, we recognized interest and dividends on our trading securities. Thus, much of the decrease in gross yield from 2001 to 2000 can be attributed to the reduction in recording interest and dividends associated with trading securities.

The increase in non-consolidated interest expense from ₩1,571 billion in the first half of 2000 to ₩1,775 billion in the first half of 2001 was due primarily to a 13.7% increase in interest on deposits, from ₩1,324 billion to ₩1,505 billion. The increase in interest on deposits was attributable mainly to a 27.9% increase in the average volume of deposits for the first half of 2001 compared to the first half of 2000. Our outstanding deposits increased from ₩46,890 billion as of December 31, 2000 to ₩49,128 billion as of June 30, 2001. The increase in deposits, which more than offset a decrease in average interest rate paid on deposits from 7.5% in the first half of 2000 to 6.7% in the first half of 2001, was attributable primarily to the recent difficulties in the Korean banking sector which has led many customers 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 3.79% in the first half of 2000 to 3.73% in the first half of 2001.

Our non-consolidated provision for loan losses increased from ₩110 billion in the first half of 2000 to ₩123 billion in the first half of 2001 as a result of increased loan volume.

Our non-consolidated non-interest revenue increased by 141.0% from ₩390 billion in the first half of 2000 to ₩940 billion in the first half of 2001. Gain on valuation of trading securities, trust fees, gain on equity valuation, and all other income increased by ₩100 billion, ₩72 billion, ₩73 billion and ₩68 billion, respectively. The increase in gain on valuation of trading securities relates to the exchange of trading securities for beneficial interest certificates mentioned above. The primary reason for the increase in trust fee income was an improvement in the performance of our trust accounts. The gain on equity valuation in subsidiaries resulted from the reversal on impairment valuations related to two of our non-consolidated subsidiaries. The main reason for the increase in all other income was the recognition of unrealized gains on certain pools of bonds.

Our non-consolidated non-interest expense increased by 53.2% from ₩494 billion in the first half of 2000 to ₩757 billion in the first half of 2001, primarily as a result of an increase in losses on conversion of loans to equity of ₩164 billion, an increase in fees and commission expense of ₩34 billion, an increase in salaries and wages of ₩26 billion, and an increase in depreciation of ₩6 billion. The increase in losses on conversion of loans to equity related mainly to settlement of a debt for equity conversion with the Korea Housing Guarantee Corporation and the resulting difference in the equity received compared to our loan balance. The increase in fees and commission expense was due primarily to a special promotion we conducted, whereby we assumed customers' expenses aggregating ₩22 billion for mortgage loan settlement from March to June 2001. The increase in salaries and wages was due primarily to a special reward we paid to our employees for good performance, as well as a slight increase in the number of our contractual employees. The increase in depreciation was due primarily to increased capital spending on our premises and equipment.

Non-consolidated income tax expense increased from ₩167 billion in the first half of 2000 to ₩259 billion in the first half of 2001 as a result of our increased income. The statutory tax rate was 30.8% in each of the first half of 2000 and the first half of 2001. The effective rate of income tax was relatively stable at 31.2% in the first half of 2001, compared to 32.2% in the first half of 2000.

As a result of the above, our non-consolidated net income was ₩375 billion in the first half of 2000 as compared to ₩572 billion in the first half of 2001.

History and Development

Introduction

We are a commercial bank organized under the laws of the Republic of Korea and we are engaged principally in mortgage lending and retail banking. As of December 31, 2000, 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, 2000, with our mortgage lending accounting for 76.4% of total private sector mortgages in Korea in that year. As of December 31, 2000, we had one of the largest deposit bases of any bank in Korea. For the year ended December 31, 2000, our net income was ₩506 billion. As of December 31, 2000 we had total assets of ₩60,956 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, 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, 2000, including mortgages provided by the National Housing Fund, our mortgage lending activities accounted for over 85% 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 June 30, 2001, we had 546 branches throughout Korea.

Our legal and commercial name is H&CB. Our registered office and principal executive offices are located at 36-3, Yoido-dong, Youngdeungpo-gu, Seoul, Korea 150-758. Our telephone number is 822-769-7256. Our agent in the United States, H&CB, New York Branch, is located at Mutual of America Building, 9th Floor, 320 Park Avenue, New York, New York 10022.

History

We were established by the Korean 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% 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 National Housing Fund. We provided these services until 1981 when the National Housing Fund was created. We continue to manage the National Housing Fund on behalf of the Korean government and receive a management fee for this service. In 1988 we began managing the Housing Finance Credit Guarantee Fund, which provides guarantees on mortgage loans to households and construction companies with insufficient collateral. We continued to manage the Housing Finance Credit Guarantee Fund 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 Korean 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% 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 Korean Financial Supervisory Commission in connection with a government program to support the deteriorating financial sector in Korea. We received compensation from the Korean 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 "H&CB—Management's Discussion and Analysis of Financial Condition and Results of Operations—Trend Information—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 "H&CB—Business Overview—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 are to be increased by 5% a year in each of the three years beginning in 2000. Thereafter, further increases are possible up to 50%. However, in connection with the upcoming merger with Kookmin Bank, we plan to renegotiate the investment agreement and the joint venture agreements. As a result, our shareholding stake in ING Life Insurance Company, Korea remains at 20% and ING's stake in Jooeun Investment Trust Management remains at 20%.

In October 2000, we conducted an exchange offer of our global depositary shares for American depositary shares. Our American depositary shares were listed on the New York Stock Exchange under the symbol "HCB". The global depositary shares were de-listed from the London Stock Exchange.

Business Overview

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 Korean accounting standards.* We have introduced new Korean 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 eight 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 four business segments but have restructured our business units into eight 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 eight business units are:

- the Marketing Business Unit, which is responsible for selling all of our products and services and managing our distribution channels;
- the Individual Consumer Banking Business Unit, which includes individual consumer product development (all types of deposit-taking and loan products) and overdue loan management;
- the Credit Card Business Unit, which includes marketing and operations of credit card services;
- 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 National Housing Fund 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 a 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 the "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 focusing 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 service 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, strengthening our Internet banking capability and merging with Kookmin Bank. We intend to:
  - expand the type of retail banking services we offer;
  - establish ourselves as a major player in Internet banking in Korea; and
  - secure our position by taking advantage of synergies created by merging with Kookmin Bank.
- 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.

We may review our strategies following the consummation of our planned merger with Kookmin Bank.

Principal Banking Activities

Our principal banking activities include:

- retail banking, including mortgage financing;
- credit card services;
- 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.

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. As of December 31, 2000, our retail lending amounted to ₩32,746 billion and accounted for 70.8% of our total loans and our retail deposits amounted to ₩35,646 billion and accounted for 75.4 % of our total deposits. As of December 31, 1999, our retail lending amounted to ₩23,722 billion and accounted for 73.8% 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. Retail banking activities generated net income of ₩268 billion in 1998, ₩169 billion in 1999 and ₩175 billion in 2000.

—Mortgage Financing

Mortgage financing has historically been our core business. As of December 31, 2000, our market share of the outstanding Korean private mortgage market was 76.4%. As of December 31, 2000, our mortgage lending amounted to ₩20,987 billion and accounted for 45.4% of our total loans. As of December 31, 2000, mortgage lending accounted for 47.4% of our interest and fees on loans. 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. 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. In 2000 we financed 328,765 housing units, comprised of 61,705 ready-built housing units, 132,233 existing housing units and 134,827 rental housing units. The number of housing units that we financed was 240,825 in 1999 and 201,994 in 1998.

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 National Housing Fund 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, 2000, the percentage of total dwellings in Korea to total households was 94.1%, 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 12.7% as of December 1999 (the last year for which figures are available for purposes of comparison), as compared to 32.4% in Japan, 56.6% in the United States and 55.4% in the United Kingdom. This is due in large part to the Korean 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 7.0% and the population increased 0.9% in 2000. Housing prices in Korea increased 0.4% in 2000 from 1999 levels according to our research, which has been certified by the Korean government, and the number of housing construction permits increased 5.4% in 2000, 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 2000, we introduced the "Seron 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 one to 33 years. These loans currently carry adjustable variable interest rates of 7.50% to 10.95% per year.

As of December 31, 2000, approximately 71% of our mortgage loans were secured by a first mortgage on the property which is the subject of the loan and the remaining 29% of our mortgage loans were guaranteed by the Housing Finance Credit Guarantee Fund, 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 33.9% 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 is 9.50%. 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, every six months or every three 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 9.05% for rates that are adjusted every year, 8.75% for rates that are adjusted every six months and 7.60% for rates that are adjusted every three months.

As of December 31, 2000, approximately ₩12,352 billion, or 58.9%, of our outstanding mortgage loans were priced based on our long-term prime rate. The average interest rate on such loans was 11.1% per year. As of that date, approximately ₩8,428 billion, or 40.2%, of our outstanding mortgage loans were Market Opportunity Rate-based. Under this method, the average interest rate for individual housing loans is 9.6% per year.

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. 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.

—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, automobile loans and other consumer loans collateralized by real estate. Our other retail loans amounted to ₩2,400 billion, ₩6,476 billion and ₩11,759 billion and accounted for 9.1%, 20.2% and 25.4% of our total loans as of December 31, 1998, 1999 and 2000, respectively. These loans may be secured by real estate, securities or deposits or may be unsecured. As of the end of 2000, secured loans accounted for approximately 47.0% in aggregate principal amount of our retail loans. Among the secured loans, approximately 99.4% 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 ₩27,543 billion, ₩33,379 billion and ₩47,279 billion as of December 31, 1998, 1999 and 2000, 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.

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 three months 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 is currently 2.0%, 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 one-fifth of the total eligible population of Korea. Interest rates are adjustable.

- *World Cup deposits,* which are savings deposits and installment deposits that target customers who are interested in attending the FIFA World Cup scheduled to be held in Korea and Japan between May 31 and June 30, 2002. We periodically hold lotteries to elect customers who may receive certificates that are exchangeable into tickets for World Cup matches. Since the launch of these products in January 2001, approximately 129 thousand of these accounts have been opened with us as of the end of July 2001.

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,		
	1998	1999	2000
	(thousands, except branches)		
Retail deposit customers(1)	13,380	13,570	13,854
Active retail deposit customers(2)	8,503	8,707	8,974
Domestic branches	546	518(3)	533(3)

(1) Includes individuals, households, sole-proprietors and non-profit organizations.
(2) Includes customers whose account balances as of December 31, 2000 were ₩100,000 or more.
(3) Excluding 19 corporate relationship management branches in 1999 and 2000.

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

	Year ended December 31,		
	1998	1999	2000
	(in ₩ billion)		
Demand deposits	5,446	7,504	9,038
Time deposits(1)	16,619	20,075	32,647
Savings deposits	525	920	1,003
Certificates of deposit	177	41	150
Mutual installment deposits(2)	4,776	4,839	4,442
Total deposits	27,543	33,379	47,279

(1) Balance includes housing subscription time deposits of ₩2,156 billion, ₩3,035 billion and ₩3,518 billion for 1998, 1999 and 2000, respectively.
(2) Balance includes housing installment savings deposits of ₩3,948 billion, ₩3,585 billion and ₩3,658 billion for 1998, 1999 and 2000, respectively.

—Distribution Channels

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

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, 2000, we had 533 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 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, 2000, we had a total of 4,190 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 72.3% 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 516 additional automated banking machines in 2001 at a cost of ₩16 billion.

Internet 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 addition, 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. We have been improving our Internet banking system to strengthen our competitiveness, and we relaunched our Internet banking services in June 2000. As of December 31, 2000, we had approximately 500,000 registered Internet service customers (including PC banking users). 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 have developed our site into a financial portal where users can gain one-stop access to banking, insurance, investment securities and real estate information.

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 2000, we had approximately 1.5 million telephone banking customers.

Other Channels. We are actively pursuing additional distribution channels which have become increasingly important. 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 1,635 Community Cooperatives in Korea. We have similar strategic alliances with securities companies, investment trust companies, credit card companies, and credit unions. In addition, we have entered into strategic alliances with approximately 810 merchants as of February 2001 that enable our customers to withdraw and transfer cash at automated credit card machines.

The following table sets forth information, for the periods 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,		
	1998	1999	2000
	(in ₩ billion, except number of users and number of transactions)		
ATMs[1]			
Number of transactions (000)	102,191	155,060	215,132
Fee revenue	6	14	21
Telephone Banking:			
Number of users	800,462	1,240,662	1,574,198
Number of transactions (000)	6,815	33,126	39,007
Fee revenue	1	2	3
Internet Banking[2]:			
Number of users	309,441	327,854	494,262
Number of transactions (000)	5,750	7,876	12,677
Fee revenue[3]	1	1	0

(1) Includes ATMs which only dispense cash.

(2) Includes PC banking. Figures for 1998 and 1999 do not include banking services over the Internet. We began offering our services over the Internet in July 1999.

(3) Included in PC banking fee revenue.

Credit Card Services

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 4.95% of BC Card.

As of December 31, 2000, we had 5.5% of total credit cards issued in Korea which represented 18.1% of the total number of BC Cards issued. As of December 31, 2000, we had more than 3.0 million cardholders, compared to approximately 1.6 million cardholders and 1.9 million cardholders as of December 31, 1998 and 1999, respectively. Our aggregate amount of credit card loans was ₩2,881 billion, which accounted for 6.2% of our total loans in 2000 and ₩1,216 billion, which accounted for 3.7% of our total loans in 1999. The credit card business generated net income of ₩141 billion in 2000 and ₩38 billion in 1999.

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 23 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, 2000, we received ₩441 billion in fees and commissions from our credit card operations, including interest revenue. In the year ended December 31, 1999, we received ₩228 billion in fees and commissions from our credit card operations, including interest revenue. In the year ended December 31, 1998, we received ₩189 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 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 Korean 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, 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;
- introducing peripheral services including payment for telephone bills with credit cards and early repayment of cash advances without penalty;
- offering alternative cards to our most important customers which provide additional benefits such as waiver of annual fees for five years and discount on select services; and
- introducing promotional events designed to solicit new customers by waiving their annual fees for the first year and encourage increased usage of cards.

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 developing our own internal system to support our credit card operations, which is expected to be in operation starting in the second half of 2001. The new system 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, 1998, 1999 and 2000.

	As of and for the year ended December 31,		
	1998	1999	2000
	(in ₩ billion, except where indicated and percentages)		
Number of card-holders (thousands)	1,611	1,942	3,071
Billings	2,771	4,842	12,538
Fees and commissions (including interest revenue)	189	228	441
Net operational profit	175	208	404
Year end credit card account balance	772	1,216	2,888
Delinquency rate[(1)] (%)	1.6	0.6	0.5

(1) 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 relatively high 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 and 2000 (despite the increase in billings) reflects the improvements in the Korean economy and our efforts to minimize delinquencies.

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, 2000, our corporate lending amounted to ₩10,581 billion and accounted for 22.9% of our total loans and our corporate deposits amounted to ₩7,369 billion and accounted for 15.6 % of our total deposits. In the year ended December 31, 2000, corporate banking activities generated annual net income of ₩4 billion. 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 generated net income of ₩353 billion.

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, 2000, our corporate loans denominated in Won amounted to ₩8,569 billion, which represented 18.5 % of our total loans, of which loans to small- and medium-sized enterprises amounted to ₩4,733 billion. As of December 31, 1999, our corporate loans denominated in Won amounted to ₩5,722 billion, which represented 17.8% of our total loans. As of December 31, 1998, our corporate loans denominated in Won amounted to ₩5,408 billion, which represented 20.5% 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 Korean 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 400 people involved in corporate banking. We have 19 corporate banking branches and 53 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 193 domestic branches. Our international banking activities currently employ 63 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 ₩4,084 billion at the end of 1998, or 14.8% of our total deposits, ₩5,538 billion at the end of 1999, or 16.6% of our total deposits, and ₩7,369 billion at the end of 2000, or 15.6 % 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 9.5% to 10.8% per year, as determined by our Risk Management Committee. Repayment schedules range from one to 20 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 Housing Finance Credit Guarantee Fund 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. 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, 2000, capital markets activities generated net income of ₩46 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, 1998, 1999 and 2000, 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 ₩9,062 billion, ₩9,285 billion and ₩10,403 billion and represented 22.5%, 20.5% and 17.0% 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, 1998, 1999 and 2000, we held debt securities with a total book value of ₩8,966 billion, ₩9,048 billion and ₩10,319 billion, respectively. As of December 31, 1998, 1999 and 2000 debt securities accounted for ₩225 billion, ₩2,660 billion and ₩2,182 billion, or 100.0%, 100.0% and 100.0%, respectively, of our held-to-maturity portfolio, ₩7,755 billion, ₩4,245 billion and ₩5,729 billion or 99.8%, 97.4% and 99.1%, respectively, of our available-for-sale portfolio, and ₩986 billion, ₩2,144 billion and ₩2,407 billion, or 92.2%, 94.6% and 98.7%, respectively, of our trading portfolio.

Of these amounts, debt securities issued or guaranteed by the Korean government as of December 31, 1998, 1999 and 2000, amounted to ₩151 billion, ₩1,235 billion and ₩1,503 billion, or 67.4%, 46.4% and 68.9%, respectively, of our held-to-maturity portfolio, ₩6,173 billion, ₩2,526 billion and ₩2,656 billion, or 79.5%, 57.9% and 45.9%, respectively, of our available-for-sale portfolio, and ₩878 billion, ₩2,025 billion and ₩10 billion, or 82.1%, 89.4% and 0.41%, 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, 1998, 1999 and 2000, equity securities in our available-for-sale portfolio had a book value of ₩12 billion, ₩115 billion and ₩53 billion or 0.2%, 2.5% and 0.9% of our available-for-sale portfolio and a book value of ₩83 million, ₩122 billion and ₩32 billion or 7.8%, 5.4% and 1.3% of our trading portfolio, respectively.

The book value of our total trading and investment portfolio has increased from ₩9,062 billion as of December 31, 1998 to ₩9,285 billion as of December 31, 1999 and ₩10,403 billion as of December 31, 2000.

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, 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 Gain	Gross Unrealized Loss	Gross Unrealized	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	303	5	(2)	306
Mortgage–backed securities	129	1	—	130
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

	As of December 31, 2000,			
	Amortized Cost Loss	Gross Unrealized Gain	Gross Unrealized	Fair Value
	(in ₩ billion)			
Available for sale:				
Korean treasury securities and government agencies	2,558	98	—	2,656
Debt securities issued by financial institutions	364	15	(1)	378
Corporate debt securities	326	11	(5)	332
Mortgage–backed securities	803	21	(1)	823
Other debt securities	1,458	82	—	1,540
Equity securities	86	—	(33)	53
Total available for sale	5,595	227	(40)	5,782
Held to maturity:				
Korean treasury securities and government agencies	1,503	42	(1)	1,544
Debt securities issued by foreign government	2	—	—	2
Debt securities issued by financial institutions	175	4	—	179
Mortgage-backed securities	180	7	—	187
Corporate debt securities	322	7	(1)	328
Total held to maturity	2,182	60	(2)	2,240
Total securities	7,777	287	(42)	8,022

—Derivatives

Our derivatives activities are fairly limited and consist primarily of interest rate swaps, currency swaps and foreign exchange contracts. In the years ended December 31, 1998, 1999 and 2000, we had net trading gains of ₩126 billion, ₩34 billion and ₩71 billion, respectively, from our derivatives activities.

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. We may use Korean Treasury Bond Futures to manage the interest rate risk arising from domestic bond trading activities and to hedge interest rate risks of non-trading activities.

We use cross currency swaps to convert our fixed rate borrowings denominated in foreign currency to U.S. 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 and 2000.

	As of December 31, 1999,		As of December 31, 2000,	
	Underlying Notional Amount	Net Replacement Cost	Underlying Notional Amount	Net Replacement Cost
	(in ₩ billion)		(in ₩ billion)	
Interest rate swaps	3	—	25	1
Cross currency swaps	326	101	327	106
Foreign exchange contracts:				
Spot, forwards and futures purchased	344	1	190	2
Spot, forwards and futures sold	261	2	706	—
Total	934	104	1,248	109

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 and 2000.

	As of December 31, 1999,		As of December 31, 2000,	
	Underlying Notional Amount	Net Replacement Cost	Underlying Notional Amount	Net Replacement Cost
	(in ₩ billion)		(in ₩ billion)	
Interest rate swaps	33	1	20	—

—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

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, 2000, 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 years ended December 31, 1998, 1999 and 2000 our total fee income from trust account management was ₩85 billion, ₩75 billion and ₩72 billion, respectively.

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, 2000, the total balance of our money trusts was ₩6,151 billion on a Korean GAAP basis. As of December 31, 2000, 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, 2000, our trust accounts had made loans in the principal amount of ₩1,980 billion on a Korean GAAP basis, which accounted for approximately 32.2% 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, 2000, 74.3% of the amount of loans from our money trust accounts were collateralized or guaranteed.

Our money trust accounts also invest, to a lesser extent, in equity securities, including beneficiary certificates issued by investment trust companies. As of December 31, 2000, equity securities in our trust accounts amounted to ₩262 billion on a Korean GAAP basis, which accounted for approximately 6.0% of our total security investment.

We provide money 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 Financial Supervisory Commission 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, 2000, 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 19.1% 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. Starting January 1, 2001, however, the Korea Deposit Insurance Corporation insures losses on the principal amount and interest of a pension-related trust account only up to a total of ₩50 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 1998, we expensed ₩206 billion related to money trusts due to more stringent loan loss reserve requirements that came into effect. In 1999, we expensed ₩53 billion for such payments. In 2000, we expensed ₩85 billion for such trusts due to the general underperformance of securities markets in Korea. In addition, we expensed ₩53 billion and ₩10 billion during 1999 and 2000, respectively, for reimbursement of trust losses incurred primarily as a result of holdings in the member companies of the former Daewoo Group.

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,		
	1998	1999	2000
	(in ₩ billion)		
Principal and interest guaranteed trusts	1,085	540	17
Principal guaranteed trusts	1,009	829	913
Performance trusts	9,733	6,910	5,221
Total	11,827	8,279	6,151

The balance of our money trusts decreased 30.0% between December 31, 1998, and December 31, 1999 and 25.7% between December 31, 1999 and December 31, 2000. The decreases were 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 Korea Deposit Insurance Corporation'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 eleven 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, 2000, our fee income from our trustee services was ₩8 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 National Housing Fund. The National Housing Fund 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, 2000, the National Housing Fund accounted for over 55.2% of the total amount of housing loans outstanding in Korea. The activities of the National Housing Fund are funded by loans from the Korean 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 National Housing Fund and the sale of lottery tickets.

In return for managing the operations of the National Housing Fund we receive a monthly fee. The fee we receive for managing the National Housing Fund consists of a fund raising fee, a loan origination fee and a management fee. The fund raising fee is based on the number of National Housing Fund subscription savings deposit accounts opened, the number of National Housing Fund bonds issued or redeemed and the number of National Housing Fund lottery tickets we sell to raise funds for the National Housing Fund during the month. The loan origination fee is based on the number of new National Housing Fund loans and the number of National Housing Fund 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 National Housing Fund at the end of the month. In 2000, we received total fees of ₩158 billion for our management of the National Housing Fund, which accounted for 41.8% of our total fee and commission income.

In connection with our management of the National Housing Fund we also manage the National Housing Fund's lottery. The lottery is used to raise funds for the National Housing Fund. We manage three lotteries for the National Housing Fund. 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 2000, an average of ₩14 billion worth of lottery tickets were sold each month.

The financial accounting for the National Housing Fund is entirely separate from our financial accounting, and the non-performing loans and loan losses of the National Housing Fund do not impact our financial condition. Regulations and guidelines for managing the National Housing Fund 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 National Housing Fund. In addition, the Ministry of Construction and Transportation announced in September 2001 that it had formulated a plan to improve the overall management of the National Housing Fund. As part of that plan, the Ministry of Construction and Transportation announced that it intends to strengthen existing regulations to provide for liability on the part of our bank, as manager of the National Housing Fund, where we have clear responsibility for non-performing National Housing Fund loans or where losses result to the National Housing Fund due to our negligent management. The Ministry of Construction and Transportation also announced that it intends to retain outside consultants to review the existing management and fee structure for the National Housing Fund, and that it plans to consider various long-term measures for improving the overall management of the fund, including the diversification of the managers of the fund.

Other

The remaining portion of our other businesses consists of miscellaneous activities, the most significant of which are interest expenses from the Bank of Korea, government borrowings and various other operating expenses. Interest expenses from the Bank of Korea and government borrowings declined by ₩7 billion in 2000 compared to 1999. However, various other operating expenses including professional fees and expenses on collection of charged-off loans increased by ₩54 billion in 2000 compared to 1999.

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.

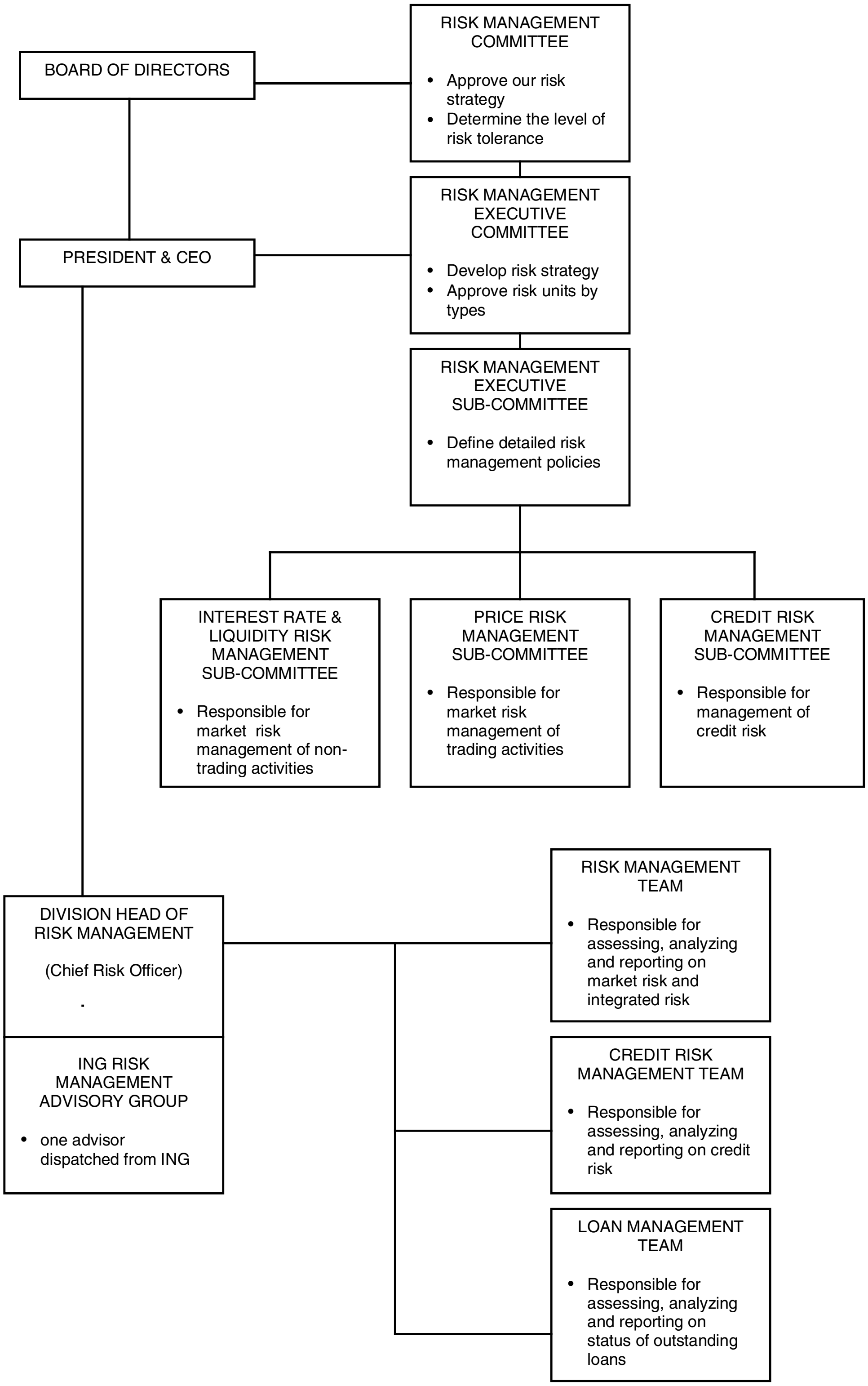
As the reform of the financial sector continues, foreign financial institutions, many with greater resources than us, have entered, and may continue to enter, the Korean market either by themselves or in partnership with existing Korean financial institutions and compete with us in providing financial 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, 2000. 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 Korean 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.

The Risk Management 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 and consists of 76 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.



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. Our credit risk management guidelines set out our basic principles for managing credit risk. Credit limits are established by the Credit Risk Management 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 Housing Finance Credit Guarantee Fund 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.

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% 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. 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 do not necessarily have extensive 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 Knowledge Management Team, the General Manager of the Banking Trust Team, the General Manager of the Loan Management Team and the General Manager of the National Housing Fund Team.

The nature of the scoring system depends on whether the borrower is a large company or a small- or 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, and 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 21 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% of our Tier I and Tier II capital for a single chaebol, 10% 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% 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 use 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. We are able to monitor the value of all the collateral provided by a borrower and the value of the collateral based on its liquidation 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 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 the credit card issuers in Korea.

In 2000, we developed a credit scoring system that can be used to evaluate credit card applications. The system will be actively implemented in the second half of 2001 together with a new credit card management system which is currently being developed. The new management system will allow us to carry out our credit card business more efficiently by focusing on profit contribution analysis, credit limit management, management of bonus points, and other management tools.

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 credit analysis and issuance of credit to corporate customers, we monitor the performance of the credit both at the headquarters and relationship management team levels. The loan maintenance section of the branches monitor the financial and non-financial environment with an early warning checklist.

We have developed our own early warning system, which monitors selected information including the financial status, financial transaction status, industry rating and management status of borrowers. The system also keeps track of information on the credit status of borrowers. Some updating information is fed automatically from internal and external sources while other data is gathered and updated manually by our relationship management teams which may elect to visit and review corporate customers. 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 Korean Federation of Banks;
- financial data relating to the borrower supplied by Korea Information Service and our internal credit rating system;
- our internal credit rating;
- the estimated recovery rate for collateral provided by the borrower;
- whether a borrower is included in the list of problem creditors in the register maintained by the Korean Federation of Banks;
- whether the borrower has defaulted on any payments owed to us; and
- the status of the borrower's financial transactions with 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 the early warning checklist that the relationship management personnel must fill out periodically and as the need arises. Information in the checklist include:

- whether the borrower has ceased operating for more than three months;
- for construction companies, whether construction has stopped for more than three months and prospects for sales of sites under construction or those which are already constructed;
- whether contests for management control are taking place;
- whether there is tension in labor relations;
- whether the borrower uses an excessive amount of negotiable paper or financing from the financial markets; and
- whether any of the borrower's affiliates have defaulted on their obligations.

Depending on the nature of the problem detected by the early warning system, a borrower may be classified as a "deteriorating credit" and undergoes evaluation for a possible downgrade in its customer rating, or 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. The loan review team conducts reviews of companies which have been classified as problematic by our early warning system.

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 currently do not 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 Financial Supervisory Commission which will require Korean banks to maintain capital for market risk starting 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 interest rate gap as of December 31, 2000.

	As of December 31, 2000,					
	0-3 months	3-6 months	6-12 months	1-3 years	Over 3 years	Total
	(in ₩ billion, except percentages)					
Interest Earning Assets						
Due from Bank	481	33	–	–	–	514
Loans	26,796	7,144	6,810	544	4,914	46,208
Securities	4,086	407	762	4,085	1,173	10,513
Others	880	111	281	6	402	1,680
Total	32,243	7,695	7,853	4,635	6,489	58,915
Interest Bearing Liabilities						
Deposits	24,781	5,337	9,340	4,522	3,205	47,185
Borrowings	2,436	972	916	945	1,898	7,167
Others	233	123	89	–	1	446
Total	27,450	6,426	10,345	5,467	5,104	54,792
Sensitivity Gap	4,793	1,263	(2,492)	(832)	1,385	4,117
Cumulative Gap	4,793	6,056	3,564	2,732	4,117	
% of Total Assets	7.9%	9.9%	5.8%	4.5%	6.8%	

Our Risk Management Committee monitors interest rate risk exposure using gap reports. We use these reports to calculate a ratio representing the adjusted cumulative gap for assets and liabilities being re-priced within one year to total assets. This ratio is compared against an approved maximum amount which as of December 31, 2000 was 9.57%. Our actual ratio as of December 31, 2000 was 7.65%. 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 the above gap reports, we develop sensitivity analyses to measure the sensitivity of our net interest income to changes in interest rates. An immediate downward parallel shift in interest rates of 100 basis points for non-trading instruments would lead to a decrease in our net interest income for the next 12 months of ₩24 billion as of December 31, 1999 and ₩36 billion as of December 31, 2000 on a non-consolidated basis and ₩25 billion as of December 31, 1999 and ₩34 billion as of December 31, 2000 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 account 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. We may also 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 U.S. 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 foreign currency denominated fixed rate borrowings to U.S. 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, 1999 and 2000.

	As of December 31,[1]		
Currency	**1998**	**1999**	**2000**
	(in US$ million)		
USD	(13.2)	8.3	1.6
JPY	0.3	(1.1)	(0.9)
Others	0.2	0.3	1.1
Total	(12.7)	7.5	3.6

(1) Positive amounts represent long exposures and negative amounts represent short exposures. The net open positions held by subsidiaries are not significant.

Trading Activities

The level of market risk assumed by us from our trading activities can be broken down into interest rate risk, equity price risk and foreign exchange rate risk. Our trading activities consist of traditional instruments such as equities, bonds, equity index futures, interest rate futures, bond futures, foreign exchange spot and forwards. As of December 31, 2000, our bond portfolio had a market value of ₩2,326 billion while the market values of trading equities and foreign currency positions were ₩32 billion and ₩53 billion, respectively. As of that date, our trading assets and liabilities arising out of foreign exchange and derivative contracts were ₩109 billion and ₩32 billion, respectively.

We use Value at Risk (VaR) as the main market risk management tool together with stress testing and several traditional tools like Present Value of a Basis Point (PVBP), duration and cash flow analyses of debt securities and equity Beta. We generate Value at Risk reports as well as mark-to-fair value reports for all trading portfolios on a daily basis for the chief risk officer. We are able to use parametric (also known as variance-covariance model), historical and Monte Carlo simulation methods; however, we are currently using parametric (Delta-Gamma) method assuming a 99% confidence level and a one day holding period because we do not hold significant positions in non-linear derivative instruments.

Value at Risk is a commonly used market risk management technique. However, this approach does have some shortcomings. By its nature as a statistical approach, Value at Risk estimates possible losses over a certain period at a particular confidence level using past market movement data. Past market movement is not necessarily a good indicator of future events. Another shortcoming is that one or ten days are assumed to be a sufficient holding period before liquidating the relevant underlying positions. If this is not the case, the Value at Risk results may understate or overstate the potential loss.

Prior to August 2000, we used an internally developed Value at Risk module with limited instrument and currency coverage. Since then we have used a new risk management system, Panorama, which enables us to generate elaborate and consistent Value at Risk numbers for all trading activities. The new risk management system has expanded our span of control to various analyses and cover financial instruments that were not possible in the past.

For the moment, we do not have a consolidated group-wide market risk structure which covers subsidiaries such as Jooeun Leasing Co., Ltd., Jooeun Investment Trust Management Co., Ltd. and Hong Kong Finance Ltd.

—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. Since August 2000 we have entrusted our trading bond portfolio amounting to ₩2.3 trillion to Jooeun Investment Trust Management Co. on the condition that Jooeun Investment Trust Management will comply with the guidelines set out by us. Jooeun Investment Trust Management, a specialized asset management company which receives consulting advice from the ING Group, invests in a variety of Korean Treasury Bonds, government bonds and other financial institution issued bonds rated higher than A (as rated by Korean debt rating agencies) and reports its trading records to us on a daily basis.

The volume of our trading activities and the size of our trading portfolio are determined by the Price Risk Management Sub-Committee, taking into account the liquidity of the domestic debt security market, economic capital, capital constraints, current funding position and other related issues.

Our exposure to interest rate risk arising from our trading activities is controlled primarily with position limits, stop loss limits and Value at Risk limits approved by the Risk Management Committee and the Price Risk Management Sub-Committee.

The following table shows year-end, average, minimum and maximum Value at Risk for 1999 and 2000 assuming a 99% confidence level for a one day holding period. We use historical data for the past one year (260 business days) with equal weight over the whole horizon and consider the correlation between sub-risk factors (such as those which solely affect interest rate risk) as well as correlation between different risk factors (such as those between interest rate risk and equity price risk).

Daily Value at Risk of Trading Positions

	As of December 31, 1999 (in ₩ billion)				As of December 31, 2000 (in ₩ billion)			
Risk class	Average	Minimum	Maximum	Year end	Average	Minimum	Maximum	Year end
		(in ₩ billions)				(in ₩ billions)		
Interest rate risk	2.5	0.2	8.5	2.9	4.2	2.6	6.2	3.4
Equity risk	2.5	0.1	4.8	3.1	2.9	0.9	6.1	2.5
Foreign exchange risk	N/A	N/A	N/A	N/A	3.1	1.7	4.9	4.9
Diversified Total	5	(1)	(1)	6	5.2	2.3	10.1	4.6

(1) Figures calculated above cover H&CB only and do not include subsidiaries.

We have not presented Value at Risk for foreign exchange risk for the year 1999 since we were not calculating Value at Risk for foreign exchange risk prior to August 2000, which was not significant at in 1999.

—Equity price risk

Equity price risk results from our equity portfolio in Korean Won since we do not hold any foreign currency shares except for convertible bonds in foreign currency. The conversion rights for foreign currency denominated convertible bonds have been sold and therefore our equity risk exposure in this regard is limited.

The trading equity portfolio in Korean Won consists of exchange listed stocks and nearest month or second nearest month futures contracts under strict limits on diversification as well as position limits. This has been an area of particular focus due to the level of volatility in the stock market. In addition, we pay close attention to the loss limits. When the trading equity portfolio breached the loss limit in March 2000, the Price Risk Management Sub-Committee decided to immediately cease equity trading activities until the end of 2000 and liquidated relevant positions according to the guidelines set out in the Price Risk Management Manuals.

To obtain the Value at Risk measure for equities, we also use the parametric method, assuming a 99% confidence level and one day holding period. We use parametric Value at Risk, since we do not hold significant non-linear instruments such as options. Unlike common methods which use only one representative index for each stock exchange to calculate the equity Value at Risk, we use 32 specified indices by industry and exchange, which enables us to produce more precise Value at Risk numbers.

—Foreign exchange rate risk

We trade foreign exchange spot, foreign exchange forwards, currency swaps and foreign exchange futures of 28 currencies to benefit from short-term movements in the prices of each instrument arising from changes in the foreign exchange rates or interest rates under the limits approved by the Price Risk Management Sub-Committee. The Price Risk Management Sub-Committee sets position limits, stop loss limits and Value at Risk limits on trading foreign exchange positions taking into account economic capital, volatility of market prices and other related issues such as market perspectives. Most of our foreign currency position holdings are denominated in U.S. Dollars and are subject to limits mentioned above; however, overseas branches are subject to position limits by currency since overseas branches are not allowed to hold active trading positions. We use the parametric method to measure foreign currency risk.

For transactions involving a notional amount greater than US$50 million, trading of new instruments or where a limit has not been determined, the trading division is required to obtain preliminary approval from the Price Risk Management Sub-Committee through the Risk Management Team.

Foreign exchange trading profiles are reported to the chief risk officer on a daily basis as well as Value at Risk reports, mark-to-fair value reports and limit reports. In situations where the daily, monthly or annual limits are breached, following the decision of the Price Risk Management Sub-Committee, all relevant positions are liquidated immediately and trading is stopped for the outstanding period. Where immediate liquidation is not feasible due to a liquidity shortage or the head of trading division judges the liquidation of all of relevant positions to be inappropriate, part of the positions could be liquidated in accordance with the decision of the Price Risk Management Sub-Committee.

—Stress test

Stress testing is an important way of supporting Value at Risk since Value at Risk is a statistical expression of possible loss under a given confidence level and holding period. It does not cover potential loss if the market moves in a manner which is outside our normal expectations. Stress testing projects the anticipated change in value of holding positions under certain scenarios assuming that no action is taken during a stress event to change the risk profile of a portfolio.

There are two ways of simulating scenarios. One uses statistics based on historical data to obtain an average or maximum movement of market price over a certain horizon and the other replicates a specified historical event. Currently, we have three scenarios following the former method. Scenario 1 uses average volatility over the last year, Scenario 2 looks at the average volatility over the last month and Scenario 3 uses maximum volatility over the last one year. A weak point of a statistical approach is the difficulty of taking into account correlation between market variables. Our scenario assumes that interest rates, equity prices and exchange rates move very significantly at the same time to obtain the worst case. However, actual movements may not be that extreme, nor the actual impact on the portfolio value that large since market prices historically have some correlation.

The result of the stress test using the third scenario at the end of 2000 is ₩16.2 billion for a ₩2,411 billion consolidated portfolio. The trading bond portfolio contributed 97% of the total value change.

Along with current scenarios, we are preparing for other scenarios that replicate historical events that happened in the past such as market situations under the foreign exchange crisis in the 1990s and other critical events.

Although we have not set any limits on stress testing, we monitor the impact of market turmoil or any abnormality. If the impact is large, the chief risk officer may request a portfolio restructuring or other proper action.

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 Financial Supervisory Commission. In 2000, we maintained a relatively stable liquidity status both in domestic and foreign currency.

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% and to report their respective ratios to the Financial Supervisory Service on a quarterly basis. For us, however, the Financial Supervisory Service only required that we maintain a Won liquidity ratio in excess of 70% because the Financial Supervisory Service 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 Financial Supervisory Commission 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 Financial Supervisory Commission criteria, as of December 31, 1999 and 2000.

	As of December 31, 1999,			As of December 31, 2000,		
	Liquid Assets	Liquid Liabilities	Liquidity Ratio	Liquid Assets	Liquid Liabilities	Liquidity Ratio
	(in ₩ billion and US$ million, except percentages)					
Won currency	₩12,469	₩14,605	85.4%	₩13,532	₩18,232	74.2%
Foreign currency	US$ 763	US$ 498	153.2%	US$1,243	US $684	181.7%

For a description of Korean laws and regulations relating to liquidity, see "Supervision and Regulation".

The liquidity ratio in Korean Won was 74.2% as at the end of 2000 compared to 85.4% in 1999. Our treasury team is responsible for the maintenance of the liquidity ratio, and has set the optimum band for the liquidity ratio of 73% to 77%, which we believe provides the most efficient trade off between liquidity and profitability.

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 audit department operates the internal audit system, the internal checking system and the computerized ordinary audit system known as the Total Audit Intelligence System, or "TAIS", to test and monitor the internal controls. The internal audit team carries out general, special and routine audits. The internal checking system seeks to prevent the occurrence of fraud or error by instituting a systematic program of preventative and detective procedures, especially in areas which are deemed to be of a higher risk.

TAIS, the system which has recently been developed by the audit department, operates a real-time warning system and the daily audit system for branches. TAIS, which is Internet-based, allows convenient access to historical and current transaction information to assist the audit department in carrying out monitoring procedures. To establish a diversified audit plan using TAIS, the audit department uses a risk based approach when setting the scope and level of focus in each business line.

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 ensure that 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 Financial Supervisory Service conducts a general audit of our operations once a year and also performs 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 laws and regulations 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, 2000, was ₩46,208 billion, an increase of 43.8% from ₩32,134 billion at December 31, 1999. Approximately 95.6% of our total loans were Won denominated loans at December 31, 2000. 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, 1996, 1997, 1998, 1999 and 2000.

	As of December 31,				
	1996[1]	1997	1998	1999	2000
	(in ₩ billion)				
Commercial and industrial	2,116	4,554	5,251	5,595	9,546
Construction loans	684	1,519	2,041	1,601	771
Lease financing	—	—	—	—	264
Households					
Residential Mortgages	14,764	15,928	15,890	17,246	20,987
Other consumer loans	1,897	2,224	2,400	6,476	11,759
Credit cards	662	698	772	1,216	2,881
Total loans	20,123	24,923	26,354	32,134	46,208

(1) Adjustments were necessary to reconcile the aggregate loan balance from Korean GAAP to a basis comparable to 1997, 1998, 1999 and 2000. See the table below.

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

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

Concentration of Total Exposure

As discussed in more detail in "H&CB—Business Overview—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 diversified our corporate exposure away from the construction industry.

Our ten largest exposures as of December 31, 2000, excluding those to the Korean government and its agencies, totaled ₩2,202 billion and accounted for 3.6% of our total exposures. The following table sets forth as of December 31, 2000, 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	480	—	—	18	—	—	498	498
Daewoo Corporation	21	171	—	51	26	—	269	243
SK Corporation	50	—	—	29	173	—	252	—
SK Global Corporation	50	85	—	1	76	—	212	—
Chase Manhattan Bank	—	—	—	—	—	200	200	—
LG Capital Services Co	174	—	—	—	—	—	174	—
Woo Bang Co., Ltd	160	—	—	—	—	—	160	83
Hynix Semiconductor	3	138	—	14	—	—	155	—
Korea Life Insurance Co., Ltd.	—	—	—	—	—	149	149	—
LG International Co.	—	128	—	5	—	—	133	—
Total	938	522	—	118	275	349	2,202	824

(1) Based on Financial Supervisory Commission asset classifications.

Our largest exposure to a borrower is our exposure to the Korea Housing Guarantee Co., Ltd., which has experienced substantial financial difficulties. The Korea Housing Guarantee Co., Ltd. was formed in June 1999 to replace the Korean Housing Financial Cooperative that had been formed in April 1993 by construction companies in Korea to provide loans and loan guarantees to Korean construction companies. The Korea Housing Guarantee Co., Ltd. takes responsibility for completing construction projects if construction companies become insolvent while their projects are in progress. In addition, the Korea Housing Guarantee Co., Ltd. has assumed the obligations of Korean Housing Financial Cooperative to guarantee a number of loans to 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 Korean Housing Financial Cooperative 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 Korean Housing Financial Cooperative's liquidity problem, the Korean government and the Korean Housing Financial Cooperative's creditors, including us, reorganized the Korean Housing Financial Cooperative into the Korea Housing Guarantee Co., Ltd. and provided financial assistance to the Korea Housing Guarantee Co., Ltd. The capital contributed by construction companies to the Korea Housing Guarantee Co., Ltd. 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 Korea Housing Guarantee Co., Ltd.

The Korea Housing Guarantee Co., Ltd. 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 Korea Housing Guarantee Co., Ltd. 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, 2000, the Korea Housing Guarantee Co., Ltd. had outstanding guarantees of ₩57 trillion, of which ₩51 trillion was for the sale of newly-built houses. As of that date, the Korea Housing Guarantee Co., Ltd. was responsible for the completion of 24 housing projects in which the original construction companies became insolvent.

Our total direct exposure to the Korea Housing Guarantee Co., Ltd. as of December 31, 2000, was ₩498 billion, which consisted of:

- ₩480 billion of loans; and
- ₩18 billion of convertible bonds.

As of that date, we had a loan loss allowance relating to the Korea Housing Guarantee Co., Ltd. of ₩153 billion.

In addition, as of December 31, 2000, we had loans to construction companies guaranteed by the Korea Housing Guarantee Co., Ltd. of ₩49 billion. Of these amounts, ₩28 billion were to companies that were insolvent or in corporate reorganization proceedings. The Korea Housing Guarantee Co., Ltd. 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 Korea Housing Guarantee Co., Ltd., the Ministry of Construction and Transportation and creditor financial institutions of the Korea Housing Guarantee Co., Ltd., including us, held a series of meetings in March and April 2000 and agreed on a basic framework for restructuring part of the Korea Housing Guarantee Co., Ltd.'s debts. On June 13, 2001, the Korean government and creditor financial institutions agreed on a capital contribution and debt repayment program to normalize the operation of Korea Housing Guarantee Co., Ltd.. Under the terms agreed, in June 2001, the government made a capital contribution of ₩947 billion and purchased convertible bonds of ₩300 billion and bonds with warrants of ₩32 billion issued by the Korea Housing Guarantee Co., Ltd. In addition, ₩504 billion of the creditor financial institutions' outstanding loans to Korea Housing Guarantee Co., Ltd. were converted to equity, including ₩240 billion of our outstanding loans, while the remaining creditor financial institutions' outstanding loans of ₩1,015 billion, including our remaining outstanding loans and convertible bonds of ₩281 billion, will be repaid in full. Currently, 49.9% of the outstanding share capital of the Korea Housing Guarantee Co., Ltd. is owned by the government, 20.6% of the outstanding share capital of the Korea Housing Guarantee Co., Ltd. is owned by construction companies, and 20.9% of the outstanding share capital of the Korea Housing Guarantee Co., Ltd. is owned by financial institutions, including 9.7% by us.

One of our top ten borrowers as of December 31, 1999 was Jooeun Leasing Co., Ltd., a leasing company in which we currently own an 85% interest. Jooeun Leasing faces significant financial difficulties, and on January 13, 2000, we and Jooeun Leasing entered into a memorandum of understanding with other creditors of Jooeun Leasing, whereby we and the other creditors agreed on detailed terms of a debt restructuring plan for Jooeun Leasing. In accordance with the restructuring plan, the maturities of ₩244 billion of Jooeun Leasing's debt were extended until the end of 2005. We converted our loans to Jooeun Leasing to an equity investment in the amount of ₩82 billion on January 20, 2000 and, correspondingly, Jooeun Leasing 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 Leasing upon Jooeun Leasing's request. Loans of ₩47 billion have been extended as of March 31, 2001.

As of December 31, 2000, 5.44% of our total exposure was to the thirty largest chaebols. The following table shows as of December 31, 2000, 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 & acceptances	Others	Total exposures	Amounts classified as substandard or below[1]
	(in ₩ billion)							
LG	276	174	—	114	19	—	583	—
SK	155	106	25	36	249	—	571	—
Samsung	86	35	5	79	72	100	377	—
Hyundai[2]	54	218	—	57	13	—	342	47
Daewoo[3]	21	174	—	51	26	—	272	246
Hyundai Motors[2]	120	48	7	37	3	—	215	—
WooBang	160	—	—	—	—	—	160	83
Hanwha	72	—	3	7	56	—	138	—
Lotte	115	—	—	15	1	—	131	—
Hyundai Oilbank[2]	29	6	—	—	62	—	97	—
Total	1,088	761	40	396	501	100	2,886	376

(1) Based on Financial Supervisory Commission asset classifications.

(2) Pursuant to the disaffiliation of Hyundai Motors and Hyundai Oil from the Hyundai Group, these companies and their affiliates are classified as separate chaebols.

(3) Pursuant to the break-up of the former Daewoo Group, only Daewoo Corporation and its affiliates are classified as Daewoo Group companies.

In August 1999, the principal creditor banks of the former Daewoo Group commenced formal workout procedures with respect to 12 of the companies of the Daewoo Group, including Daewoo Corporation, Daewoo Motors, Daewoo Electronics, Daewoo Heavy Industries, Daewoo Telecom and Ssangyong Motors. Currently, these companies are either subject to liquidation proceedings or have been liquidated, under workouts or reorganization proceedings, have been split up into more than one company or are looking for purchasers. As of December 31, 2000, our total exposure to the companies of the former Daewoo Group was approximately 339 billion, of which 91.7% was classified as substandard or below. As of December 31, 2000, our total exposure to the current Daewoo Group, which consists of Daewoo Corporation and its affiliates, was approximately ₩272 billion. This exposure consisted of ₩195 billion in loans outstanding, ₩51 billion in corporate bonds and ₩26 billion in guarantees and acceptances.

The following table shows information relating to our Daewoo Group total exposure as of December 31, 2000.

Company	Loans: Won currency	Loans: Foreign currency	Debt Securities	Guarantees and acceptances	Others	Total exposures	Amounts classified as substandard or below[1]
				(in ₩ billion)			
Daewoo Corporation	21	171	51	26	—	269	243
Daewoo Ind. Co., Japan Corp.	—	2	—	—	—	2	2
Daewoo Hongkong	—	1	—	—	—	1	1
Total	21	174	51	26	—	272	246

(1) Based on Financial Supervisory Commission asset classifications.

The following table shows information relating to our Hyundai Group total exposure as of December 31, 2000.

Company	Loans: Won currency	Loans: Foreign currency	Debt securities	Guarantees and acceptances	Total exposures	Amounts classified as substandard or below(1)
	(in ₩ billion)					
Hynix Semiconductor	3	138	14	—	155	—
Hyundai Merchant Marine Co., Ltd.	15	62	7	—	84	18
Hyundai Engineering & Construction Co., Ltd.	18	—	29	—	47	15
Hyundai Corporation	—	18	—	13	31	—
Koryeo Industrial Development Co., Ltd.	14	—	—	—	14	14
Hyundai Heavy Industries Co., Ltd.	—	—	7	—	7	—
Hyundai Elevator Co., Ltd.	4	—	—	—	4	—
Total	54	218	57	13	342	47

Recently, a number of Hyundai Group companies have been experiencing financial difficulties as a result of, among other things, their liquidity positions. These companies include Hynix Semiconductor, Hyundai Merchant Marine and Hyundai Engineering & Construction. On a non-consolidated Korean GAAP basis, our total exposure to these companies as of June 30, 2001 amounted to ₩167 billion, ₩70 billion and ₩12 billion, respectively. All of our exposure to Hynix Semiconductor and Hyundai Engineering & Construction was classified as substandard or below as of such date.

—Loan Concentration by Size of Loans

The following table shows the aggregate balances of our loans by outstanding loan amount as of December 31, 2000.

	As of December 31, 2000,	
	Aggregate loan balance	Percentage of Total loan balance
	(in ₩ billion)	(percentages)
Commercial and industrial		
Up to ₩10 million	16	0.03
Over ₩10 million to ₩50 million	259	0.56
Over ₩50 million to ₩100 million	307	0.67
Over ₩100 million to ₩500 million	1,336	2.89
Over ₩500 million to ₩1 billion	751	1.63
Over ₩1 billion to ₩5 billion	1,947	4.21
Over ₩5 billion to ₩10 billion	998	2.16
Over ₩10 billion to ₩50 billion	3,505	7.58
Over ₩50 billion to ₩100 billion	124	0.27
Over ₩100 billion	303	0.66
Sub total	9,546	20.66
Construction loans		
Up to ₩10 million	2	0.00
Over ₩10 million to ₩50 million	5	0.01
Over ₩50 million to ₩100 million	2	0.01
Over ₩100 million to ₩500 million	30	0.07
Over ₩500 million to ₩1 billion	47	0.10
Over ₩1 billion to ₩5 billion	332	0.72
Over ₩5 billion to ₩10 billion	197	0.43
Over ₩10 billion to ₩50 billion	156	0.34
Sub total	771	1.68

	As of December 31, 2000,	
	Aggregate loan balance	Percentage of Total loan balance
	(in ₩ billion)	(percentages)
Lease financing		
Up to ₩10 million	0	0.00
Over ₩10 million to ₩50 million	2	0.00
Over ₩50 million to ₩100 million	5	0.01
Over ₩100 million to ₩500 million	30	0.07
Over ₩500 million to ₩1 billion	18	0.04
Over ₩1 billion to ₩5 billion	92	0.20
Over ₩5 billion to ₩10 billion	65	0.14
Over ₩10 billion	52	0.11
Sub total	264	0.57
Household—mortgage		
Up to ₩10 million	4,478	9.69
Over ₩10 million to ₩50 million	12,496	27.04
Over ₩50 million to ₩100 million	3,037	6.57
Over ₩100 million to ₩500 million	935	2.02
Over ₩500 million to ₩1 billion	34	0.07
Over ₩1 billion to ₩5 billion	7	0.02
Sub-total	20,987	45.41
Credit Cards		
Up to ₩10 million	2,746	5.94
Over ₩10 million to ₩50 million	109	0.24
Over ₩50 million to ₩100 million	2	0.00
Over ₩100 million to ₩500 million	24	0.05
Sub-total	2,881	6.23
Household—other		
Up to ₩10 million	5,196	11.24
Over ₩10 million to ₩50 million	4,291	9.29
Over ₩50 million to ₩100 million	781	1.69
Over ₩100 million to ₩500 million	1,223	2.65
Over ₩500 million to ₩1 billion	241	0.52
Over ₩1 billion to ₩5 billion	27	0.06
Sub-total	11,759	25.45
Total	46,208	100.00

—Maturity Analysis

The following table shows the scheduled maturities of our total loans as of December 31, 2000.

	1 Year or less	1 Year to 5 Years	After 5 Years	Total
	(in ₩ billion)			
Commercial and industrial	7,490	1,655	401	9,546
Construction loans	659	73	39	771
Lease financing	214	15	35	264
Households				
Residential mortgages	1,026	11,910	8,051	20,987
Other consumer loans	7,332	3,757	670	11,759
Credit cards	2,881	—	—	2,881
Total	19,602	17,410	9,196	46,208

—Interest Rate Sensitivity

The following table shows, as of December 2000, the total amount of loans which have fixed interest rates or variable or adjustable interest rates.

	As of December 31, 2000, (in ₩ billion)
Fixed rates[(1)]	11,922
Variable or adjustable rates[(2)]	34,286
Total	46,208

(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	2000
	(in ₩ billion, except percentages)			
Total non-performing loans	1,857	2,628	2,440	2,104
As a percentage of total loans	7.5	10.0	7.6	4.6

The above table does not reflect the amount of loans classified as substandard or below that we sold to the Korea Asset Management Corporation in connection with a government program to assist the Korean banking industry. See "H&CB—Management's Discussion and Analysis of Financial Condition and Results of Operations—Trend Information—The Acquisition of DongNam Bank—Sales of Substandard or Below Loans to the Korea Asset Management Corporation". In 2000, we did not sell any substandard or below loans to the Korea Asset Management Corporation. We currently have guaranteed ₩59 billion of loans sold to the Korea Asset Management Corporation. As of December 31, 2000, we have repurchased ₩75 billion of these loans from the Korea Asset Management Corporation and these are reflected in the table above.

Non-accrual loans. The following table presents a four-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	2000
	(in ₩ billion)			
Loans accounted for on a non-accrual basis	4,594	5,431	5,460	5,883

We are not able to provide information for non-accrual and non-performing loans for the year ended December 31, 1996 due to changes made in our information systems. We believe that the amounts of non-accrual and non-performing loans for the year ended December 31, 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 four years to 2000, 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 four year analysis of loans not included above which are "troubled debt restructurings" as defined under US GAAP.

	As of December 31,			
	1997	1998	1999	2000
		(in ₩ billion)		
Loans not included above which are classified as "troubled debt restructurings"	—	195	208	569

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

Potential Problem Loans. As of December 31, 2000, ₩980 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, 2000, we had debt securities with an amortized cost of ₩35 billion and a market value of ₩29 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.

Corporate reorganization procedure and composition are court supervised procedures to rehabilitate an insolvent company. For a description of these procedures and recent regulatory changes affecting them, see "Kookmin Bank—Business Overview—Assets and Liabilities—Credit Exposures to Companies in Workout, Corporate Reorganization and Composition".

Our non-performing assets in restructuring are managed and collected by the Loan Management Team. As of December 31, 2000, ₩658 billion or 1.4% of our total loans were under restructuring. Upon approval of the workout plan a non-performing asset is initially classified as special mentioned or lower and thereafter cannot be classified higher than special mention with limited exceptions.

The following table shows, as of December 31, 2000, 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	Others	Total exposures
			(in ₩ billion)			
Korea Housing Guarantee Co., Ltd.	480	—	18	—	—	498
Daewoo Corporation	21	171	51	26	—	269
Woo Bang Housing Co., Ltd.	160	—	—	—	—	160
Dongsung Construction Co., Ltd.	33	—	—	1	—	34
Kabool Textiles	2	32	—	—	—	34
Daewoo Electronics Co., Ltd.	22	7	2	—	—	31
Daedong Housing Co., Ltd.	25	—	—	2	—	27
Kabool, Ltd.	8	14	—	—	—	22
Kyong Nam Leasing Co., Ltd.	—	19	—	—	—	19
Shinbo Leasing Co., Ltd.	—	19	—	—	—	19
Total	751	262	71	29	—	1,113

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	2000
	(percentages)			
Normal[1]	1.2	60.0	0.5	3.9
Special Mention	15.5	20.9	25.7	23.9
Substandard	24.5	14.9	39.8	30.8
Doubtful	42.4	44.9	73.9	72.6
Loss	75.4	92.0	82.7	79.6

(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 migration 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.

Under Korean GAAP, the allowance for loan losses is generally established based on Financial Supervisory Commission 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 Financial Supervisory Commission percentage guidelines below, to be more in line with international banking practices. The Financial Supervisory Commission reserve percentage guidelines are set forth for the periods indicated:

	1997	1998	1999	2000
	(Korean GAAP Percentages)			
Normal	0.5	0.5	0.5	0.5
Special Mention	1	2	2 to 19	2 to 19
Substandard	20	20	20 to 49	20 to 49
Doubtful	75	75	50 to 99	50 to 99
Loss	100	100	100	100

Applying the Financial Supervisory Service 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.

We recognize interest on troubled restructured loans on a cash basis until such time as the restructured loan has sufficiently performed under the terms of the restructuring.

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, 2000 was ₩313 billion 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 ₩598 billion, ₩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)						
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
2000	40,325	87.3	3,779	8.2	648	1.4	1,456	3.2	46,208

—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**	**2000**
	(in ₩ billion)			
Commercial and industrial	328	514	644	808
Construction loans	28	283	140	308
Lease financing	—	—	—	16
Households				
Residential mortgages	1,380	1,638	1,396	850
Other consumer loans	109	179	246	85
Credit cards	12	14	14	37
Total non-performing loans	1,857	2,628	2,440	2,104

—Top Ten Non-Performing Loans

At December 31, 2000, our ten largest non-performing loans accounted for 7.51% 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, 2000,		
	Industry	**Gross principal outstanding**	**Allowance for loan losses**
		(in ₩ billion)	
Borrower A	Construction	68	21
Borrower B	Manufacturing	24	20
Borrower C	Construction	10	—
Borrower D	Construction	9	5
Borrower E	Construction	8	—
Borrower F	Construction	8	—
Borrower G	Trading	8	7
Borrower H	Trading	8	7
Borrower I	Manufacturing	8	4
Borrower J	Construction	7	—
Total		158	64

—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% of the outstanding share capital and its workers own the remaining share capital. Jooeun Credit Information Co., Ltd. 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). We started using Jooeun for loan recovery services beginning October 1999. Jooeun Credit Information Co., Ltd. has over 300 employees, including loan recovery experts, legal experts and management employees. The fees that Jooeun Credit Information Co., Ltd. receives are based on the amounts of non-performing and charged off loans that are recovered. Jooeun recovered ₩142 billion in 2000 compared to ₩17 billion in 1999.

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:
  - Non-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 Credit Information Co., Ltd. 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 Credit Information Co., Ltd. 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 Credit Information Co., Ltd. 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		2000	
	(in ₩ billion, except percentages)							
Commercial and industrial								
Impaired loans	257	2.4%	723	7.6%	828	5.5%	949	4.6%
Unimpaired loans	313	45.9	121	12.3	43	11.9	115	16.6
Construction								
Impaired loans	96	2.6	298	5.6	233	3.2	39	0.8
Unimpaired loans	19	3.5	3	2.2	4	1.8	4	0.9
Household								
Residential mortgages	16	63.9	17	60.3	19	53.7	21	45.4
Other consumer loans	41	8.9	45	9.1	92	20.2	117	25.5
Credit cards	41	2.8	52	2.9	68	3.8	72	6.2
Total	789	100.0	1,259	100.0	1,287	100.0	1,317	100.0

—Analysis of Loan Loss Experience

The following table presents an analysis of our loan loss experience for the years ended December 31, 1998, 1999 and 2000.

	As of December 31,		
	1998	1999	2000
	(in ₩ billion)		
Balance at the beginning of the period	789	1,259	1,287
Amounts charged to operations	434	306	378
Allowance relating to loans acquired, transferred or sold	112	(50)	30
Charge-offs	(71)	(244)	(423)
Recoveries	5	16	30
Foreign currency translation and other	(10)	—	15
Balance at the end of the period	1,259	1,287	1,317
Ratio of net charge-offs to average loans outstanding during the period	0.2%	0.8%	1.0%

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

	Year ended December 31,				
	1996	1997	1998	1999	2000
	(in ₩ billion)				
Commercial and industrial	3	4	3	151	318
Construction	2	2	—	24	3
Households					
Residential mortgages	1	1	2	7	6
Other consumer loans	2	5	20	40	60
Credit cards	21	29	46	22	36
Total charge-offs	29	41	71	244	423

We have not calculated our charge to operations for provision for loan losses under US GAAP for the years ended December 31, 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 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 year ended December 31, 1996. See "H&CB—Business Overview—Assets and Liabilities—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 four year summary of recoveries by type of loan for the years ended December 31, 1997, 1998, 1999 and 2000.

	Year ended December 31,			
	1997	1998	1999	2000
		(in ₩ billion)		
Other consumer loans	—	—	3	14
Credit cards	4	5	13	16
Total	4	5	16	30

We do not have information on recoveries by type of loan for earlier years. For the years ended December 31, 1996 the level of recovery was 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. However, for purposes of presenting our results under U.S. GAAP, we charge off consumer and credit card loans past due over twelve months and six months, respectively.

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% of the overdue loans will be repaid, as the sales price of collateral at auctions is generally about 20% 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 0.0265% for 2000.

The following table sets forth information on our residential mortgage arrears as of December 31, 1998, 1999 and 2000. In the table, all percentages shown are percentages of total residential mortgage loans by number.

	Year ended December 31, (percentage)		
	1998	1999	2000
6 months to 12 months in arrears	2.9	2.5	2.5
12 months or more in arrears	1.5	1.8	1.1

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,		
	1998	1999	2000
	(in ₩ billion)		
Debt securities			
Korean treasury securities and government agencies	151	1,235	1,503
Debt securities issued by financial institutions	17	152	175
Corporate debt securities	55	400	322
Debt securities issued by foreign government	1	2	2
Mortgage-backed securities	—	—	180
Other debt securities[(1)]	—	870	—
Total	224	2,659	2,182

(1) Other debt securities represent our holding in the Bond Market Stabilization Fund which was dissolved as at the end of March, 2001.

—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,		
	1998	1999	2000
	(in ₩ billion)		
Equity securities	12	115	53
Debt securities			
Korean treasury securities and government agencies	6,174	2,526	2,656
Debt securities issued by financial institutions	765	492	378
Corporate debt securities	477	306	332
Mortgage-backed securities	—	130	823
Other[(1)]	340	791	1,540
Total	7,768	4,360	5,782

(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,		
	1998	1999	2000
	(in ₩ billion)		
Equity securities	83	122	32
Debt securities			
Korean treasury securities and government agencies	878	2,025	10
Debt securities issued by financial institutions	32	48	—
Corporate debt securities	—	60	—
Other trading securities, primarily beneficial certificates	75	11	2,397
Total	1,068	2,266	2,439

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% 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% 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, 2000. 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	Total	Weighted average yield
Held to maturity								
Korean treasury securities and government agencies	113	8.59%	1,360	8.26%	30	7.51	1,503	8.27%
Debt securities issued by financial institutions	127	6.06	46	7.29	2	8.23	175	6.41
Corporate debt securities	184	7.63	138	9.09	—	—	322	8.25
Debt securities issued by foreign government	—	—	2	4.22	—	—	2	4.22
Mortgage-backed securities	—	—	180	9.67	—	—	180	9.67
Total	424	7.42	1,726	8.45	32	7.55	2,182	8.23

—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, 2000. 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	Total	Weighted average yield
Available for Sale:								
Korean treasury securities and government agencies	1,087	8.88%	1,567	9.64%	2	12.18	2,656	9.33%
Debt securities issued by financial institutions	43	9.89	324	8.53	11	15.59	378	8.90
Corporate debt securities	193	15.77	129	12.28	10	3.62	332	14.05
Mortgage-backed securities	110	8.69	713	10.14	—	—	823	9.95
Other[(1)]	426	—	1,114	—	—	—	1,540	—
Total	1,859	9.82	3,847	9.76	23	10.09	5,729	9.79

(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, 2000.

	As of December 31, 2000	
Name of issuer	**Book Value**	**Market Value**
	(in ₩ billion)	
Korean Government	2,050	2,068
Korea Deposit Insurance Corporation	1,500	1,520
Industrial Bank of Korea	288	288
Korea Asset Management Corporation	619	623
Total	4,457	4,499

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, 2000, we had issued a total of ₩406 billion in guarantees and commercial letters of credit. For guarantees, ₩5 billion was rated as special mention and ₩22 billion as doubtful. None of our guarantees was rated as substandard.

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

	As of December 31,		
	1998	1999	2000
	(in ₩ billion)		
Guarantees			
Loan guarantees	95	52	80
Debt securities	228	43	14
Trade finance	60	50	62
Performance	136	89	89
Others	83	45	11
	602	279	256
Commercial letters of credit	125	194	150
	727	473	406
Unused lines of credit			
Commercial	957	1,556	3,933
Consumer	3,921	6,996	9,043
Other credit-related commitments			
Commitments to extend credit	54	22	—
	5,659	9,047	13,382

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 86.8% of total funding as of December 31, 2000. Deposits accounted for 83.6% of our total funding as of December 31, 1999, and 77.9% of our total funding as of December 31, 1998.

In addition, we acquire funding through the issuance of bonds. Our borrowings consist mainly of borrowings from financial institutions, the Korean government and the National Housing Fund, 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 28 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.

	1998		1999		2000	
	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	92	—	124	—	135	—
Interest bearing	4,571	3.39%	6,370	2.65%	8,212	2.24%
Time deposits:						
Certificates	704	15.34	63	6.35	54	5.56
Other time deposits	13,580	10.85	18,159	8.81	27,875	8.00
Savings deposits	473	5.92	777	3.99	977	3.89
Mutual installment deposits[2]	5,645	9.74	4,957	9.56	4,370	9.73
Average total deposits	25,065	9.27	30,450	7.51	41,623	6.94

(1) Based on a combination of average daily and 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 "H&CB—Business Overview—Principal Banking Activities—Retail Banking—Other Retail Banking—Retail Deposit Product".

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, 2000.

	Certificate of Deposits	Other Time Deposits	Mutual Installment Deposits	Total
	(in ₩ billion)			
Maturing within three months	21	6,395	277	6,693
After three but within six months	10	1,454	85	1,549
After six but within 12 months	92	2,194	124	2,410
After 12 months	—	848	92	940
Total	123	10,891	578	11,592

—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,		
	1998	1999	2000
	(in ₩ billion, except percentages)		
Call Money			
Year end balance	179	758	51
Average balance[3]	665	383	662
Maximum balance	1,220	825	1,856
Average interest rate[4]	10.08%	4.96%	4.38%
Year end interest rate	6.74%	4.54%	5.08%

	As of December 31,		
	1998	1999	2000
	(in ₩ billion, except percentages)		
Borrowings From the Bank of Korea[1]			
Year end balance	1,146	71	152
Average balance[3]	1,403	485	73
Maximum balance	1,926	1,068	192
Average interest rate[4]	11.26%	3.30%	5.48%
Year end interest rate	4.97%	6.11%	3.71%
Other short term borrowings[2]			
Year end balance	1,733	1,608	2,064
Average balance[3]	1,874	1,436	1,215
Maximum balance	2,614	1,824	2,581
Average interest rate[4]	11.69%	8.46%	8.31%
Year end interest rate	9.53%	7.55%	6.91%

(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 bills sold, borrowings in domestic and foreign currency and debentures in domestic and foreign currency. 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 Korea Housing Guarantee Co., Ltd. and borrowings from the Construction and Housing benevolent societies. These short term borrowings are secured by government securities and investments totaling ₩1,339 billion and ₩322 billion as of December 31, 2000, respectively.

(3) Average outstanding balances have been calculated using combination of daily and 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. For the year 2001, we have budgeted an amount of ₩30 billion to enhance our information technology system. With the assistance from a third party consultant, we have developed an information technology system designed to:

- 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.

Organizational Structure

Subsidiaries

Jooeun Investment Trust Management Co., Ltd.

In addition to providing trust account management services for money trusts, we provide trust account investment services through Jooeun Investment Trust Management, our consolidated subsidiary incorporated in Korea and in which we have an 80% stake. Jooeun Investment Trust 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 Trust Management was established in April 1988 as a subsidiary of Citizens 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, 2000, we derived revenues of ₩22 billion and incurred net gain of ₩13 billion from income earned by Jooeun Investment Trust 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 under the laws of Korea. 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, 2000, we derived revenues of ₩45 billion and net loss of ₩21 billion from income earned by Jooeun Real Estate Trust for providing these services. In March 2001, Jooeun Real Estate Trust increased its capital to ₩80 billion following our additional investment of ₩70 billion.

Jooeun Industrial Co., Ltd.

Jooeun Industrial was established under the laws of Korea 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, 2000, we derived revenues of ₩49 billion and net loss of ₩21 billion from Jooeun Industrial's activities. Jooeun Industrial 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, a wholly owned subsidiary, is a restricted license bank established under the laws of 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, 2000, we derived revenues of ₩27 billion and net income of ₩22 billion from H&CB Finance's activities.

Jooeun Leasing Co., Ltd.

Jooeun Leasing was established in June 1991 under the laws of Korea and began operation starting August 1991. On January 2000, we acquired an additional 35% of Jooeun Leasing Co., Ltd. through a debt to equity swap. The swap was the result of a memorandum of understanding between Jooeun Leasing and its creditors and increased our ownership to 85%. For the year ended December 31, 2000, we derived revenues of ₩56 billion and net income of ₩25 billion from Jooeun Leasing.

Other Subsidiaries

For the year ended December 31, 2000, we derived revenues of ₩78 billion and a net loss of ₩186 billion from our remaining subsidiaries, which individually do not account for a significant amount of our business.

Employees

As of December 31, 2000, we had 8,145 regular employees compared to 8,286 employees as of December 31, 1999 and 8,591 employees as of December 31, 1998. In addition, we had 3,711 contractual employees with terms ranging from one to five years as of December 31, 2000 compared to 4,165 contractual employees as of December 31, 1999 and 2,208 contractual employees as of December 31, 1998. In addition, we had 3,462 employees in managerial or executive positions as of December 31, 2000 compared to 3,801 employees in managerial or executive positions as of December 31, 1999 and 3,349 employees in managerial or executive positions as of December 31, 1998.

We consider our relations with our employees to be satisfactory. At December 31, 1998, 1999 and 2000, 7,209, 7,421 and 7,196 of H&CB's employees belonged to a union. Our strategy of merging with Kookmin Bank has met with significant opposition from our labor union. Our labor union members have recently staged various protests in our headquarters and some of our employees have carried out work stoppages.

Our subsidiaries had 201 employees as of December 31, 2000, 165 employees as of December 31, 1999, and 190 employees as of December 31, 1998.

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 subsidies 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.

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.

Properties

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 39,649 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 14,231 square meters.

As of December 31, 2000, we had a country-wide network of 552 branches. 178 of these facilities are housed in buildings owned by us, while the 374 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, 2000 was ₩827 billion.

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. The former employees of DongNam Bank appealed to the Seoul High Court on June 12, 2000. On February 2, 2001, the Seoul High Court declined to hear the appeal. However, the former employees of DongNam Bank appealed the decision of the Seoul High Court to the Supreme Court on March 13, 2001. 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.

Major Stockholders

The following table presents information regarding the beneficial ownership of our shares at December 31, 2000 (the latest practicable date before the date of this document), by each person known by us to own beneficially more than 5% 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.

Beneficial Owner	Number of shares of common stock	Percent of total Outstanding shares of common stock
The Government of Korea[(1)]	15,814,107	14.50%
The Bank of New York[(2)]	16,752,251	15.36%
ING Insurance International B.V.	10,906,254	9.99%

(1) The Korea Deposit Insurance Corporation currently owns 17,790,000 shares of our preferred stock, which, unless repurchased by us, can be converted into common stock. See "H&CB—Management's Discussion and Analysis of Financial Condition and Results of Operations—Trend Information—The Acquisition of DongNam Bank". We intend to repurchase these shares of our preferred stock from the Korea Deposit Insurance Corporation prior to the merger.

(2) As depositary bank.

Under the terms of an investment agreement between ING Insurance International B.V. and us, ING Insurance International has the right to appoint one executive director and one non-executive director to our board of directors. In addition, ING Insurance International has the right to require us to issue additional shares of our common stock so as to maintain its ownership interest in our bank at or above 9.99%, subject to adjustment under certain circumstances.

As of December 31, 2000, directors, including the Chairman, President and CEO of H&CB, collectively owned 25,579 shares of our common stock and our officers, other than our Chairman, President and CEO, collectively owned 23,292 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 5.0% of the outstanding common shares or exercised control or could exercise control over us as of December 31, 2000.

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, 2000, was ₩3,434 million. This amount is stated on an accrual basis and includes bonus payments and retirement benefits. The aggregate amount set aside or accrued by us to provide pension and retirement benefits to such persons was ₩204 million in 2000.

Our directors and executive officers and their related interests were indebted to us in the aggregate amount of ₩37,239 million and ₩47,380 million as of December 31, 2000 and 1999, respectively. In 2000, our directors and executive officers and their related interests borrowed ₩34,860 million and repaid ₩30,943 million.

Our Chairman, President and CEO has options to purchase a total of 400,000 shares of common stock at an exercise price of ₩5,000 per share. These options include an option to purchase 100,000 shares of common stock at an exercise price of ₩5,000 per share if the average closing price of our common stock between August 1, 2001 and October 31, 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 of common stock, 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 of common stock, and the exercise price is ₩13,900 per share for three of them, ₩27,600 per share for two of them and ₩25,100 per share for two of them. Two of our former executive officers each have the option to purchase 20,054 shares of common stock, two other former executive officers each have the option to purchase 20,000 shares of common stock, and one former executive officer has the option to purchase 10,000 shares of common stock, and the exercise price is ₩13,900 per share for each of them.

Each of the non-executive directors has an option to purchase 7,000 shares of common stock, eight at an exercise price of ₩27,600 per share and three at an exercise price of ₩25,100 per share, except for Mr. Bruce G. Willison, who has an option to purchase 10,000 shares of common stock at an exercise price of ₩13,900 per share. Two of our former non-executive directors each hold an option to purchase 2,486 shares of common stock and one of our former non-executive directors holds an option to purchase 1,928 shares of common stock, each at an exercise price of ₩27,600 per share.

Each of our ten general managers for regional headquarters has an option to purchase 10,000 shares of common stock, seven at an exercise price of ₩27,600 per share and three at an exercise price of ₩25,100 per share. Three former general managers for regional headquarters each have an option to purchase 3,333 shares of common stock 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 option to purchase shares at an exercise price of ₩13,900 were granted on February 27, 1999, the options to purchase shares at an exercise price of ₩27,600 per share were granted on February 28, 2000 and the options to purchase shares at an exercise price of ₩25,100 per share were granted on March 24, 2001.

Related Party Transactions

We have entered into a number of transactions with entities affiliated with the Korean government, which owns 14.50% of our common stock. For a description of such transactions, see "H&CB—Business Overview—Other Business—Management of the National Housing Fund", and "—Assets and Liabilities—Loan Portfolio", and "H&CB—Management's Discussion and Analysis of Financial Condition and Results of Operations—Trend Information—The Acquisition of DongNam Bank", "—Sales of Substandard Loans to Korea Asset Management Corporation" and "—Housing Finance Credit Guarantee Fund".

As of December 31, 1998, 1999 and 2000 and June 30, 2001, respectively, we had an aggregate of ₩10,017 million, ₩118.4 million, ₩14,019 million and ₩6,642 million in loans outstanding to our officers and directors. In 1998, 1999, 2000 and the first six months of 2001, 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.

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, the Bank of Korea's Monetary Board, the Korean Financial Supervisory Commission and the Korean Financial Supervisory Service.

The Bank of Korea, 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 Bank of Korea acts under instructions of its supreme policy-making body, the Monetary Board.

Under the Bank of Korea Act, the Monetary Board is responsible for formulating monetary and credit policies and overseeing the operations, management and administration of the Bank of Korea.

The Financial Supervisory Commission, 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 the supervision of banks. In addition, due to changes in Korean law implemented in May 1999, the Financial Supervisory Commission replaced the Korean Ministry of Finance and Economy in its capacity of regulating market entry into the banking business.

The Financial Supervisory Service 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 Financial Supervisory Service is subject to the instructions and directives of the Financial Supervisory Commission and carries out supervision and examination of commercial banks. In particular, the Financial Supervisory Service sets requirements regarding banks' 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 Financial Supervisory Commission. The commercial banking business is defined as the lending of funds acquired predominantly from the acceptance of demand deposits for periods not exceeding one year or, subject to certain limitations established by the Financial Supervisory Commission, for periods between one and three years. The long-term financing business is defined as the lending of funds acquired predominantly from paid-in capital, reserves or other retained earnings for periods in excess of one year, the acceptance of deposits with maturities of at least one year, or the issuance of bonds or other securities. A bank wishing to enter into any business other than the commercial banking or long-term financing business, such as the trust business, must obtain permission from the Financial Supervisory Commission. 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 Financial Supervisory Commission.

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, as New Kookmin will be after its formation, 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 specified solvency position. Until March 31, 1999, a bank's outstanding liabilities arising from guarantees and most other contingent liabilities were not permitted to exceed 20 times its equity capital amount. However, beginning on April 1, 1999, this 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. See "— Financial Exposure to Any Individual Customer" below. A bank also is required to credit at least 10% of its net profit to a legal reserve until such time when this reserve equals the amount of its total paid-in capital.

All banks must meet the risk-weighted capital standards, determined in accordance with the Financial Supervisory Commission's requirements which have been formulated based on Bank for International Settlements (BIS) standards. These standards were adopted by the Monetary Board and the predecessor of the Financial Supervisory Service and became effective from the beginning of 1996. All domestic banks and foreign bank branches have to meet the requirement of at least 8% in accordance with the risk-weighted capital standards.

Liquidity

All banks in Korea are required to match the maturities of their assets and liabilities in accordance with the Bank Act in order to ensure adequate liquidity. Banks are required to make quarterly reports regarding their liquidity to the Financial Supervisory Service and must:

- maintain a Won liquidity ratio (defined as Won assets due within three months, including marketable securities, divided by Won liabilities due within three months) of not less than 100%;

- 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) of not less than 80%;

- maintain a ratio of its foreign currency liquid assets due within seven days less foreign currency liabilities due within seven days divided by total foreign-currency assets of not less than 0%; and

- maintain a ratio of foreign currency liquid assets due within a month less foreign-currency liabilities due within a month divided by total foreign-currency assets of not less than negative 10%.

The Monetary Board is empowered to set and alter the minimum reserve requirements that banks must maintain against their deposit liabilities. The current minimum reserve ratio is 5% for average balances of Won currency demand deposits outstanding, 1% for Won currency employee asset establishment savings deposits and employee long term savings deposits outstanding and 2% for average balances of Won currency time and savings deposits, mutual installments and certificates of deposit outstanding. For foreign currency deposit liabilities, the current minimum reserve ratio is 2% for savings deposits outstanding, 5% for demand deposits and 1% for offshore accounts, immigrant accounts and resident accounts opened by foreign exchange banks.

Banks may not invest in excess of an amount exceeding 60% of their Tier I and Tier II capital in stocks and other securities with a remaining period until maturity of over three years. However, this limitation does not apply to monetary stabilization bonds issued by the Bank of Korea or to other Korean government bonds.

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% of the sum of its Tier I and Tier II capital, must be less than five times the sum of its Tier I and Tier II capital. Subject to certain exceptions, no bank is permitted to extend credit (including loans, guarantees, purchases of securities in the nature of a credit and such other transactions which directly or indirectly create credit risk) to a single individual or juridical person in excess of 20% of the sum of the bank's Tier I and Tier II capital, and no bank may grant credit in excess of 25% of the sum of its Tier I and Tier II capital to a single group of companies that belong to the same conglomerate as defined in the Monopoly Regulations and Fair Trade Act of Korea. In addition, banks are limited in their ability to extend credit to shareholders holding in excess of 10% (or in the case of regional banks, 15%) of their total issued and outstanding voting shares.

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 Bank of Korea's Monetary Board. However, as part of the financial reform plan issued by the Korean government in May 1993, controls on deposit interest rates in Korea were gradually reduced, culminating in July 1997 in the elimination of restrictions on deposit interest rates, except in connection with certain demand deposits. As a result of the Korean government's deregulation program, interest income generated by loan portfolios and interest expense resulting from deposits will be determined to a greater extent than in the past by market interest rates and the Bank of Korea's monetary policy, including its deposit reserve requirements. Deregulation of interest rates on deposits has increased competition for deposits based on interest rates offered and therefore may increase New Kookmin's interest expense.

Lending to Small- and Medium-Sized Enterprises

Banks are required to extend to small- and medium-sized enterprises a certain, minimum percentage of any monthly increase in their Won currency lending. Currently, the minimum percentages applicable to Kookmin Bank and H&CB are 45% and 35%, respectively. For other nationwide banks the minimum percentage is 45% and for regional banks, 60%. If a bank does not comply with the foregoing requirements, all or a portion of the government funds provided to such bank may be reclaimed by the Bank of Korea. With respect to New Kookmin, we expect that the minimum percentage of 45% will be applied, unless the Bank of Korea decides to apply the special percentage of 35% after the merger.

Disclosure of Management Performance

In order to permit the general public, especially depositors and shareholders, to monitor the management performance of Korean banks, the Financial Supervisory Commission requires commercial banks to disclose:

- any loans bearing no profit made to a single business group in an amount exceeding 10% of the sum of a bank's Tier I and Tier II capital (where the loan exposure to such borrower is calculated as the sum of substandard credits, doubtful credits and estimated loss credits) unless the loan exposure to a single business group is not more than ₩4 billion;
- any financial incident involving embezzlement, malfeasance or misappropriation of funds as soon as it occurs, unless the Financial Supervisory Service made a public announcement regarding such incident and provided that the amount involved exceeds 1% 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
- any loss due to court judgments or similar decisions in civil proceedings in an amount exceeding 1% of the bank's sum of Tier I and Tier II capital 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% of the issued and outstanding shares of any other corporation, subject to certain exceptions;
- 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 loan of up to: (1) ₩20 million in the case of a general loan; (2) ₩50 million in the case of a general loan plus a housing loan; or (3) ₩60 million in the case of a general loan, a housing loan, plus a loan to pay damages arising from wrongful acts of employees in financial transactions;
- 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 (or ₩50 million in the case of a general loan plus a housing loan).

Asset Classification

The Financial Supervisory Commission 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 Financial Supervisory Commission 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 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 Financial Supervisory Commission guidelines, which became effective on December 31, 1999, 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 New Kookmin once it is formed, 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.

The regulations allow banks some degree of discretion in the specific application of these guidelines. The asset classification categories and criteria established under the guidelines are as follows:

- *Normal.* Credits that do not raise concerns regarding the customer's capability to repay the credits.
- *Special Mention.* Credits that, although there is no immediate risk of default in repayment, are judged to have potential risks with respect to the customer's capability to repay the credits in the future, or that are in arrears for one month or more but less than three months.
- *Substandard.* (1) Credits that 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 that have been in arrears for three months or more, (b) that 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 that are judged to have incurred serious risks for default in repayment due to a noticeable deterioration in their capability to repay, referred to as "Doubtful Customers"; or (2) customers that 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 that are judged to have to be accounted as loss as their inability

to repay has become certain due to serious deterioration in their capability to repay, referred to as "Estimated-loss Customers"; (2) customers that have been in arrears for twelve months or more; or (3) customers that are judged to have incurred serious risks of default in repayment due to the occurrence of a final refusal to pay their promissory notes, the commencement of liquidation or bankruptcy proceedings, or the closure of their businesses.

Provisioning Requirements

The Financial Supervisory Commission also has 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 "Kookmin Bank—Assets and Liabilities—Loan Portfolio—Recognition of Allowance for Losses on Loans" and "H&CB—Assets and Liabilities—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 and the aggregate value of such real estate property must not exceed 60% of the sum of its Tier I and Tier II capital. Any property acquired by a bank through the exercise of its rights as a secured party or 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 the outstanding voting shares of another corporation, except, among other reasons, (1) where the corporation issuing such shares is engaged in a category of business permitted by the Financial Supervisory Commission or where the acquisition of shares by such bank is necessary for corporate restructuring and is approved by the Financial Supervisory Commission 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 other requirements determined by the Financial Supervisory Commission.

Restrictions on Bank Ownership

Under the Bank Act, subject to certain exceptions, a single stockholder and persons who have a special relationship with such stockholder (as described in the Presidential Decree to the Bank Act) may only acquire beneficial ownership of up to 4% of a nationwide bank's total issued and outstanding voting shares and up to 15% of a regional bank's total issued and outstanding voting shares. The Korean government and the Korea Deposit Insurance Corporation are not subject to such limits. The limits do not apply to an acquisition of a bank's shares by a foreign party (as defined in the Foreign Investment Promotion Act of Korea) that satisfies certain requirements provided in the Presidential Decree to the Bank Act, in which case such foreigner must report to the Financial Supervisory Commission when it acquires more than 4% and up to 10% of a nationwide bank's total issued and outstanding voting shares and must obtain an approval from the Financial Supervisory Commission in each instance where its total holdings exceed 10% (or in the case of a regional bank, 15%), 25% or 33% of a bank's total issued and outstanding voting shares. In addition, the limits do not apply to a foreigner's acquisition of shares in connection with the establishment of a new bank pursuant to the Presidential Decree. However, the foreigner must still obtain an approval from the Financial Supervisory Commission. On August 28, 2001, the Korea Institute of Finance held a public hearing to discuss a proposed amendment of the beneficial ownership restrictions applicable to voting shares of nationwide banks under the Bank Act. According to the proposed amendment, the current 4% limit on the beneficial ownership of a Korean bank's total issued and outstanding voting shares would be increased to 10%; however, certain industrial companies (*i.e.*, any corporation belonging to a conglomerate with (i) an aggregate stockholders' equity of non-financial companies exceeding 25% of the aggregate stockholders' equity of all member companies of such conglomerate or (ii) aggregate assets in non-financial companies exceeding ₩2 trillion) would continue to be subject to the 4% limit on beneficial ownership of nationwide banks. It has been reported in the Korean media that the Ministry of Finance and Economy will submit the proposed amendment to the National Assembly at its next annual session, which is scheduled for September 2001.

Deposit Insurance System

The Depositor Protection Act of Korea, adopted in December 1995, provides, through a deposit insurance system, insurance for certain deposits held in banks in Korea. Under the current rules, the Korea Deposit Insurance Corporation insures only up to a total of ₩50 million for deposits and interest, regardless of when the deposits were made and the size of the deposits. However, the maximum limit of ₩50 million is not applicable to interest-free settlement accounts (for example, a checking account) during the period from January 1, 2001 to December 31, 2003. Under the Depositor Protection Act, all banks governed by the Bank Act, including New Kookmin after its formation, are required to pay on a quarterly basis (every three months) to the Korea Deposit Insurance Corporation an insurance premium at a rate determined by the Presidential Decree to the Depositor Protection Act, which shall not exceed 0.5% of the bank's insurable deposits in any given year. Currently, the insurance premium for banks is 0.025% of insurable deposits for each quarter. If the Korea Deposit Insurance Corporation 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 Korea Deposit Insurance Corporation. Trust activities of banks are governed by the Trust Act of Korea and the Trust Business Act of Korea, each adopted in 1961. Banks engaged in both the banking and the trust business are subject to certain legal and accounting procedures and requirements, including:

- 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 held in the Trust Accounts are not available to depositors or other general creditors in the event the bank is liquidated or goes into a winding-up.

With respect to each unspecified money trust account for which a bank guarantees the principal amount or minimum yield thereon, the bank must make a special reserve of 25% or more of fees and commissions from each type of trust account until the total provision for each trust account equals 5% of the trust amount in such trust accounts.

In addition, a trustee bank must deposit annually with a Korean court an amount equal to 0.05% of its paid-in capital until the aggregate amount of such court deposits reaches 10% or more of its paid-in capital. In the event that a trustee bank breaches its duty of care as a trustee and causes losses to its customers, these court deposits will be available for compensation of such losses.

Laws and Regulations Governing Other Business Activities in Korea

To enter the foreign exchange business, a bank must register with the Korean Ministry of Finance and Economy. The foreign exchange business is governed by the Foreign Exchange Transaction Law of Korea, adopted in 1988. To enter the securities business, a bank must obtain the permission of the Financial Supervisory Commission. The securities business is governed by regulations under the Korean Securities and Exchange Act. Pursuant to the above mentioned laws, Kookmin Bank and H&CB are, and it is expected that New Kookmin will be, permitted to carry out foreign exchange business, securities repurchase business, governmental/public bonds underwriting business and governmental bonds dealing business.

DESCRIPTION OF NEW KOOKMIN'S CAPITAL STOCK

Capital Stock

Total Shares. New Kookmin initially will have authority to issue a total of 1,000,000,000 shares of capital stock. New Kookmin's proposed articles of incorporation provide that New Kookmin will be 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, New Kookmin may create new classes of shares, in addition to common stock and preferred stock. See "—Proposed Articles of Incorporation—Voting Rights" below.

Common Stock. Following completion of the merger, we anticipate that approximately 299 million shares of New Kookmin common stock will be outstanding.

Preferred Stock. Following completion of the merger, we anticipate that no shares of New Kookmin preferred stock will be outstanding.

Employee Stock Options. New Kookmin's proposed articles of incorporation provide that New Kookmin's stockholders may, by special resolution, grant to New Kookmin's officers, directors and employees stock options exercisable for up to 15% of the total number of New Kookmin's issued and outstanding shares of common stock. As of August 8, 2001, the officers, directors and employees of Kookmin Bank held options to purchase 553,000 shares of its common stock, whereas the officers, directors and employees of H&CB held options to purchase 964,007 shares of its common stock. These outstanding options included options to purchase 140,000 shares of Koomin Bank common stock held by the chief executive officer of Kookmin Bank and options to purchase 400,000 shares of H&CB common stock held by the chief executive officer of H&CB. The exercise by the chief executive officer of Kookmin Bank of options to purchase 20,000 shares of Kookmin Bank common stock, and the exercise by the chief executive officer of H&CB of options to purchase 100,000 shares of H&CB common stock, are subject to the satisfaction of certain conditions with respect to the price of the relevant bank's common stock on the Korea Stock Exchange.

We anticipate that, subject to approval at the extraordinary general meeting of stockholders of Kookmin Bank, all outstanding Kookmin Bank stock options will be converted into corresponding options to purchase one share of New Kookmin common stock for every 1.688346 shares of Kookmin Bank common stock that an option holder is entitled to purchase under the outstanding Kookmin Bank stock options. We also anticipate that, subject to approval at the extraordinary general meeting of stockholders of H&CB, all outstanding H&CB stock options will be converted into corresponding options to purchase one share of New Kookmin common stock for every share of H&CB common stock that an option holder is entitled to purchase under the outstanding H&CB stock options. Accordingly, following the completion of the merger, we anticipate that former officers, directors and employees of Kookmin Bank and H&CB will hold options to purchase an aggregate of 1,291,546 shares of New Kookmin common stock.

Proposed Articles of Incorporation

This section of the prospectus describes the material terms of the capital stock of New Kookmin under the proposed articles of incorporation that are expected to be in effect immediately after the merger is completed. The proposed articles of incorporation of New Kookmin are subject to revision by the incorporators of New Kookmin prior to their adoption. This section also briefly summarizes certain relevant provisions of the Korean Commercial Code, the Korean Securities and Exchange Act, the Bank Act of Korea and certain related laws of Korea, as all currently in effect. The terms of the proposed New Kookmin articles of incorporation, as well as the terms of the Korean Commercial Code, the Korean Securities and Exchange Act, the Bank Act and the other related laws of Korea, are more detailed than the general information provided below.

Organization and Register

New Kookmin will be a banking corporation organized in Korea under the Korean Commercial Code and the Bank Act. Upon its incorporation, it will be registered with the commercial registry office of Seoul District Court.

Dividends and Other Distributions

Dividends. Dividends will be distributed to stockholders in proportion to the number of shares of the relevant class of capital stock owned by each stockholder following approval by the stockholders at an annual general meeting of stockholders. Subject to the requirements of the Korean Commercial Code, the Bank Act and other applicable laws and regulations, we expect to pay full annual dividends on newly issued shares for the year in which the new shares are issued.

We will declare our dividend annually at the annual general meeting of stockholders, which will be held within three months after the end of each fiscal year. The annual dividend must be paid to the stockholders 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 Korean Commercial Code, we will 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 Korean 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 intend to set aside allowances for loan losses and reserves for severance pay in addition to the above legal reserve.

Distribution of Free Shares. In addition to permitting dividends in the form of shares to be paid out of retained or current earnings, the Korean Commercial Code permits a company to distribute to its stockholders, 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 pro rata to all stockholders. Our proposed 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. Holders of our American depositary shares are expected to be able to participate in distributions of free shares to the extent described in "Description of New Kookmin's American Depositary Shares—Dividends and Other Distributions—Shares".

Preemptive Rights and Issuances of Additional Shares

Unless otherwise provided in the Korean 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 stockholders who have preemptive rights and who are listed on the stockholders' register as of the applicable record date. Our stockholders will be entitled to subscribe for any newly issued shares in proportion to their existing shareholdings. However, as provided in our proposed articles of incorporation, new shares may be issued to persons other than existing stockholders if such shares are (1) publicly offered pursuant to the Korean Securities and Exchange Act, (2) issued to our employee stock ownership association as described below, (3) represented by our American depositary shares, (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 Korean Securities and Exchange Act, (6) issued to the Korean government or the Korea Deposit Insurance Corporation, or (7) issued for the accomplishment of our business strategy, including the introduction of new technology or the improvement of our financial condition.

Under the Korean Commercial Code, a company may vary, without stockholders' 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 stockholders' register is closed) prior to the record date. We will notify the stockholders who are entitled to subscribe for newly issued shares of the deadline for subscription at least two weeks prior to the deadline. If a stockholder fails to subscribe on or before such deadline, the stockholder'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 Korean Securities and Exchange Act, members of our employee stock ownership association, whether or not they are stockholders, will have a preemptive right, subject to certain exceptions, to subscribe for up to 20% of the shares publicly offered pursuant to the Korean Securities and Exchange Act. 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 August 8, 2001, the employee stock ownership association of Kookmin Bank owned 52,946 shares of Kookmin Bank common stock and the employee stock ownership association of H&CB did not own any shares of H&CB common stock.

Voting Rights

Each outstanding share of New Kookmin common stock will be entitled to one vote per share. However, voting rights with respect to shares of common stock that we hold and shares of common stock that are held by a corporate stockholder, 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 Korean Securities and Exchange Act permits holders of an aggregate of 1% or more of the outstanding shares with voting rights to request cumulative voting when electing two or more directors. The Korean Commercial Code and our proposed 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 shares of common stock present or represented at such meeting and such majority also represents at least one-fourth of the total of our issued and outstanding shares of common stock. Holders of non-voting shares (other than enfranchised non-voting shares) will not be entitled to vote on any resolution or to receive notice of any general meeting of stockholders unless the agenda of the meeting includes consideration of a resolution on which such holders are entitled to vote. If our annual general stockholders' 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 stockholders' 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 such enfranchised preferred shares will have the same rights as holders of common stock to request, receive notice of, attend and vote at a general meeting of stockholders.

The Korean 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, acquisition of a part of the business of any other company having a material effect on the business of the 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, where the rights or interest of the holders of the preferred shares are adversely affected, a resolution must be adopted by a separate meeting of holders of the preferred shares. Such a resolution may be adopted if the approval is obtained from stockholders 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 stockholder may exercise his voting rights by proxy given to another stockholder. The proxy must present the power of attorney prior to the start of a meeting of stockholders.

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 stockholders in proportion to the number of shares held. Holders of preferred shares have no preferences in liquidation.

General Meetings of Stockholders

There are two types of general meetings of stockholders: annual general meetings and extraordinary general meetings. We will be 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 stockholders may be held when necessary or at the request of the holders of an aggregate of 3% or more of our outstanding shares of common stock or the holders of an aggregate of 0.75% or more of our outstanding stock with voting rights, who have held those shares at least for six months. Under the Korean Commercial Code, an extraordinary general meeting of stockholders 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 stockholders only to the extent the non-voting shares have become enfranchised as described under the section entitled "Voting Rights" above, hereinafter referred to as "enfranchised non-voting shares". Meeting agendas will be 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 stockholders at least two weeks prior to the date of the general meeting of stockholders; provided, that, notice may be given to holders of 1% 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. Stockholders who are not on the stockholders' register as of the record date will not be entitled to receive notice of the general meeting of stockholders, and they will not be entitled to attend or vote at such meeting. Holders of enfranchised non-voting shares who are on the stockholders' register as of the record date will be entitled to receive notice of the general meeting of stockholders and they will be entitled to attend and vote at such meeting. Otherwise, holders of non-voting shares will not be entitled to receive notice of or vote at general meetings of stockholders.

The general meeting of stockholders will be 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.

Rights of Dissenting Stockholders

Pursuant to the Korean Securities and Exchange Act, in certain limited circumstances, including, without limitation, if we transfer all or any significant part of our business, if we acquire a part of the business of any other company and such acquisition has a material effect on our business, or if we merge or consolidate with another company, dissenting holders of shares of New Kookmin common stock and New Kookmin preferred stock will have the right to require us to purchase their shares. To exercise such a right, stockholders must submit to us a written notice of their intention to dissent prior to the general meeting of stockholders. Within 20 days after the date on which the relevant resolution is passed at such meeting, such dissenting stockholders must request in writing that we purchase their shares. We are obligated to purchase the shares from dissenting stockholders within one month after the end of such request period at a price to be determined by negotiation between the stockholder and us. If we cannot agree on a price with the stockholder through such negotiations, the purchase price will be the arithmetic mean of (1) the weighted average of the daily stock prices on the Korea Stock Exchange for the two-month period prior to the date of the adoption of the relevant board of directors' resolution, (2) the weighted average of the daily stock prices on the Korea Stock Exchange for the one-month period prior to the date of the adoption of the relevant board of directors' resolution and (3) the weighted average of the daily stock prices on the Korea Stock Exchange for the one-week period prior to the date of the adoption of the relevant board of directors' resolution. However, the Korean Financial Supervisory Commission may adjust such price if we or at least 30% of the dissenting stockholders do not accept such purchase price.

Required Disclosure of Ownership

Under Korean law, stockholders who beneficially hold more than a certain percentage of our common stock, or who are related to or are acting in concert with other holders of certain percentages of our common stock or our other equity securities, must report the status of their holdings to the Financial Supervisory Commission and other relevant governmental authorities. For a description of such required disclosure of ownership, see "Korean Foreign Exchange Controls and Securities Regulations—Reporting Requirements for Holders of Substantial Interests" and "Supervision and Regulation—Principal Regulations Applicable to Banks in Korea—Restrictions on Bank Ownership".

Other Provisions

Register of Stockholders and Record Dates. We will maintain the register of our stockholders at our principal office in Seoul, Korea. We will register transfers of shares on the register of stockholders upon presentation of the share certificates.

The record date for annual dividends will be December 31. For the purpose of determining the holders of shares entitled to annual dividends, the register of stockholders may be closed for the period following December 31 and ending on January 31. Further, the Korean Commercial Code and our proposed articles of incorporation permit us upon at least two weeks' public notice to set a record date and/or close the register of stockholders for not more than three months for the purpose of determining the stockholders 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 stockholders is closed.

Annual Report. At least one week before the annual general meeting of stockholders, we must make our annual report and audited financial statements available for inspection at our head office and at all of our branch offices. Copies of annual reports, the audited financial statements and any resolutions adopted at the general meeting of stockholders will be available to our stockholders.

Under the Korean Securities and Exchange Act, we must file with the Korean Financial Supervisory Commission and the Korea Stock Exchange an annual report within 90 days after the end of each fiscal year, a half-year report within 45 days after the end of the first six months of each fiscal year and quarterly reports within 45 days after the end of the first three months and nine months of each fiscal year, respectively. Copies of such reports will be available for public inspection at the Korean Financial Supervisory Commission and the Korea Stock Exchange.

Transfer of Shares. Under the Korean Commercial Code, the transfer of shares is effected by the delivery of share certificates. The Korean Securities and Exchange Act provides, however, that in case of a company listed on the Korea Stock Exchange such as us, share transfers can be effected by the book-entry method. In order to assert stockholders' rights against us, the transferee must have his name and address registered on the register of stockholders. For this purpose, stockholders are required to file with us their name, address and seal. Non-resident stockholders must notify us of the name of their proxy in Korea to which our notice can be sent. Under current Korean regulations, the Korea Securities Depository, internationally recognized foreign custodians, investment trust companies, futures trading companies, foreign exchange banks (including domestic branches of foreign banks), and securities companies (including domestic branches of foreign securities companies) may act as agents and provide related services for foreign stockholders. In addition, foreign stockholders may appoint a standing proxy among the foregoing and generally may not allow any person other than the standing proxy to exercise rights to the acquired shares or perform any tasks related thereto on their behalf. Certain foreign exchange controls and securities regulations apply to the transfer of shares by non-residents or non-Koreans. See "Korean Foreign Exchange Controls and Securities Regulations". Except as provided in the Bank Act, the ceiling on the aggregate shareholdings of a single stockholder and persons who stand in a special relationship with such stockholder is 4% of our issued and outstanding voting shares. See "Supervision and Regulation—Principal Regulations Applicable to Banks in Korea—Restrictions on Bank Ownership".

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 Korean Securities and Exchange Act and regulations under the Bank Act and after submission of certain reports to the Korean Financial Supervisory Commission, 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, and (2) the purchase of such shares shall meet the risk-adjusted capital ratio under Bank for International Settlements standards.

In general, subsidiaries of which we own 40% or more will not be permitted to acquire our shares.

DESCRIPTION OF NEW KOOKMIN'S AMERICAN DEPOSITARY SHARES

Unless otherwise indicated, all references in this section to "American depositary shares" or "our American depositary shares" are to New Kookmin American depositary shares, all references to "American depositary receipts" or "our American depositary receipts" are to New Kookmin American depositary receipts and all references to "shares" or "our shares" are to shares of New Kookmin common stock.

New Kookmin American Depositary Shares

The Bank of New York, as depositary for our American depositary share facility, 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 share of New Kookmin common stock (or the right to receive one share of New Kookmin common stock) 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. We expect that New Kookmin will apply to list the American depositary shares on the New York Stock Exchange, Inc. The depositary's office is located at 101 Barclay Street, New York, New York 10286. The custodian's office is located at 33 Yoido-dong, Youngdeungpo-ku, Seoul 150-010, 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 that 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, you will not be treated as a stockholder of New Kookmin and you will not have New Kookmin stockholder rights. Korean law governs stockholder 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. However, New Kookmin's obligations to its stockholders will be governed by the laws of Korea, which are different from the laws in the United States. In addition, we note that laws and regulations of Korea may restrict the deposit and withdrawal of our shares in or from the American depositary share facility. See "Korean Foreign Exchange Controls and Securities Regulation—Issuance of American Depositary Shares".

The following is a summary of the material terms of the deposit agreement. Because it is a summary, it does not contain all the information that may be important to you. For more complete information, you should read the entire deposit agreement and the form of American depositary receipt. Directions on how to obtain copies of these are provided under the caption "Where You Can Find More Information".

Dividends and Other Distributions

How will you receive dividends and other distributions on the shares?

The depositary has agreed to pay 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 in the opinion of the depositary be obtained, the agreement allows the depositary to distribute the Won only to those American depositary receipt holders to whom it is possible to do so. 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 "Tax Considerations—Korean Tax Considerations". 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 period 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 use reasonable efforts to 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 receive 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 and feasible to make these rights available to you, the depositary will use reasonable efforts 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 agreed to consent to any deposit so long as:

- the deposit would not violate our charter documents or Korean law; and
- the total number of our shares on deposit with the depositary would not exceed 100,000,000.

How do holders of American depositary shares 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. Once cancelled, the American depositary shares will not have any rights under the deposit agreement.

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 if we so 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 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. 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 cannot 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.*

Due to restrictions under Korean law, 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 our articles of incorporation or applicable law of which we may from time to time notify the depositary. See "Risk Factors—Risks relating to the common stock and American depositary shares of New Kookmin—Ownership of New Kookmin common stock is restricted under Korean Law".

Dissent and Appraisal Rights

In some limited circumstances, including the transfer of the whole or any significant part of our business, our acquisition of a part of the business of any other company having a material effect on our business and our merger or consolidation with another company, dissenting stockholders have the right to require us to purchase their shares under Korean law. See "Description of New Kookmin's Capital Stock—Proposed Articles of Incorporation—Rights of Dissenting Stockholders". However, if you hold our American depositary shares, you will ***not*** be able to exercise such dissent and appraisal rights unless you have withdrawn the underlying common stock and become a direct stockholder prior to the record date for the stockholders' meeting at which the relevant transaction is to be approved.

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 • Cable, telex and facsimile transmission expenses (if expressly provided in the deposit agreement)
Taxes and other charges the depositary or the custodian have to pay on any American depositary receipt or share underlying an American depositary receipt, such as stamp taxes, stock transfer taxes or fees	• 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 to 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 obtain 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 "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 amendment adds or increases fees or charges, except for taxes and other governmental charges or certain expenses of the depositary, or prejudices an important right of American depositary receipt holders, it will only become effective 30 days after the depositary notifies you of the amendment. In no event may any amendment impair your right to surrender your American depositary receipts and receive the shares represented thereby, except in order to comply with mandatory provisions of applicable law. *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 informed us of its intent to resign and we have not appointed a new depositary bank within 90 days. In either case, the depositary must notify you of such intention at least 30 days before termination.

After termination, the depositary and its agents will perform the following under the deposit agreement, but nothing else:

- advise you that the deposit agreement is terminated;
- 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 who 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 delivers an American depositary receipt or registers a transfer of an American depositary share, makes a distribution on an American depositary share, or permits 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.

Limits on 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 stockholders' 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.

COMPARISON OF RIGHTS OF NEW KOOKMIN SECURITYHOLDERS, KOOKMIN BANK SECURITYHOLDERS AND H&CB SECURITYHOLDERS

Kookmin Bank and H&CB are each, and New Kookmin will be, organized under the law of the Republic of Korea. Any differences, therefore, in the rights of holders of New Kookmin securities and holders of Kookmin Bank securities or H&CB securities would arise primarily from differences in their respective articles of incorporation and deposit agreements.

There are no material differences in the rights of holders of New Kookmin common stock and holders of Kookmin Bank common stock or H&CB common stock under New Kookmin's proposed articles of incorporation and the respective articles of incorporation of Kookmin Bank and H&CB. In addition, there are no material differences in the rights of holders of New Kookmin American depositary shares and holders of H&CB American depositary shares under their respective deposit agreements.

There are some material differences in the rights of holders of New Kookmin American depositary shares and holders of Kookmin Bank global depositary shares under their respective deposit agreements. In particular, holders of New Kookmin American depositary shares will be entitled to instruct the depositary as to how to vote the underlying shares of New Kookmin common stock in the event that there are matters to be voted upon by the holders of common stock of New Kookmin. Holders of Kookmin Bank global depositary shares do not have the right to instruct the depositary to vote the shares of common stock underlying their global depositary shares. In addition, while the Kookmin Bank global depositary shares are subject to certain restrictions on deposit and transfer due to the fact that the global depositary shares and underlying common stock of Kookmin Bank have not been registered under the U.S. Securities Act, holders of New Kookmin American depositary shares will not be subject to these same deposit and transfer restrictions since the common stock and American depositary shares of New Kookmin will be registered under the Securities Act.

TAX CONSIDERATIONS

Material U.S. Federal Income Tax Consequences of the Merger

The following discussion is a summary of the material U.S. federal income tax consequences to U.S. holders of Kookmin Bank common stock and global depositary shares and H&CB common stock and American depositary shares of the merger and of the ownership of New Kookmin common stock and American depositary shares.

For purposes of this discussion, a U.S. holder means:

- a citizen or resident of the United States;
- a corporation or partnership created or organized in or under the laws of the United States or any political subdivision thereof;
- a trust, (i) that is subject to the supervision of a court within the United States and the control of one or more United States persons as described in section 7701(a)(30) of the Internal Revenue Code of 1986, as amended (the "Code") or (ii) that has a valid election in effect under applicable U.S. Treasury regulations to be treated as a United States person; or
- an estate the income of which is subject to U.S. federal income tax regardless of its source.

This discussion is based upon the Code, Treasury regulations, administrative rulings and judicial decisions currently in effect, all of which are subject to change, possibly with retroactive effect. The discussion assumes that holders of Kookmin Bank common stock and global depositary shares hold their common stock and global depositary shares and will hold their New Kookmin common stock and American depositary shares, and H&CB holders of common stock and American depositary shares hold their common stock and American depositary shares and will hold their New Kookmin common stock and American depositary shares, as a capital asset within the meaning of Section 1221 of the Code. Further, the discussion does not address all aspects of U.S. federal income taxation that may be relevant to a particular stockholder in light of that stockholder's personal investment circumstances, or to stockholders subject to special treatment under the U.S. federal income tax laws, including:

- insurance companies;
- tax-exempt organizations;
- financial institutions;
- broker-dealers;
- persons that hold their Kookmin Bank common stock and global depositary shares or H&CB common stock and American depositary shares as part of a straddle, a hedge against currency risk or a constructive sale or conversion transaction;
- persons that have a functional currency other than the U.S. Dollar;
- investors in pass-through entities;
- persons who acquired their Kookmin Bank common stock and global depositary shares or H&CB common stock and American depositary shares through the exercise of employee stock options or otherwise as compensation or through a tax-qualified retirement plan;
- holders of options granted under any Kookmin Bank or H&CB benefit plan; and
- persons who hold Kookmin Bank common stock or H&CB common stock and exercise their appraisal rights under Korea law.

In addition, this summary does not address holders of H&CB common stock and American depositary shares who will own 5% or more of the New Kookmin common stock (including common stock underlying the New Kookmin American depositary shares), measured by vote or value, either directly or indirectly through attribution rules, immediately after the merger, because those shareholders are subject to special tax rules and may be required to recognize gain or loss in respect of the transaction in certain circumstances.

This summary is based, in part, upon representations made by the depositary to New Kookmin and assumes that the deposit agreement, and all other related agreements, will be performed in accordance with their terms. If a partnership holds New Kookmin common stock or American depositary shares, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If a U.S. holder is a partner of a partnership holding New Kookmin common stock or American depositary shares, such holder is urged to consult their tax advisors.

Holders of Kookmin Bank common stock and global depositary shares or H&CB common stock and American depositary shares should consult their own tax advisors regarding the specific tax consequences to them of the mergers and of the ownership of New Kookmin common stock and American depositary shares, including the applicability and effect of federal, state, local and foreign income and other tax laws in their particular circumstances.

Consequences of the Merger

Consequences to U.S. Holders of Kookmin Bank Common Stock and Global Depositary Shares

Based on customary factual representations contained in representation letters provided by each of Kookmin Bank and H&CB, all of which must continue to be true and accurate in all respects as of the effective time, and assuming that the merger is completed according to the terms of the merger agreement, it is the opinion of Simpson Thacher & Bartlett, special U.S. tax counsel to Kookmin Bank, that the material U.S. federal income tax consequences of the merger of Kookmin Bank into New Kookmin are as follows:

- the merger of Kookmin Bank into New Kookmin will constitute a reorganization within the meaning of Section 368(a) of the Code;
- no gain or loss will be recognized by U.S. holders of Kookmin Bank common stock or global depositary shares who exchange their common stock or global depositary shares for New Kookmin common stock or American depositary shares except with respect to any cash received in lieu of any fractional share interest in the New Kookmin common stock or American depositary shares;
- the tax basis to a U.S. holder of New Kookmin common stock or American depositary shares received in exchange for Kookmin Bank common stock or global depositary shares pursuant to the merger, including any fractional share interest in New Kookmin common stock or American depositary shares for which cash is received, will equal the U.S. holder's tax basis in the common stock or global depositary shares exchanged; and
- the holding period of a U.S. holder in New Kookmin common stock or American depositary shares received pursuant to the merger, including any fractional share interest in the New Kookmin common stock or American depositary shares for which cash is received, will include the holding period of the common stock or global depositary shares exchanged.

The qualification of the merger of Kookmin Bank into New Kookmin as a reorganization under Section 368(a) of the Code is dependent upon, among other things, (i) Kookmin Bank stockholders receiving in the merger stock ownership that constitutes "control" of New Kookmin and (ii) New Kookmin acquiring "substantially all" of the assets of Kookmin Bank in the merger. For these purposes "control" means the ownership of stock possessing at least 50% of the total combined voting power of all classes of New Kookmin stock entitled to vote, or, at least 50% of the total value of the shares of all classes of New Kookmin stock. Under current Internal Revenue Service ruling guidelines, "substantially all" means at least 90% of the fair market value of the net assets and at least 70% of the fair market value of the gross assets held by Kookmin Bank immediately prior to the merger, for these purposes taking into account payments made by Kookmin Bank to dissenters. The parties believe that Kookmin Bank stockholders will have control of New Kookmin after the merger and that New Kookmin will acquire substantially all of the assets of Kookmin Bank in the merger. If stockholders of Kookmin Bank do not receive stock representing control of New Kookmin or New Kookmin does not acquire substantially all of the assets of Kookmin Bank, the merger of Kookmin Bank into New Kookmin will not qualify as a reorganization. If the merger of Kookmin Bank into New Kookmin does not qualify as a reorganization within the meaning of Section 368(a) of the Code, each U.S. holder of Kookmin Bank common stock or global depositary shares will generally recognize taxable gain or loss measured by the difference between (1) the fair market value of the New Kookmin common stock or American depositary shares received and (2) the U.S. holder's tax basis in the Kookmin Bank common stock or global depositary shares exchanged.

Consequences to U.S. Holders of H&CB Common Stock and American Depositary Shares

Based on customary factual representations contained in representation letters provided by each of Kookmin Bank and H&CB, all of which must continue to be true and accurate in all respects as of the effective time, and assuming that the merger is completed according to the terms of the merger agreement and that H&CB repurchases prior to the merger all of its preferred stock owned by the Korea Deposit Insurance Corporation, it is the opinion of Cleary, Gottlieb, Steen & Hamilton, special U.S. tax counsel to H&CB, that the material U.S. federal income tax consequences of the merger of H&CB into New Kookmin are as follows:

- the merger of H&CB into New Kookmin will constitute a reorganization within the meaning of Section 368(a) of the Code;
- no gain or loss will be recognized by U.S. holders of H&CB common stock or American depositary shares who exchange their common stock or American depositary shares for New Kookmin common stock or American depositary shares except with respect to any cash received in lieu of any fractional share interest in the New Kookmin common stock or American depositary shares;
- the tax basis to a U.S. holder of New Kookmin common stock or American depositary shares received in exchange for H&CB common stock or American depositary shares pursuant to the merger, including any fractional share interest in New Kookmin common stock or American depositary shares for which cash is received, will equal the U.S. holder's tax basis in the common stock or American depositary shares exchanged; and,
- the holding period of a U.S. holder in New Kookmin common stock or American depositary shares received pursuant to the merger, including any fractional share interest in the New Kookmin common stock or American depositary shares for which cash is received, will include the holding period of the common stock or American depositary shares exchanged.

The qualification of the merger of H&CB into New Kookmin as a reorganization under Section 368(a) of the Code is dependent upon, among other things, New Kookmin acquiring "substantially all" of the assets of H&CB in the merger. Under current Internal Revenue Service ruling guidelines, "substantially all" means at least 90% of the fair market value of the net assets and at least 70% of the fair market value of the gross assets held by H&CB immediately prior to the merger, for these purposes taking into account payments made by H&CB to dissenters. The parties believe that New Kookmin will acquire substantially all of the assets of H&CB in the merger. If New Kookmin does not acquire substantially all of the assets of H&CB, the merger of H&CB into New Kookmin will not qualify as a reorganization. The qualification of the merger of H&CB into New Kookmin as a reorganization under Section 368(a) of the Code is also dependent upon, among other things, H&CB repurchasing prior to the merger all of its preferred stock owned by the Korea Deposit Insurance Corporation. H&CB intends to repurchase prior to the merger all of its preferred stock owned by the Korea Deposit Insurance Corporation. If H&CB does not complete such repurchase prior to the merger, the merger of H&CB into New Kookmin will not qualify as a reorganization. If the merger of H&CB into New Kookmin does not qualify as a reorganization within the meaning of Section 368(a) of the Code, each U.S. holder of H&CB common stock or American depositary shares will generally recognize taxable gain or loss measured by the difference between (1) the fair market value of the New Kookmin common stock or American depositary shares received and (2) the U.S. holder's tax basis in the H&CB common stock or American depositary shares exchanged.

Cash in Lieu of Fractional Share Interest

A U.S. holder who receives cash in lieu of a fractional share interest in New Kookmin common stock or American depositary shares pursuant to the mergers will be treated as having received the fractional share and then as having had the fractional share redeemed for cash, and generally will recognize capital gain or loss on the deemed exchange in an amount equal to the difference between the amount of cash received and the basis of the common stock, global depositary shares or American depositary shares exchanged allocable to the fractional share.

None of Kookmin Bank, H&CB or New Kookmin will seek a ruling from the Internal Revenue Service concerning the tax consequences of the transaction described herein. As a result, there can be no assurance that the Internal Revenue Service will not disagree with or challenge any of the conclusions described above. Moreover, any change in currently applicable law, which may or may not be retroactive, or failure of any representations or assumptions to be true and accurate in all material respects, could affect the tax consequences described above.

U.S. holders of Kookmin Bank common stock or global depositary shares or H&CB common stock or American depositary shares that receive New Kookmin common stock or American depositary shares as a result of the merger will be required to attach to their income tax returns for the taxable year in which the closing of the transaction occurs, and maintain a permanent record of, a complete statement of the facts relating to the exchange of shares in connection with the mergers. The facts to be disclosed by a U.S. holder include the U.S. holder's basis in the Kookmin Bank common stock or global depositary shares or H&CB common stock or American depositary shares transferred to New Kookmin and the number of New Kookmin common stock or American depositary shares received in the mergers.

Information Reporting and Backup Withholding

In general, information reporting requirements will apply to certain payments of cash in lieu of a fractional share interest in New Kookmin common stock or American depositary shares paid within the United States (and in certain cases, outside of the United States) to U.S. holders other than certain exempt recipients (such as corporations). Backup withholding may apply to such payments if the U.S. holder fails to provide its taxpayer identification number, to report in full dividend and interest income or to make certain certifications.

Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against the U.S. holder's U.S. federal income tax liability, provided the required information is furnished to the Internal Revenue Service.

Ownership of New Kookmin Common Stock and American Depositary Shares

The discussion set forth below is applicable to U.S. holders (1) who are residents of the United States for purposes of the current tax treaty between the United States and Korea (the "Treaty"), (2) whose American depositary shares are not, for purposes of the Treaty, effectively connected with a permanent establishment in Korea and (3) who otherwise qualify for the full benefits of the Treaty.

In general for U.S. federal income tax purposes, U.S. holders of New Kookmin American depositary shares will be treated as the owners of the underlying New Kookmin shares that are represented by such American depositary shares. Deposits or withdrawals of the shares by U.S. holders for American depositary shares will not be subject to U.S. federal income tax.

Taxation of Dividends

The gross amount of dividends (other than certain dividends of New Kookmin shares or rights to subscribe for New Kookmin shares) paid to U.S. holders of New Kookmin shares or American depositary shares (including amounts withheld to reflect Korean withholding taxes) will be treated as dividend income to such holders, to the extent paid out of current or accumulated earnings and profits, as determined under U.S. federal income tax principles. Such income will be includible in the gross income of a U.S. holder as ordinary income on the day received by the U.S. holder, in the case of shares, or by the depositary, in the case of American depositary shares. Such dividends will not be eligible for the dividends received deduction allowed to corporations under the Code.

The amount of any dividend paid in Won will equal the U.S. Dollar value of the Won received, calculated by reference to the exchange rate in effect on the date the dividend is received by the U.S. holder, in the case of shares, or by the depositary, in the case of American depositary shares, regardless of whether the Won are converted into U.S. Dollars. If the Won received as a dividend are not converted into U.S. Dollars on the date of receipt, a U.S. holder will have a basis in the Won equal to their U.S. Dollar value on the date of receipt. Any gain or loss realized on a subsequent conversion or other disposition of the Won will be treated as ordinary income or loss.

Subject to certain conditions and limitations, a U.S. holder may be entitled to deduct or credit Korean taxes withheld from dividends (at the rate provided in the Treaty). However, the election to deduct or credit foreign taxes applies to all of the U.S. holder's foreign taxes for a particular taxable year. U.S. holders will be required to properly demonstrate to New Kookmin and the Korean tax authorities their entitlement to the reduced rate of withholding under the Treaty. For purposes of calculating the foreign tax credit, dividends paid on the New Kookmin shares will be treated as income from sources outside the United States and will generally constitute "passive income" or, in the case of certain U.S. holders, "financial services income". Special rules apply to certain individuals whose foreign source income during the taxable year consists entirely of "qualified passive income" and whose creditable foreign taxes paid or accrued during the taxable year do not exceed $300 ($600 in the case of a joint return). Further, in certain circumstances, a U.S. holder that (1) has held New Kookmin shares or American depositary shares for less than a specified minimum period during which it is not protected from risk of loss, (2) is obligated to make payments related to the dividends or (3) holds the New Kookmin shares or American depositary shares in arrangements in which the U.S. holder's expected economic profit, after non-U.S. taxes, is insubstantial will not be allowed a foreign tax credit for foreign taxes imposed on dividends paid on New Kookmin shares or American depositary shares. The rules governing the foreign tax credit are complex. Persons holding New Kookmin shares or American depositary shares are urged to consult their tax advisors regarding the availability of the foreign tax credit under their particular circumstances.

To the extent that the amount of any distribution exceeds New Kookmin's current and accumulated earnings and profits for a taxable year, the distribution will first be treated as a tax-free return of capital, causing a reduction in the adjusted basis of the New Kookmin shares or American depositary shares (thereby increasing the amount of gain, or decreasing the amount of loss, to be recognized by the investor on a subsequent disposition of the New Kookmin shares or American depositary shares), and the balance in excess of adjusted basis will be taxed as capital gain recognized on a sale or exchange. Consequently, such distributions in excess of New Kookmin's current and accumulated earnings and profits would not give rise to foreign source income and a U.S. Holder would not be able to use the foreign tax credit arising from any Korean withholding tax imposed on such distribution unless such credit can be applied (subject to applicable limitations) against U.S. tax due on other foreign source income in the appropriate category for foreign tax credit purposes.

Distributions of New Kookmin shares or rights to subscribe for New Kookmin shares that are received as part of a pro rata distribution to all stockholders of New Kookmin in certain circumstances may not be subject to U.S. federal income tax. Consequently such distributions will not give rise to foreign source income and a U.S. holder will not be able to use the foreign tax credit arising from any Korean withholding tax unless such credit can be applied (subject to applicable limitations) against U.S. tax due on other foreign source income in the appropriate category for foreign tax credit purposes. The basis of the new New Kookmin shares or rights so received will be determined by allocating the U.S. holder's basis in the old New Kookmin shares between the old New Kookmin shares and the new New Kookmin shares or rights received, based on their relative fair market values on the date of distribution. However, the basis of the rights will be zero if (1) the fair market value of the rights is less than 15% of the fair market value of the old New Kookmin shares at the time of distribution (unless the U.S. holder elects to allocate its basis in the old New Kookmin shares as described above), or (2) the rights are not exercised and thus expire.

Taxation of Capital Gains

For U.S. federal income tax purposes, a U.S. holder will recognize taxable gain or loss on any sale or exchange of a right, New Kookmin share or American depositary shares in an amount equal to the difference between the amount realized for the right, New Kookmin share or American depositary share and the U.S. holder's basis in the right, New Kookmin share or American depositary share. Such gain or loss will be capital gain or loss. Capital gains of individuals derived with respect to capital assets held for more than one year are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations. Any gain or loss recognized by a U.S. holder will generally be treated as United States source gain or loss.

Securities Transaction Tax

Holders should note that any Korean securities transaction tax will not be treated as a creditable foreign tax for U.S. federal income tax purposes, although U.S. holders may be entitled to deduct such taxes, subject to applicable limitations under the Code.

Estate and Gift Tax

Korea may impose an inheritance tax on a decedent who owns New Kookmin shares (and possibly American depositary shares), even if the decedent was not a citizen or resident of Korea. See "—Korean Tax Considerations—Inheritance Tax and Gift Tax" below. The amount of any inheritance tax paid to Korea may be eligible for credit against the amount of U.S. federal estate tax imposed on the estate of a U.S. holder. Korea may also impose a gift tax. The Korea gift tax generally will not be treated as a creditable foreign tax for U.S. tax purposes. Prospective purchasers should consult their personal tax advisors regarding the consequences of the imposition of the Korean inheritance or gift tax.

Information Reporting and Backup Withholding

In general, information reporting requirements will apply to certain payments of dividends in respect of the New Kookmin common stock or American depositary shares and to the proceeds of the sale, exchange, or redemption of New Kookmin shares or American depositary shares paid within the United States (and in certain cases, outside of the United States) to U.S. holders other than certain exempt recipients (such as corporations). Backup withholding may apply to such payments if the U.S. holder fails to provide its taxpayer identification number, to report in full dividend and interest income or to make certain certifications.

Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against the U.S. holder's U.S. federal income tax liability provided the required information is furnished to the Internal Revenue Service.

Korean Tax Considerations

The following discussion is a summary of the material Korean tax consequences to non-Korean holders of Kookmin Bank common stock and global depositary shares and H&CB common stock and American depositary shares of the merger and of the ownership of New Kookmin common stock and American depositary shares.

For purposes of this discussion, a non-Korean holder means a holder who is 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.

This discussion regarding Korean tax laws set forth below is based on the Korean tax laws currently in effect and as currently interpreted by the Korean taxation authorities. This discussion is not exhaustive of all possible tax considerations which may apply to a particular stockholder. The non-Korean holders of Kookmin Bank common stock and global depositary shares and H&CB and American depositary shares are advised to consult their tax advisors as to the overall tax consequences to them of the merger and of ownership of New Kookmin shares and American depositary shares, including specifically the tax consequences under Korean law and the current tax treaty between Korea and the United States.

Consequences of the Merger

Under Korean tax laws, a non-Korean holder of Kookmin Bank common stock or H&CB common stock will be deemed to have received dividends from New Kookmin to the extent that the amount of cash received in lieu of a fractional share interest in New Kookmin common stock plus the aggregate value of New Kookmin common stock received for Kookmin Bank common stock or H&CB common stock as a result of a merger exceed such non-Korean holder's basis in Kookmin Bank common stock or H&CB common stock.

The value of New Kookmin common stock received for Kookmin Bank common stock or H&CB common stock will be calculated based on the par value of New Kookmin common stock.

Even though it is not entirely clear with respect to the tax treatment for non-Korean holders of global depositary shares or American depositary shares under the current Korean tax law, a non-Korean holder of Kookmin Bank global depositary shares or H&CB American depositary shares should be treated the same as a non-Korean holder of Kookmin Bank common stock or H&CB common stock for the purpose of deemed dividends as explained in the preceding paragraphs.

Dividends on Shares of Common Stock or American Depositary Shares

For Korean tax purposes, a non-Korean holder of New Kookmin American depositary shares will be treated the same as a non-Korean holder of New Kookmin common stock. The dividends paid, whether in cash or in shares, including deemed dividends described above, to a non-Korean holder of New Kookmin common stock and American depositary shares are generally subject to withholding tax at a rate of 27.5% or a reduced rate of withholding under the tax treaty between Korea and the country in which a non-Korean holder resides. The net amount of dividends to be actually paid to the non-Korean holder of New Kookmin common stock and American depositary shares will be the gross amount of dividends less the amount of withholding tax.

Under the tax treaty between the United States and Korea, the maximum rate of withholding tax on dividends paid to non-Korean holders of New Kookmin common stock and American depositary shares who are entitled to the reduced rate of withholding tax will be generally 15% of the total amount of dividends; provided, however, that the reduced rate of withholding tax will be 10% of the total amount of dividends if a non-Korean holder of New Kookmin common stock and American depositary shares is a United States corporation and owned at least 10% of the outstanding voting shares of New Kookmin common stock for any part of its taxable year which precedes the date of payment of the dividend and during the whole of its prior taxable year and certain other conditions are satisfied. In addition to these withholding tax rates, local surtax will be imposed on the dividends to be paid to a non-Korean holder of New Kookmin common stock and American depositary shares, and thus the total maximum withholding tax rate will be generally 16.5% of the gross amount of dividends.

In order to be entitled to a reduced rate of withholding tax under the tax treaty between the United States and Korea, a non-Korean holder of New Kookmin common stock and American depositary shares must submit to New Kookmin, prior to the payment date of dividends, evidence of residency for Korean tax purposes. Such evidence of residency for Korean tax purposes may be submitted to New Kookmin through the depositary bank of New Kookmin. Excess taxes withheld may not be recoverable even if the non-Korean holder subsequently produces evidence that such holder was entitled to have tax withheld at a lower rate.

Dividends in the form of free shares which reflect transfers of certain capital reserves or asset revaluation reserves into paid-in-capital may be subject to Korean withholding tax.

Capital Gains

For Korean tax purposes, a non-Korean holder of New Kookmin common stock will recognize capital gain to the extent realized from sale or exchange of New Kookmin shares unless (i) such non-Korean holder of New Kookmin common stock is entitled to the exemption provided by the tax treaty between Korea and the country in which a non-Korean holder resides, or (ii) such non-resident holder of New Kookmin common stock does not have any permanent establishment in Korea and owns or has owned directly or beneficially less than 25% of the total issued and outstanding shares of New Kookmin common stock at any time during the year of sale or exchange or for the five calendar years before the year of sale or exchange and such sale or exchange is made on the Korea Stock Exchange. As for the American depositary shares, the Korean tax 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.

However, pursuant to the tax treaty between the United States and Korea, a non-Korean holder of New Kookmin common stock or American depositary shares whose capital gain has been recognized in the United States will not be subject to Korean tax law on recognition of capital gain.

If a non-Korean holder is subject to tax on capital gains with respect to the sale of New Kookmin American depositary shares in Korea (see above), or of shares of New Kookmin common stock which have been acquired as a result of a withdrawal from the depositary, capital gain will be calculated based on the cost of acquiring New Kookmin American depositary shares (representing the shares of New Kookmin common stock), including any transaction taxes and brokerage commissions paid in connection with such acquisition. Unless a non-Korean holder of New Kookmin shares or American depositary shares is entitled to an exemption or a reduced tax rate on capital gain under the tax treaty between Korea and the country in which a non-Korean holder resides, the amount of Korean tax imposed on capital gain of a non-Korean holder will be the lesser of 27.5% of the net capital gain or 11.0% of the gross amount of realization from sale or exchange.

A non-Korean holder of New Kookmin common stock or American depositary shares, the purchaser or, in the case of the sale of shares of New Kookmin 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 this amount to the Korean tax authority, unless such non-Korean holder establishes the entitlement to an exemption or lower rate of taxation under the tax treaty between the United States and Korea or produce satisfactory evidence of the acquisition cost for New Kookmin American depositary shares.

To obtain the benefit of an exemption or reduced rate of tax pursuant to the tax treaty, a non-Korean holder 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 tax residence as the Korean tax authorities may require in support of the claim for treaty protection. Excess taxes withheld may not be recoverable even if the non-Korean holder subsequently produces evidence that the non-Korean holder was entitled to have taxes withheld at a lower rate.

Application of the Tax Treaty between the United States and Korea

Under the tax treaty between the United States and Korea, a resident of the United States means (i) a United States corporation, and (ii) any other person (except a corporation or any entity treated as a corporation under United States law) residing in the United States for U.S. tax purposes.

Further, the reduced Korean withholding tax rate on dividends and the exemption of capital gains under the tax treaty between the United States and Korea would not be available if (a) the U.S. resident holders of New Kookmin common stock and American depositary shares are certain investment or holding companies or (b) the dividends or capital gains derived by residents of the United States from New Kookmin common stock are effectively connected with the United States residents' permanent establishments in Korea or, in (c) the case of capital gains derived by an individual, (i) such United States resident maintains a fixed base in Korea for a period aggregating 183 days or more during the taxable year and New Kookmin common stock is effectively connected with such fixed base or (ii) such United States resident is present in Korea for 183 days or more during the taxable year.

Inheritance Tax and Gift Tax

It is unclear whether, for Korean inheritance and gift tax purposes, a non-Korean holder of New Kookmin American depositary shares will be treated as the holder of the shares of New Kookmin common stock underlying the New Kookmin American depositary shares. If a non-Korean holder of New Kookmin American depositary shares is treated as the holder of the shares of New Kookmin common stock, any heir or donee of such holder of New Kookmin American depositary shares will be subject to Korean inheritance or gift tax presently at the rate of 10% to 50%, provided that the value of New Kookmin American depositary shares is greater than a specified amount.

Securities Transaction Tax

No securities transaction tax will be imposed on transfers of New Kookmin American depositary shares. The transfer of shares of New Kookmin common stock generally will be subject to a securities transaction tax at the rate of 0.15% of the sale price of the shares of New Kookmin common stock when traded on the Korea Stock Exchange and will be subject to an agriculture and fishery special surtax at the rate of 0.15% of the sale price of the shares of New Kookmin common stock. If the transfer of shares of New Kookmin common stock is not made on the Korea Stock Exchange, subject to certain exceptions, such transfer 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 surtax.

KOREAN FOREIGN EXCHANGE CONTROLS AND SECURITIES REGULATIONS

General

The Foreign Exchange Transaction Act of Korea and the Presidential Decree and regulations under that Act and Decree, which we refer to collectively as 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 of Korea. The Korean Financial Supervisory Commission 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 emergency circumstances are likely to occur, it may impose any necessary 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 serious difficulty in stabilizing the balance of payments, and serious obstacles in carrying out currency policies, exchange rate policies or other macroeconomic policies caused by the movement of capital between Korea and abroad.

Issuance of American Depositary Shares

In order for New Kookmin to issue shares represented by American depositary shares in an amount exceeding US$50 million, New Kookmin will be 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 issuance of New Kookmin American depositary shares.

Under current Korean laws and regulations, the depositary is required to obtain the prior consent of New Kookmin for the number of shares of New Kookmin common stock to be deposited in any given proposed deposit which exceeds the difference between (1) the aggregate number of shares of New Kookmin common stock deposited by New Kookmin for the issuance of New Kookmin American depositary shares (including deposits in connection with the initial issuance and all subsequent offerings of New Kookmin American depositary shares and stock dividends or other distributions related to these American depositary shares) and (2) the number of shares of New Kookmin common stock on deposit with the depositary at the time of such proposed deposit. New Kookmin has agreed to grant such consent to the extent that the total number of shares on deposit with the depositary would not exceed 100,000,000 at any time.

Reporting Requirements for Holders of Substantial Interests

Any person whose direct or beneficial ownership of New Kookmin common stock, whether in the form of shares of common stock or American depositary shares, certificates representing the rights to subscribe for shares and equity-related debt securities including convertible bonds and bonds with warrants (which we refer to collectively as "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 of New Kookmin is required to report the status of the holdings to the Financial Supervisory Commission and the Korea Stock Exchange within five business days after reaching the 5% ownership interest. In addition, any change in the ownership interest subsequent to the report that equals or exceeds 1% of the total outstanding Equity Securities of New Kookmin is required to be reported to the Financial Supervisory Commission 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/or a loss of voting rights. Furthermore, the Financial Supervisory Commission may order the disposal of the unreported Equity Securities.

In addition to the reporting requirements described above, any person whose direct or beneficial ownership of our stock accounts for 10% or more of the total issued and outstanding stock (which we refer to as a "major stockholder") must report the status of his shareholding to the Korea Securities Futures Commission and the Korea Stock Exchange within ten days after he becomes a major stockholder. In addition, any change in the ownership interest subsequent to the report must be reported to the Korea Securities Futures Commission and the Korea Stock Exchange within the 10th day of the month following the month in which the change occurred. Violation of these reporting requirements may subject a person to criminal sanctions such as fines or imprisonment.

Foreign parties that acquire more than 4% of the voting stock of a Korean bank pursuant to the Bank Act will be subject to reporting or approval requirements. See "Supervision and Regulation—Principal Regulations Applicable to Banks in Korea—Restrictions on Bank Ownership".

Restrictions Applicable to American Depositary Shares

No Korean governmental approval is necessary for the sale and purchase of New Kookmin American depositary shares in the secondary market outside Korea or for the withdrawal of shares of New Kookmin common stock underlying the 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 Korean Financial Supervisory Service as described below. The acquisition of the shares by a foreigner must be immediately reported to the governor of the Financial Supervisory Service, either by the foreigner or by his standing proxy in Korea.

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

Restrictions Applicable to Shares

As a result of amendments to the Foreign Exchange Transaction Laws and Financial Supervisory Commission regulations (which we refer to collectively as 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 (which we refer to as "Converted Shares") by exercise of warrants, conversion rights under convertible bonds or withdrawal rights under depositary receipts issued outside of Korea by a Korean company;
- acquisition of shares as a result of inheritance, donation, bequest or exercise of stockholders' 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.

The Investment Rules require a foreign investor who wishes to invest in shares on the Korea Stock Exchange or the KOSDAQ (including Converted Shares and shares being issued for initial listing on the

Korean Stock Exchange or registration on KOSDAQ) to register its identity with the Financial Supervisory Service 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 Financial Supervisory Service 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 have not been residing in Korea for a consecutive period of six months or more, 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. 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 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 of 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 Financial Supervisory Service 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 Financial Supervisory Service by the securities company engaged to facilitate such transaction. A foreign investor may appoint a standing proxy from among the Korea Securities Depository, foreign exchange banks (including domestic branches of foreign banks), securities companies (including domestic branches of foreign securities companies), investment trust companies, futures trading companies and internationally recognized custodians which will act as a standing proxy to exercise stockholders' rights or perform any matters related to the foregoing activities if the foreign investor does not perform these activities himself. Generally, a foreign investor may not permit any person, other than its standing proxy, to exercise rights relating to his shares or perform any tasks related thereto on his behalf. However, a foreign investor may be exempted from complying with these standing proxy rules with the approval of the governor of the Financial Supervisory Service 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), the Korea Securities Depository, investment trust companies, futures trading companies and internationally recognized custodians 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 his 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 Financial Supervisory Service 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 40% 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. Currently, Korea Electric Power Corporation is the only designated public corporation which has set such a ceiling. Furthermore, an investment by a foreign investor in 10% or more of the outstanding shares with voting rights of a Korean company is defined as a foreign direct investment under the Foreign Investment Promotion Act of Korea. Generally, a foreign direct investment must be reported to the Ministry of Commerce, Industry and Energy of Korea. The acquisition of shares of a Korean company by a foreign investor may also be subject to certain foreign or other shareholding restrictions in the event that the restrictions are prescribed in a specific law that regulates the business of the Korean company. For a description of such restrictions applicable to Korean banks, see "Supervision and Regulation—Principal Regulations Applicable to Banks in Korea—Restrictions on Bank Ownership".

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 may be remitted abroad without any Korean governmental approval.

Dividends on shares of Korean companies are paid in Won. No Korean 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 in 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 through the exercise of preemptive rights.

Securities companies and investment trust companies are allowed to open foreign currency accounts with foreign exchange banks exclusively for accommodating foreign investors' stock investments in Korea. Through these accounts, securities companies and investment trust 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.

MANAGEMENT OF NEW KOOKMIN AFTER THE MERGER

Board of Directors of New Kookmin

New Kookmin's board of directors, which will consist of 8 executive directors and 22 non-executive directors, will have the ultimate responsibility for the management of New Kookmin's affairs. Two executive directors and two executive officers of Kookmin Bank and three executive directors and one executive officer of H&CB have been nominated to become New Kookmin's executive directors. In addition ten non-executive directors of Kookmin Bank and 12 non-executive directors of H&CB have been nominated to become New Kookmin's non-executive directors.

New Kookmin's proposed articles of incorporation provide for no more than 30 directors and the number of executive directors must be less than 50% of the total number of directors. Each executive director will be elected for a three-year term of office and each non-executive director will be elected for a one-year term. Terms are renewable and are subject to the Korean Commercial Code, the Bank Act and related regulations.

New Kookmin's board of directors plans to meet on a regular basis to discuss and resolve material corporate matters. Additional extraordinary meetings may also be convened at the request of the chairman or one-third or more of the directors.

At the extraordinary general meetings of stockholders of Kookmin Bank and H&CB to approve the merger agreement, common stockholders of each bank will be voting on the election of the directors of New Kookmin nominated jointly by the two banks, as part of their vote on the merger agreement. The names and positions of the persons nominated to serve as New Kookmin's directors are set forth below. The business address of all of the directors will be New Kookmin's registered office.

Executive Directors

The persons nominated to serve as New Kookin's executive directors are as follows. Each of these persons is currently an executive director or executive officer of Kookmin Bank or H&CB.

Name	Age	Expected Position at New Kookmin
Jung Tae Kim	53	President and Chief Executive Officer
Sang-Hoon Kim	59	Executive Director
Chong-Min Lee	60	Audit Committee Standing Member and Executive Director
Choul Ju Lee	61	Audit Committee Standing Member and Executive Director
Yoo-Hwan Kim	57	Executive Director and Executive Vice President
Jan Op de Beeck	48	Executive Director and Executive Vice President
Duk-Hyun Kim	56	Executive Director and Executive Vice President
Young Il Kim	47	Executive Director and Executive Vice President

We expect that none of the executive directors will have any significant activities outside New Kookmin.

Jung Tae Kim is the Chairman, President and Chief Executive Officer of H&CB. He joined H&CB in 1998, was elected as a Director in 1998 and became Chairman, President and Chief Executive Officer in 1998. Mr. Kim received a B.A. in Business Administration as well as an M.B.A. from Seoul National University. Prior to joining H&CB, he was an executive director for Daeshin Securities Co., Ltd. and the Chief Executive Officer for Dongwon Securities Co., Ltd.

Sang-Hoon Kim is the Chairman, President and Chief Executive Officer of Kookmin Bank. He joined Kookmin Bank in 2000 as the President and Chief Executive Officer and became the Chairman in 2001. Mr. Kim holds a B.A. in Law from Seoul National University and an M.P.A. in Public Administration from Harvard University. Prior to joining Kookmin Bank, he served as the Deputy Governor of the Financial Supervisory Service. Mr. Kim also worked as a general manager for the Bank of Korea and as an assistant governor for the Office of Bank Supervision, which was integrated into the Financial Supervisory Service in 1999.

Chong-Min Lee is an Audit Committee Standing Member and Executive Director of Kookmin Bank. He joined Kookmin Bank as a Standing Member of the Audit Committee and the board of directors in 1999. Mr. Lee received a B.A. in Law from Seoul National University and has studied at University of California in Los Angeles. Prior to joining Kookmin Bank, he was an Executive Judge of the National Tax Tribunal and a Financial Attaché of the Korean Embassy to the United States.

Choul Ju Lee is an Audit Committee Standing Member and Executive Director of H&CB. He joined H&CB in 1999, became a Statutory Auditor in 1999 and automatically became a Director and Audit Committee Standing Member in 2000 when H&CB amended its articles of incorporation to replace the office of the statutory auditor with the audit committee. Mr. Lee received a B.A. in Business Administration from Seoul National University. Prior to joining H&CB, he was a director and executive vice president for Hanil Bank.

Yoo-Hwan Kim is an Executive Vice President of Kookmin Bank. He received a B.A. in Economics from Korea University and earned a Ph.D. in Economics at University of Santo Thomas in the Philippines. Since joining Kookmin Bank in 1970, Mr. Kim has served as the general manager of the Foreign Business Department, the Risk Management Department and the International Finance Department prior to becoming an Executive Vice President of Kookmin Bank in 1999.

Jan Op de Beeck is an Executive Director and Executive Vice President of H&CB. He joined H&CB in 1999 and was elected as a Director in 1999. He received an M.A. in Economics from Ghent University. Prior to becoming a Director of H&CB, he was the head of the domestic banking department of Bank Brussels Lambert in Belgium.

Duk-Hyun Kim is an Executive Vice President of Kookmin Bank. Mr. Kim received a B.A. in Chinese Literature from Seoul National University and an M.B.A. from Yonsei University. Since joining Kookmin Bank in 1970, Mr. Kim has served as the general manager of the International Planning Department and the Group Strategic Planning Department. He has also worked as the Chief Representative of the Singapore Representative Office prior to becoming an Executive Vice President of Kookmin Bank in 1999.

Young Il Kim is an Executive Vice President of H&CB. He joined H&CB in 1981 and was appointed as an Executive Vice President in 2000. Mr. Kim received a B.A. in Science Education from Seoul National University. Prior to becoming an executive officer, Mr. Kim served as a general manager of both the Strategic Planning Team and the Risk Management Team of H&CB.

Non-Executive Directors

The persons nominated to serve as New Kookmin's non-executive directors are the current non-executive directors of Kookmin Bank and H&CB. These persons were originally selected by each bank based on their background and knowledge in diverse areas, such as law, finance, economy, management and accounting.

The persons nominated to serve as New Kookmin's non-executive directors are as follows:

Name	Age	Expected Position at New Kookmin
Seung Hun Hahn(1)	66	Non-Executive Director
Bong Ho Paick	66	Non-Executive Director
Young Suk Kim	65	Non-Executive Director
Se Ung Lee	61	Non-Executive Director
Chang Ki Min(1)	61	Non-Executive Director
In Kie Kim	60	Non-Executive Director
Hyung Chin Chang	55	Non-Executive Director
Ik Rae Kim	50	Non-Executive Director
Ji Hong Kim	45	Non-Executive Director
Henry Cornell	45	Non-Executive Director
Sun Jin Kim(1)	58	Non-Executive Director
Kuk Ju Kwon	56	Non-Executive Director
Kyung Hee Yoon(1)	54	Non-Executive Director
Woon Youl Choi	51	Non-Executive Director
Ju Hyun Yoon	47	Non-Executive Director
Won Bae Yoon	54	Non-Executive Director
Jae Kyu Lee(1)	49	Non-Executive Director
Chul Soo Ahn	39	Non-Executive Director
Moon Soul Chung	63	Non-Executive Director
Sung Hee Jwa	55	Non-Executive Director
Joon Park(1)	46	Non-Executive Director
Bruce G. Willison	52	Non-Executive Director

(1) Nominated to serve also as a Non-Standing member of the Audit Committee.

We expect that substantially all of the non-executive directors will hold positions with companies or organizations other than New Kookmin.

Seung Hun Hahn has been a Non-Executive Director of Kookmin Bank since 2001. Mr. Hahn is currently working as an attorney at the law firm of Lee & Ko. He received a B.A. in Political Science from Chonbuk National University and formerly served as the Chairman of the Board of Audit and Inspection.

Bong Ho Paick has been a Non-Executive Director of Kookmin Bank since 2000. He is currently an honorary professor at Hanyang University. Mr. Paick received a B.S. in Business Administration from Korea University and a Ph.D. in Business Administration from Chung-Ang University. He formerly served as the Vice President of Hanyang University.

Young Suk Kim has been a Non-Executive Director of Kookmin Bank since 2001. He is currently an executive advisor of EDS Korea. Mr. Kim earned a B.A. in Political Science from Seoul National University and has served as the General Manager of Bank of California, Seoul Branch.

Se Ung Lee has been a Non-Executive Director of Kookmin Bank since 2001. He is currently the President of Shinil Corporation. Mr. Lee received a B.S. in Business Administration from Yonsei University and a Ph.D. in Economics from Sung-Kyun-Kwan University. He was formerly the President and Chief Executive Officer of Hanglass Industries Inc.

Chang Ki Min has been a Non-Executive Director of Kookmin Bank since 2001. He was formerly the Executive Director of Korea Long-Term Credit Bank, President of Kang-Won Bank, and President of Hyundai Capital Corp. Mr. Min holds a B.S. in Business Administration and an M.B.A. from Seoul National University.

In Kie Kim has been a Non-Executive Director of Kookmin Bank since 1997. He is currently working as a professor at Chung-Ang University. Mr. Kim holds a B.A. in Economics from Sogang University and a Ph.D. from University of Maryland. He was formerly the Chairman of the Korea Money and Finance Association and a committee member of the Monetary Board of the Bank of Korea.

Hyung Chin Chang has been a Non-Executive Director of Kookmin Bank since 1999. He is currently the President and CEO of Young-Poong Corp. Mr. Chang holds a B.S. in Business Administration from Yonsei University. He is also a committee member of the Federation of Korean Industries.

Ik Rae Kim has been a Non-Executive Director of Kookmin Bank since 2000. He is currently the President and CEO of Daou Tech. Inc. and the CEO of Davan Tech. Co. Mr. Kim holds a B.A. in English Literature from Hankuk University of Foreign Studies and an M.B.A. from Yonsei University.

Ji Hong Kim has been a Non-Executive Director of Kookmin Bank since 1999. He is currently working as a professor at Hanyang University. Mr. Kim holds a B.A. in Economics from Seoul National University and a Ph.D. from University of California at Berkeley.

Henry Cornell has been a Non-Executive Director of Kookmin Bank since 2000. He is currently a Managing Director at Goldman Sachs. Mr. Cornell holds a J.D. from New York Law School.

Sun Jin Kim has been a Non-Executive Director of H&CB since 1999. Mr. Kim currently serves as the Chief Executive Officer of Yuhan Co. He received an M.B.A. from Korea University, and prior to becoming Chief Executive Officer of Yuhan Co., Mr. Kim served as vice president of that company.

Kuk Ju Kwon has been a Non-Executive Director of H&CB since 1999. Mr. Kwon is currently the president and Chief Executive Officer of Nong Sim Ga Co., Ltd. He received a B.A. in Business Administration from Yonsei University, and in the past has served as Chief Executive Officer of Shinsegae Department Store Co.

Kyung Hee Yoon has been a Non-Executive Director of H&CB since 1999. He is currently working as country manager and managing director of ING Barings Limited, Korea. He received a B.A. in Law from Seoul National University. Mr. Yoon has worked in the past as a director and branch manager of ING Barings Limited.

Woon Youl Choi has been a Non-Executive Director of H&CB since 1999. Mr. Choi is currently a professor at Sogang University. He received a B.A. in Business Administration from Seoul National University and an M.A. 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.

Ju Hyun Yoon has been a Non-Executive Director of H&CB since 1999. Ms. Yoon is currently a research fellow at the Korea Research Institute for Human Settlements. Her educational background consists of a B.A. in Applied Statistics, received from Yonsei University, an M.S. received from KAIST, Korea Advanced Institute of Science and Technology, and a Ph.D. 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.

Won Bae Yoon has been a Non-Executive Director of H&CB since 2001. Mr. Yoon is currently the Dean of College of Economics and Commerce at Sookmyung Women's University. He received a B.A. in Economics from Seoul National University and a Ph.D. in Economics from Northwestern University. Mr. Yoon has also served as the Vice Chairman of the Financial Supervisory Commission and the Chairman of the Stock and Futures Transaction Commission.

Jae Kyu Lee has been a Non-Executive Director of H&CB since 2001. Mr. Lee is currently a professor at the KAIST and the director of the International Center for Electronic Commerce. He received a B.A. from Seoul National University, an M.S. from Korea Advanced Institute of Science and Technology and a Ph.D. from Wharton School, University of Pennsylvania.

Chul Soo Ahn has been a Non-Executive Director of H&CB since 2001. Mr. Ahn is currently the president and Chief Executive Officer of Ahnlab, Inc. He received a B.S., an M.S. and a Ph.D. from the College of Medicine of Seoul National University and an EMTM in Management of Technology from the University of Pennsylvania. Mr. Ahn is currently serving as the chairman of the Software Venture Association.

Moon Soul Chung has been a Non-Executive Director of H&CB since 2000. He is currently counsel of Mirae Corporation. He received a B.A. in Religion and Philosophy from Won Kwang University.

Sung Hee Jwa has been a Non-Executive Director of H&CB since 1998. Mr. Jwa is currently the president of the Korea Economic Research Institute. He received both a B.A. and an M.A. in Economics from Seoul National University as well as a Ph.D. 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.

Joon Park has been a Non-Executive Director of H&CB since 1999. He is currently working as an attorney at the firm of Kim & Chang, and he received a B.A. in Law from Seoul National University and an L.L.M. from Harvard Law School. Mr. Park has worked in the past as an attorney at the New York law firm of Sullivan & Cromwell.

Bruce G. Willison has been a Non-Executive Director of H&CB since 1999. Mr. Willison currently serves as the Dean of Anderson Business School. His educational background consists of a B.A. in Economics, which he received from UCLA, and an M.A. in Economics, which he received from USC. Mr. Willison has served as chairman and Chief Executive Officer of First Interstate Bank of California, and he was also the president and Chief Executive Officer of Home Savings of America.

Any director wishing to enter into a transaction with New Kookmin in his or her personal capacity would be required to obtain the prior approval of the Board of Directors. The director having an interest in the transaction may not vote at the meeting of the Board of Directors to approve the transaction.

Committees of the Board of Directors of New Kookmin

Upon completion of the merger, we expect that the board of directors of New Kookmin will form five management committees to serve 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 will be appointed by the board of directors, except for members of the Audit Committee, who will be elected at the extraordinary general meetings of stockholders of Kookmin Bank and H&CB.

Steering Committee of the Board of Directors

Expected to consist of ten non-executive directors, one executive director and the chief executive officer of New Kookmin, the Steering Committee of the Board of Directors will be responsible for ensuring the efficient operations of the board and the facilitation of the board's functions. The committee will be responsible for both recommending and reviewing candidates for director and recommending candidates for the committee. The committee will also review and assess the director compensation programs and retainer arrangements to attract qualified directors. The committee's responsibilities will also include reviewing and assessing the board's structure and the effectiveness of that structure in fulfilling the board's fiduciary responsibilities. It is expected that the committee will hold regular meetings every quarter.

Managerial Strategy Committee

Expected to consist of ten non-executive directors, the Managerial Strategy Committee will oversee New Kookmin's long term strategy formulation and will review management's proposals of new strategic initiatives. The committee will also review any other strategy and performance related matters which the committee deems necessary. It is expected that the committee will hold regular meetings every quarter.

Risk Management Committee

Expected to consist of eight non-executive directors, the Risk Management Committee's function will be to oversee and make determinations on all issues relating to New Kookmin's comprehensive risk management function. In order to ensure New Kookmin's stable financial condition and to maximize its profits, this committee will monitor New Kookmin's overall risk exposure and review its compliance with risk policies and risk limits. In addition, the committee will review risk and control strategies and policies, evaluate whether each risk is at an adequate level, establish or abolish risk management divisions, review risk-based capital allocations, and review the plans and evaluation of internal control. It is expected that the committee will hold regular meetings every quarter.

Audit Committee

Expected to consist of six non-executive directors and two executive directors, the Audit Committee will oversee New Kookmin's financial reporting and will approve the appointment of and interact with its independent auditors, compliance officers, management personnel and other committee advisors. The committee will also review New Kookmin's financial information, auditor's examinations, key financial statement issues and the administration of New Kookmin's financial affairs by the board of directors. In connection with general meetings of stockholders, the committee will examine the agenda for, and financial statements and other reports to be submitted by the board of directors to each general meeting of stockholders. It is expected that the committee will hold regular meetings every quarter.

Compensation Committee

Expected to consist of eight non-executive directors, the Compensation Committee's function will be to oversee New Kookmin's overall compensation strategy and ensure that New Kookmin's executives are compensated in a manner consistent with the compensation strategy and requirements of the appropriate regulatory bodies. The committee will also be responsible for reviewing and approving executive compensation criteria and levels as well as the benefit plans and overseeing the overall succession planning for executives. It is expected that the committee will hold regular meetings every six months.

Executive Officers of New Kookmin

In addition to the New Kookmin executive officers who have been nominated to serve as executive directors, the following persons are expected to serve as executive officers of New Kookmin. Each of these persons is currently an executive officer of Kookmin Bank or H&CB.

Name	Age	Expected Position at New Kookmin
Bock-Woan Kim	56	Executive Vice President
Ok-Hyun Yoon	56	Executive Vice President
Tai-Gon Kim	53	Executive Vice President
Byung-Sang Kim	54	Executive Vice President
Byung-Jin Kim	53	Executive Vice President
Young Jo Joo	54	Executive Vice President
Je Hyung Jo	53	Executive Vice President
Bong Hwan Cho	50	Executive Vice President
Woo Jung Lee	51	Executive Vice President
Sung Chul Kim	47	Executive Vice President
Jong In Park	47	Executive Vice President

We expect that none of the executive officers will have any significant activities outside New Kookmin.

Bock-Woan Kim is an Executive Vice President of Kookmin Bank. Mr. Kim received a B.A. in Law from Yonsei University. Since joining Kookmin Bank in 1970, Mr. Kim has served as the general manager of the Corporate Culture & Public Relations Department, Business Department, and the Branch Management Department prior to becoming an Executive Vice President of Kookmin Bank in 1999.

Ok-Hyun Yoon is an Executive Vice President of Kookmin Bank. Mr. Yoon received a B.A. in Natural Sciences from Seoul National University. Since joining Kookmin Bank in 1970, Mr. Kim has served as the general manager of the Strategic Planning Department and the Education & Training Center and also served as the Chief Representative of the New York Representative Office prior to becoming an Executive Vice President of Kookmin Bank in 1999.

Tai-Gon Kim is an Executive Vice President of Kookmin Bank. Mr. Kim received a B.A. and Masters degree in Law from Seoul National University. Prior to joining Kookmin Bank in 1999, he worked as the general manger of the General Affairs Department and the Personnel Department of Korea Long-Term Credit Bank. He was appointed to be an Executive Vice President of Kookmin Bank in 2000.

Byung-Sang Kim is an Executive Vice President of Kookmin Bank. Mr. Kim received a B.A. in Geography from Seoul National University. Since joining Kookmin Bank in 1973, Mr. Kim has served as the general manager of the Foreign Business Department, Fund Management & Securities Department, and the Personnel Department prior to becoming an Executive Vice President of Kookmin Bank in 2000.

Byung-Jin Kim is an Executive Vice President of Kookmin Bank. Mr. Kim received a B.A. in Political Science from Seoul National University. Since joining Kookmin Bank in 1973, Mr. Kim has served as the general manager of the Business Department, Corporate Financing Department, and the Credit Strategic Department prior to becoming an Executive Vice President of Kookmin Bank in 2000.

Young Jo Joo is an Executive Vice President of H&CB. He joined H&CB in 1975 and was appointed as an Executive Director in 1998 and Executive Vice President in 2000. He received a B.A. 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 is an Executive Vice President of H&CB. He joined H&CB in 1973 and was appointed as an Executive Vice President in 1999. He received a B.A. in Economics from Kon Kuk University. Prior to becoming an executive officer, Mr. Jo was the general manager of the personnel department of H&CB.

Bong Hwan Cho is an Executive Vice President of H&CB. He joined H&CB in 1975 and was appointed as an Executive Vice President in 1999. Mr. Cho received a B.A. in Science of Agriculture from Seoul National University and an M.A. in Literature at Seoul National University. He also received an M.S. 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 is an Executive Vice President of H&CB. He joined H&CB in 2000 and was appointed as an Executive Vice President in 2000. Mr. Lee received a B.A. in Social Science from Seoul National University as well as an M.S. 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 is an Executive Vice President of H&CB. He 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.

Jong In Park is an Executive Vice President of H&CB. He joined H&CB in 2000 and was appointed as an Executive Vice President in 2000. Mr. Park received a B.A. and an M.A. in Business Administration from Yonsei University. Prior to becoming an executive officer, he served as a general manager in the credit risk management department of Hyundai Capital.

Compensation of Directors and Executive Officers

New Kookmin. As New Kookmin has not yet been formed, it has not paid any compensation to any person nominated to become a director or executive officer of New Kookmin. The form and amount of the compensation to be paid to each of New Kookmin's directors and executive officers in any period following the completion of the merger will be determined by the compensation committee of the New Kookmin board of directors.

Kookmin Bank. Of the persons nominated to become directors or executive officers of New Kookmin, 15 were directors or executive officers of Kookmin Bank during the year ended December 31, 2000. The aggregate of the remuneration paid by Kookmin Bank and its subsidiaries in 2000 to such persons was ₩1,731 million. This amount is stated on an accrual basis and includes bonus payments. The aggregate amount set aside or accrued by Kookmin Bank in 2000 to provide pension and retirement benefits to such persons was ₩253 million.

H&CB. Of the persons nominated to become directors or executive officers of New Kookmin, 19 were directors or executive officers of H&CB during the year ended December 31, 2000. The aggregate of the remuneration paid and benefits-in-kind paid by H&CB and its subsidiaries in 2000 to such persons was ₩2,161 million. This amount is stated on an accrual basis and includes bonus payments and retirement benefits. The aggregate amount set aside or accrued by H&CB in 2000 to provide pension and retirement benefits to such persons was ₩136 million.

In addition, each of Kookmin Bank and H&CB has granted stock options to some of the persons nominated to become directors or executive officers of New Kookmin as described in "—Share Ownership". In 2000, Kookmin Bank recognized ₩107 million, and H&CB recognized ₩462 million, as compensation expense for the stock options so granted.

Share Ownership

Common Stock. As of August 8, 2001, the persons who have been nominated to become directors or executive officers of New Kookmin, as a group, held

- an aggregate of 2,481,390 shares of common stock of Kookmin Bank, representing approximately 0.82% of the outstanding Kookmin Bank common stock as of such date, and
- an aggregate of 66,062 shares of common stock of H&CB, representing approximately 0.06% of the outstanding H&CB common stock as of such date.

None of these persons individually held more than 1% of the outstanding common stock of Kookmin Bank or H&CB as of such date.

In connection with the merger, holders of Kookmin Bank common stock will receive one share of New Kookmin common stock for every 1.688346 shares of Kookmin Bank common stock they own, and holders of H&CB common stock will receive one share of New Kookmin common stock for every share of H&CB common stock they own. Accordingly, after the completion of the merger, we expect that the persons nominated to become directors or executive officers of New Kookmin, as a group, will hold an aggregate of 1,535,778 shares of New Kookmin common stock, representing approximately 0.51% of the outstanding New Kookmin common stock.

Stock Options. As of August 8, 2001, Kookmin Bank's chief executive officer, who has been nominated to become an executive director of New Kookmin, had options to purchase a total of 140,000 shares of Kookmin Bank common stock, including an option to purchase 70,000 shares at an exercise price of ₩13,900 per share and an option to purchase 70,000 shares at an exercise price of ₩16,600 per share. The option to purchase 70,000 shares at an exercise price of ₩16,600 is conditional with respect to 20,000 shares of common stock and this portion of the option will only be exercisable if certain conditions are met with respect to the price of Kookmin Bank's common stock on the Korea Stock Exchange. Kookmin Bank's executive director who has been nominated to become an executive director of New Kookmin had options to purchase a total of 50,000 shares of Kookmin Bank common stock, including an option to purchase 25,000 shares at an exercise price of ₩13,900 per share and an option to purchase 25,000 shares at an exercise price of ₩16,600 per share.

Three of Kookmin Bank's seven executive officers who have been nominated to become executive directors or executive officers of New Kookmin each had options to purchase a total of 40,000 shares of Kookmin Bank common stock, including an option to purchase 20,000 shares at an exercise price of ₩13,900 per share and an option to purchase 20,000 shares at an exercise price of ₩16,600 per share. Four of Kookmin Bank's seven executive officers who have been nominated to become executive officers of New Kookmin each had options to purchase a total of 20,000 shares of Kookmin Bank common stock at an exercise price of ₩16,600 per share.

Five of Kookmin Bank's ten non-executive directors who have been nominated to become non-executive directors of New Kookmin each had options to purchase a total of 10,000 shares of Kookmin Bank common stock, including an option to purchase 5,000 shares at an exercise price of ₩13,900 per share and an option to purchase 5,000 shares at an exercise price of ₩16,600 per share. Four of Kookmin Bank's ten non-executive directors who have been nominated to become non-executive directors of New Kookmin each had options to purchase a total of 5,000 shares of Kookmin Bank common stock at an exercise price of ₩16,600 per share.

All of the Kookmin Bank stock options are exercisable at any time during a five-year period starting from the third anniversary of the day after option grant date. The options to purchase shares at an exercise price of ₩13,900 per share were granted on March 18, 2000 and the options to purchase shares at an exercise price of ₩16,600 per share were granted on March 15, 2001.

As of August 8, 2001, H&CB's chief executive officer, who has been nominated to become the chief executive officer of New Kookmin, had options to purchase a total of 400,000 shares of H&CB common stock at an exercise price of ₩5,000 per share. These options include an option to purchase 100,000 shares of H&CB common stock which will become exercisable if the average closing price of H&CB common stock between August, 2001 and October 2001 is higher than the stock price of any other bank listed on the Korea Stock Exchange.

Each of H&CB's two other executive directors and one executive officer who have been nominated to become executive directors of New Kookmin had options to purchase a total of 30,000 shares of H&CB common stock, one at an exercise price of ₩13,900 per share, another at an exercise price of ₩25,100 per share and the third at an exercise price of ₩27,600 per share. Each of H&CB's six executive officers who have been nominated to become executive officers of New Kookmin (excluding the executive officer who has also been nominated to serve as executive director) had options to purchase a total of 30,000 shares of H&CB common stock, three at an exercise price of ₩13,900 per share, one at an exercise price of ₩25,100 per share and two at an exercise price of ₩27,600 per share.

Each of H&CB's 12 non-executive directors who have been nominated to become non-executive directors of New Kookmin had options to purchase a total of 7,000 shares of H&CB common stock, three at an exercise price of ₩25,100 per share and eight at an exercise price of ₩27,600 per share, except for Mr. Bruce G. Willison, who had options to purchase a total of 10,000 shares of H&CB common stock at an exercise price of ₩13,900 per share.

All of the H&CB 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 per share were granted on February 28, 2000. The options to purchase shares at an exercise price of ₩25,100 per share were granted on March 24, 2001.

We anticipate that, subject to approval at the extraordinary general meeting of stockholders of Kookmin Bank, all outstanding Kookmin Bank stock options will be converted into corresponding options to purchase one share of New Kookmin common stock for every 1.688346 shares of Kookmin Bank common stock that an option holder is entitled to purchase under the outstanding Kookmin Bank stock options. We also anticipate that, subject to approval at the extraordinary general meeting of stockholders of H&CB, all outstanding H&CB stock options will be converted into corresponding options to purchase one share of New Kookmin common stock for every share of H&CB common stock that an option holder is entitled to purchase under the outstanding H&CB stock options. Accordingly, we anticipate that the persons nominated to become directors or executive officers of New Kookmin as a group will, following the completion of the merger, have options to purchase an aggregate of 1,029,456 shares of New Kookmin common stock.

In addition, we expect that New Kookmin, like Kookmin Bank and H&CB, will have an employee stock ownership association in which all employees will be eligible to participate. New Kookmin will not be required to, and will not, make contributions to this plan. Members of the employee stock ownership association will have certain pre-emptive rights in relation to our shares that are publicly offered under the

Korean Securities and Exchange Act, as described in "Description of New Kookmin's Capital Stock—Proposed Articles of Incorporation—Preemptive Rights and Issuances of Additional Shares".

Related Party Transactions

As of December 31, 1998, 1999 and 2000 and June 30, 2001, respectively, Kookmin Bank had an aggregate of ₩106 million, ₩119 million, ₩194 million and ₩164 million of loans outstanding to persons who have been nominated to become directors or executive officers of New Kookmin. As of such respective dates, H&CB had an aggregate of ₩43 million, ₩42 million, ₩14,025 million and ₩6,655 million of loans outstanding to persons who have been nominated to become directors or executive officers of New Kookmin.

BUSINESS RELATIONSHIPS BETWEEN KOOKMIN BANK AND H&CB

Except for the memorandum of understanding between Kookmin Bank and H&CB relating to the merger and the merger agreement between the two banks, and banking and financial transactions entered into in the ordinary course of business of the two banks, there have not been any material contracts, arrangements, understandings or transactions entered into between Kookmin Bank or its affiliates, on the one hand, and H&CB or its affiliates, on the other, during the periods for which financial statements of the two banks are presented in this prospectus.

LEGAL MATTERS

The validity of the common stock of New Kookmin that will be issued in the merger will be passed on for New Kookmin by Shin & Kim, Korean counsel to New Kookmin. Simpson Thacher & Bartlett, special U.S. tax counsel to Kookmin Bank, will pass on certain U.S. federal income tax consequences of the Kookmin Bank merger to U.S. holders of Kookmin Bank common stock and global depositary shares. Cleary, Gottlieb, Steen & Hamilton, special U.S. tax counsel to H&CB, will pass on certain U.S. federal income tax consequences of the H&CB merger to U.S. holders of H&CB common stock and American depositary shares.

EXPERTS

The consolidated balance sheets of each of Kookmin Bank and H&CB as of December 31, 1999 and 2000 and the consolidated statements of income, changes in stockholders' equity, and cash flows of Kookmin Bank for each of the two years, and of H&CB for each of the three years, in the period ended December 31, 2000, included in this prospectus, have been included herein in reliance on the reports of PricewaterhouseCoopers, independent accountants, given on the authority of said firm as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

Kookmin Bank and H&CB have filed a registration statement on Form F-4 to register with the U.S. Securities and Exchange Commission the American depositary shares of New Kookmin to be delivered in connection with the transaction. This prospectus is a part of that registration statement. As allowed by SEC rules, this prospectus does not contain all the information you can find in the registration statement or the exhibits to the registration statement.

H&CB is subject to the information reporting requirements of the U.S. Securities Exchange Act of 1934 and, under the Exchange Act, files reports and other information with the SEC. H&CB files annual and current reports and other information with the SEC. You may read and copy these reports and other information, including the registration statement filed by Kookmin Bank and H&CB and the exhibits to the registration statement, at the SEC's Public Reference Rooms at 450 Fifth Street, NW, Washington, D.C. 20549; Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661-2511; or Seven World Trade Center, New York, New York 10048. You may also request copies of these documents, upon payment of the duplicating fee, by writing to the Public Reference Section of the SEC. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the SEC's Public Reference Rooms.

You can also inspect reports and other information about H&CB at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005.

You should rely only on the information contained in this prospectus to vote on the merger. Neither Kookmin Bank nor H&CB has authorized anyone to provide you with information different from that contained in the prospectus. This prospectus is dated September 10 , 2001. You should not assume that the information contained in this prospectus is accurate as of any other date. Neither the mailing of this prospectus, nor the delivery of shares of New Kookmin common stock, New Kookmin American depositary receipts, cash or other consideration should be deemed to create any implication to the contrary.

As filed with the Securities and Exchange Commission on September 10, 2001

Registration No. 333-13880

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

AMENDMENT NO. 1 TO
FORM F-4
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

Kookmin Bank	H&CB
(Exact name of Registrant as specified in its charter)	(Exact name of Registrant as specified in its charter)

Republic of Korea	**6029**	**Not Applicable**
(Jurisdiction of incorporation or organization)	*(Primary Standard Industrial Classification Code Number)*	*(I.R.S. Employer Identification No.)*

9-1, 2-ga, Namdaemoon-ro, Jung-gu
Seoul, Korea 100-703
822-317-2161
(Address of Registrant's principal executive offices)

36-3, Yoido-dong, Youngdeungpo-gu
Seoul, Korea 150-758
822-769-7256
(Address of Registrant's principal executive offices)

Kookmin Bank, New York Branch
565 Fifth Avenue, 24th Floor
New York, New York 10017
212-697-6100
(Name, Address, Including Zip Code, and Telephone Number, including Area Code, of Agent for Service)

H&CB, New York Branch
Mutual of America Building, 9th Floor
320 Park Avenue
New York, New York 10022
212-755-4300
(Name, Address, Including Zip Code, and Telephone Number, including Area Code, of Agent for Service)

Copies to:

Paul B. Ford, Jr., Esq.	Jin Hyuk Park, Esq.	Jinduk Han, Esq.	Yong G. Lee, Esq.
Simpson Thacher & Bartlett	Simpson Thacher & Bartlett	Cleary, Gottlieb, Steen & Hamilton	Cleary, Gottlieb, Steen & Hamilton
425 Lexington Avenue	Asia Pacific Finance Tower, 7th Floor	39th Floor, Bank of China Tower	One Liberty Plaza
New York, NY 10017-3954	3 Garden Road, Central	One Garden Road, Central	New York, NY 10006-1470
United States of America	Hong Kong, S.A.R.	Hong Kong, S.A.R.	United States of America
212-455-2000	People's Republic of China	People's Republic of China	212-225-2000
	852-2514-7600	852-2521-4122	

Approximate date of commencement of proposed sale of the securities to the public: As soon as practicable after the Registration Statement becomes effective.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

Calculation of Registration Fee

Title of each class of securities to be registered(1)	Amount to be Registered(2)	Proposed maximum offering price per unit(3)	Proposed maximum aggregate offering price(2)(3)	Amount of registration fee(4)
Common stock, par value ₩5,000 per share	83,179,565	$22.59	$1,879,026,373.35	$469,756.60

(1) American depositary receipts evidencing American depositary shares issuable upon deposit of the securities registered hereby are being registered under a separate registration statement on Form F-6, Registration No. 333-13882.

(2) Represents the maximum number of shares of the new merged entity expected to be issued to Kookmin Bank and H&CB securityholders resident in the United States in connection with the merger described herein. The securities to be issued in connection with the merger outside the United States are not registered under this registration statement.

(3) Estimated solely for the purpose of calculating the amount of the registration fee pursuant to Rule 457(f), based on (i) the merger ratio of one share of common stock of the new merged entity to be issued every 1.688346 shares of common stock of Kookmin Bank and for every share of common stock of H&CB, respectively, (ii) the market value of the shares of Kookmin Bank common stock and H&CB common stock, respectively, in each case calculated pursuant to Rule 457(c) by taking the average of the high and low prices of such shares as reported on the Korea Stock Exchange on September 3, 2001 and converting them into U.S. Dollars based on the noon buying rate for cable transfers in Won as certified for customs purposes by the Federal Reserve Bank of New York as in effect on such date of ₩1,284 = US$1.00, and (iii) the total number of shares of common stock of the new merged entity to be issued to securityholders of Kookmin Bank and H&CB, respectively.

(4) Previously paid.

The Registrants hereby amend this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrants shall file a further amendment which specifically states that this Registrant Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

Volume II of II

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Report of Independent Accountants

To the Board of Directors and Stockholders of Kookmin Bank:

We have audited the accompanying consolidated balance sheets of Kookmin Bank and its subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of income, of changes in stockholders' equity, and of cash flows for each of the two years in the period ended December 31, 2000. These financial statements are the responsibility of the management of Kookmin Bank and its subsidiaries. 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kookmin Bank and its subsidiaries at December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America.

As more fully discussed in Note 1 to the consolidated 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.

PricewaterhouseCoopers

Seoul, Korea
June 22, 2001

Kookmin Bank and Subsidiaries
Consolidated Balance Sheets

	Korean Won		US Dollars (Note 1)
As of December 31,	**1999**	**2000**	**2000**
	(in millions)		*(in thousands)*
ASSETS			
Cash and due from banks	2,160,501	1,701,471	1,342,913
Restricted cash	706,169	1,539,876	1,215,372
Interest-bearing deposits in other banks	628,503	1,586,600	1,252,249
Call loans and securities purchased under resale agreements	377,169	2,491,208	1,966,226
Trading assets	3,636,469	3,103,688	2,449,635
Securities available-for-sale	8,167,135	8,281,394	6,536,223
Held-to-maturity securities (fair value of 7,809,030 in 1999 and 9,300,752 in 2000)	7,764,976	9,004,481	7,106,931
Loans (net of allowance for loan losses of 2,623,382 in 1999 and 2,393,647 in 2000)	42,350,940	57,040,649	45,020,244
Due from customers on acceptances	995,427	1,916,111	1,512,321
Premises and equipment, net	1,130,246	1,153,118	910,117
Accrued interest and dividends receivable	1,089,644	1,107,219	873,890
Security deposits	686,733	689,739	544,387
Other assets	1,659,658	1,174,992	927,382
Total assets	71,353,570	90,790,546	71,657,890
LIABILITIES			
Deposits:			
Noninterest bearing	2,658,985	1,982,268	1,564,536
Interest bearing	40,078,653	54,200,615	42,778,702
Call money	1,332,857	581,112	458,652
Trading liabilities	298,364	717,767	566,509
Acceptances outstanding	995,427	1,916,111	1,512,321
Other borrowed funds	4,815,853	6,368,557	5,026,486
Accrued interest payable	2,104,688	2,310,986	1,823,983
Secured borrowings	422,888	1,467,990	1,158,635
Long-term debt	14,211,990	14,796,590	11,678,445
Other liabilities	1,852,544	2,482,462	1,959,324
Total liabilities	68,772,249	86,824,458	68,527,593
Commitments and contingencies (Notes 4, 5, 10, 30, 31, 32)	—	—	—
Minority interest	20,950	220,874	174,328
STOCKHOLDERS' EQUITY			
Preferred stock (5,000 Won par value; issued and outstanding 40,000,000 shares in 1999 and 32,000,000 shares in 2000)	200,000	160,000	126,283
Less: KDIC bonds (at par value) purchased in connection with preferred stock issued	(200,000)	(160,000)	(126,283)
Common stock (5,000 Won par value, authorized 1 billion shares; issued and outstanding 299,613,413 shares in 1999 and 2000)	1,498,067	1,498,067	1,182,373
Additional paid-in capital	1,141,798	1,242,203	980,429
Retained earnings (Accumulated deficit)	(93,497)	819,114	646,499
Accumulated other comprehensive income, net of taxes	14,003	185,830	146,668
Total stockholders' equity	2,560,371	3,745,214	2,955,969
Total liabilities, minority interest, and stockholders' equity	71,353,570	90,790,546	71,657,890

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

Kookmin Bank and Subsidiaries
Consolidated Statements of Income

	Korean Won		US Dollars (Note 1)
For the years ended December 31,	**1999**	**2000**	**2000**
	(in millions, except per share amounts)		*(in thousands, except per share amounts)*
Interest and dividend income			
Deposits in other banks	179,555	198,603	156,750
Loans, including fees	4,551,788	5,266,822	4,156,923
Trading assets	126,738	183,055	144,479
Investment securities	1,588,634	1,652,909	1,304,585
Call loans and securities purchased under resale agreements	37,197	55,258	43,613
Total interest and dividend income	6,483,912	7,356,647	5,806,350
Interest expense			
Deposits	2,613,069	3,035,861	2,396,102
Call money	68,504	61,884	48,843
Other borrowed funds	268,738	340,981	269,124
Secured borrowings	23,692	59,091	46,638
Long-term debt	1,524,005	1,142,083	901,407
Total interest expense	4,498,008	4,639,900	3,662,114
Net interest income	1,985,904	2,716,747	2,144,236
Provision for loan losses	1,010,400	261,929	206,732
Provision for guarantees and acceptances	4,182	14,094	11,124
Net interest income after provision for loan losses, guarantees and acceptances	971,322	2,440,724	1,926,380
Noninterest income			
Trust fees, net	95,805	119,662	94,445
Other fees and commission income	467,810	628,800	496,290
Net trading revenue	507,163	13,300	10,497
Net gain on investments	185,967	11,470	9,053
Gain on disposition of subsidiaries	14,972	—	—
Other noninterest income	125,967	93,222	73,577
Total noninterest income	1,397,684	866,454	683,862
Noninterest expense			
Salaries and employee benefits	659,031	705,547	556,864
Depreciation and amortization	115,727	118,194	93,286
Other administrative expenses	299,395	334,484	263,997
Credit card fees	78,871	141,791	111,911
Other fees and commissions	196,131	223,801	176,638
Loss on disposition of subsidiaries	56,213	—	—
Other noninterest expenses	126,236	158,810	125,343
Total noninterest expense	1,531,604	1,682,627	1,328,039

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

Kookmin Bank and Subsidiaries
Consolidated Statements of Income—(Continued)

	Korean Won		US Dollars (Note 1)
For the years ended December 31,	**1999**	**2000**	**2000**
	(in millions, except per share amounts)		*(in thousands, except per share amounts)*
Income before income tax expense, minority interest and extraordinary item	837,402	1,624,551	1,282,203
Income tax expense	350,472	629,556	496,887
Minority interest	6,275	80,770	63,749
Net income before extraordinary item	480,655	914,225	721,567
Extraordinary gain on debt extinguishment, net of tax expense of 5,930 million Won	—	13,323	10,516
Net income	480,655	927,548	732,083
Other comprehensive (loss) income, net of tax			
Foreign currency translation adjustments, net of tax	(3,484)	(14,414)	(11,377)
Net unrealized gains (losses) on securities available-for-sale and related swaps, net of tax	(245,393)	186,241	146,994
Total other comprehensive (loss) income, net of tax	(248,877)	171,827	135,617
Comprehensive income	231,778	1,099,375	867,700
Net income per common share			
Basic:			
Income before extraordinary item	1,872	3,052	2.409
Extraordinary item	—	44	0.035
Net income	1,872	3,096	2.444
Diluted:			
Income before extraordinary item	1,558	2,603	2.054
Extraordinary item	—	38	0.030
Net income	1,558	2,641	2.084

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

Kookmin Bank and Subsidiaries
Consolidated Statements of Changes in Stockholders' Equity

Korean Won (in millions, except per share amounts)	Preferred Stock Shares	Preferred Stock Amount	KDIC Bonds	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income, net of tax	Treasury Stock	Total Stockholders' Equity
Balance at January 1, 1999	40,000,000	200,000	(200,000)	236,299,363	1,181,497	669,015	(526,901)	262,880	(60)	1,586,431
Issuance of common shares	—	—	—	63,314,050	316,570	418,617	—	—	—	735,187
Cash dividends declared (200 Won per share)	—	—	—	—	—	—	(47,251)	—	—	(47,251)
Beneficial conversion feature	—	—	—	—	—	55,722	—	—	—	55,722
Reissuance of treasury stock	—	—	—	—	—	200	—	—	60	260
Changes in subsidiary ownership	—	—	—	—	—	(1,756)	—	—	—	(1,756)
Other comprehensive loss, net of tax	—	—	—	—	—	—	—	(248,877)	—	(248,877)
Net income	—	—	—	—	—	—	480,655	—	—	480,655
Balance at December 31, 1999	40,000,000	200,000	(200,000)	299,613,413	1,498,067	1,141,798	(93,497)	14,003	—	2,560,371
Redemption of preferred shares	(8,000,000)	(40,000)	—	—	—	—	—	—	—	(40,000)
Repayment of KDIC bonds	—	—	40,000	—	—	—	—	—	—	40,000
Grant of stock options	—	—	—	—	—	250	—	—	—	250
Deferred stock option compensation	—	—	—	—	—	(102)	—	—	—	(102)
Cash dividends declared (50 Won per share)	—	—	—	—	—	—	(14,937)	—	—	(14,937)
Changes in subsidiary ownership	—	—	—	—	—	100,257	—	—	—	100,257
Other comprehensive income, net of tax	—	—	—	—	—	—	—	171,827	—	171,827
Net income	—	—	—	—	—	—	927,548	—	—	927,548
Balance at December 31, 2000	32,000,000	160,000	(160,000)	299,613,413	1,498,067	1,242,203	819,114	185,830	—	3,745,214

US Dollars (Note 1) (in thousands, except per share amounts)	Preferred Stock Shares	Preferred Stock Amount	KDIC Bonds	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income, net of tax	Treasury Stock	Total Stockholders' Equity
Balance at December 31, 1999	40,000,000	157,854	(157,854)	299,613,413	1,182,373	901,182	(73,794)	11,051	—	2,020,812
Redemption of preferred shares	(8,000,000)	(31,571)	—	—	—	—	—	—	—	(31,571)
Repayment of KDIC bonds	—	—	31,571	—	—	—	—	—	—	31,571
Grant of stock options	—	—	—	—	—	197	—	—	—	197
Deferred stock option compensation	—	—	—	—	—	(80)	—	—	—	(80)
Cash dividends declared (US $0.04 per share)	—	—	—	—	—	—	(11,790)	—	—	(11,790)
Changes in subsidiary ownership	—	—	—	—	—	79,130	—	—	—	79,130
Other comprehensive income, net of tax	—	—	—	—	—	—	—	135,617	—	135,617
Net income	—	—	—	—	—	—	732,083	—	—	732,083
Balance at December 31, 2000	32,000,000	126,283	(126,283)	299,613,413	1,182,373	980,429	646,499	146,668	—	2,955,969

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

Kookmin Bank and Subsidiaries
Consolidated Statements of Cash Flows

	Korean Won		US Dollars (Note 1)
For the years ended December 31,	**1999**	**2000**	**2000**
	(in millions)		*(in thousands)*
Cash flows from operating activities:			
Net income	480,655	927,548	732,083
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	1,010,400	261,929	206,732
Provision for guarantees and acceptances	4,182	14,094	11,124
Depreciation and amortization	115,727	118,194	93,286
Accretion of discounts on long-term debt	458,193	165,317	130,479
Net loss on valuation of trading securities	62,210	42,816	33,793
Net (gain) loss on valuation of derivatives	(38,044)	215,806	170,328
Net gain on sales of securities available-for-sale	(128,740)	(134,696)	(106,311)
Impairment loss on securities available-for-sale	121,379	93,310	73,646
Impairment loss on held-to-maturity securities	28,559	24,203	19,103
Net gain on sales of loans	(25,497)	(4,505)	(3,556)
Net (gain) loss on disposal of premises and equipment	(13,536)	10,636	8,394
Net loss on sale of subsidiaries	41,241	—	—
Net gain on extinguishment of long-term debts	—	(13,323)	(10,515)
Unrealized foreign exchange gain	(39,721)	(17,699)	(13,969)
Stock options issued	—	148	117
Beneficial conversion feature	55,722	—	—
Minority interest in net income of consolidated subsidiaries	6,275	80,770	63,749
Net change in			
Trading assets	24,033	860,146	678,884
Accrued interest and dividend receivable	430,219	(17,575)	(13,871)
Other assets	847,038	437,170	345,043
Trading liabilities	(328,232)	(166,583)	(131,478)
Accrued interest payable	(37,755)	206,298	162,824
Other liabilities	(660,185)	597,540	471,618
Net cash provided by operating activities	2,414,123	3,701,544	2,921,503
Cash flows from investing activities:			
Net change in restricted cash	(81,655)	(833,707)	(658,017)
Net change in interest-bearing deposits in other banks	118,060	(955,820)	(754,396)
Net change in call loans and securities purchased under resale agreements	702,176	(2,113,970)	(1,668,485)
Proceeds from sales of securities available-for-sale	4,236,166	6,191,309	4,886,590
Purchases of securities available-for-sale	(6,495,892)	(5,974,275)	(4,715,291)
Proceeds from maturities of held-to-maturity securities	6,114,071	4,769,262	3,764,216
Purchases of held-to-maturity securities	(2,820,922)	(6,016,810)	(4,748,863)
Loan originations and principal collections, net	(4,177,165)	(13,582,446)	(10,720,162)
Proceeds from sales of loans	26,297	8,001	6,315

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

Kookmin Bank and Subsidiaries
Consolidated Statements of Cash Flows—(Continued)

	Korean Won		US Dollars (Note 1)
For the years ended December 31,	**1999**	**2000**	**2000**
	(in millions)		*(in thousands)*
Payments for purchases of loans	—	(1,325,092)	(1,045,850)
Payments for purchases of premises and equipment	(131,549)	(178,510)	(140,892)
Proceeds from sales of premises and equipment	54,546	40,552	32,005
Net change in security deposits	85,579	(3,006)	(2,373)
Net cash used in investing activities	(2,370,288)	(19,974,512)	(15,765,203)
Cash flows from financing activities:			
Net increase (decrease) in noninterest bearing deposits	416,267	(676,717)	(534,110)
Net increase in interest bearing deposits	5,143,987	14,121,775	11,145,837
Net increase (decrease) in call money	549,257	(751,793)	(593,365)
Net increase in secured borrowings	422,888	1,045,103	824,864
Net increase in other borrowed funds	400,969	1,552,297	1,225,175
Proceeds from issuance of long-term debt	2,687,345	7,924,112	6,254,233
Repayment of long-term debt	(9,889,013)	(7,578,171)	(5,981,193)
Proceeds from common stock issuance	735,187	—	—
Proceeds from common stock issuance by subsidiaries	2,351	220,439	173,985
Cash dividends paid to minority stockholders by subsidiaries	—	(653)	(515)
Purchases of additional shares of subsidiaries	(16,561)	—	—
Purchases of treasury stock by subsidiaries	(1,809)	—	—
Proceeds from sales of treasury stock	260	—	—
Cash dividends paid on common stocks	(47,251)	(14,937)	(11,790)
Redemption of preferred stocks	—	(40,000)	(31,571)
Other	—	322	255
Net cash provided by financing activities	403,877	15,801,777	12,471,805
Effect of exchange rate changes on cash	(15,653)	12,161	9,598
Net increase (decrease) in cash and cash equivalents	432,059	(459,030)	(362,297)
Cash and cash equivalents, beginning of year	1,728,442	2,160,501	1,705,210
Cash and cash equivalents, end of year	2,160,501	1,701,471	1,342,913
Supplemental disclosure of cash flow information:			
Cash paid during the year for interest	4,535,762	4,433,602	3,499,291
Cash paid during the year for income taxes	181,301	122,089	96,361
Supplemental schedule of non cash investing and financing activities:			
Loans repurchased from Korea Asset Management Corporation in exchange for held-to-maturity securities	12,306	23,840	18,816
Securities and other investments received in connection with loan restructuring	95,672	72,908	57,544
Decrease in cumulative translation adjustments, net of tax	(3,484)	(14,414)	(11,377)
Increase (decrease) in unrealized (losses) gains on securities available for sale, net of tax	(245,393)	186,241	146,994

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

1. General Information and Summary of Significant Accounting Policies

Kookmin Bank, formerly Citizens National Bank, was established in the Republic of Korea ("Korea") in 1963 under the *Citizens National Bank Act* to provide and administer funds for financing the general public and small businesses. Pursuant to the repeal of the *Citizens National Bank Act* effective January 5, 1995, Kookmin Bank has conducted its operations in accordance with the provisions of the *General Banking Act* of Korea.

Kookmin Bank and its subsidiaries (collectively, the "Bank") operated through 642 domestic branches and four overseas branches as of December 31, 2000. The Bank is engaged in the commercial banking business under the *General Banking Act* and in the trust business according to the *Trust Business Act* and other related laws.

At December 31, 2000, the Korean government and foreign investors owned 6.48% and 58.15%, respectively, of the outstanding common shares of the Bank.

On December 22, 2000, the Bank entered into a memorandum of understanding for a merger with H&CB, a competitor commercial bank headquartered in Seoul, Korea, and signed a merger agreement with H&CB on April 23, 2001. The merger is scheduled to be effective in the fourth quarter of 2001.

Risk and uncertainties

Risks relating to the Korean economy
The Asian financial crisis that began in 1997 adversely affected the Korean economy as well as those of other economies in the Asia Pacific region. Among other effects, the Asian financial crisis precipitated economic contractions, a reduction in the availability of credit, increased interest rates and inflation, adverse fluctuations in currency exchange rates, growth in the level of bankruptcies, increased unemployment and labor unrest. Such conditions have had a significant adverse effect on the operations of the Bank. Any worsening of the Korean economy could exacerbate these effects.

Although economic conditions in Korea may have improved and some of the trends and conditions noted may have reversed, the Bank and its customers may continue to be affected for the foreseeable future by the general adverse economic conditions in Korea and in the Asia Pacific region.

During 2000 the economic recovery slowed compared to 1999, and in particular the economic indicators for the fourth quarter of 2000 dropped unfavorably. The economic indicators have not improved in the first quarter of 2001, and it is uncertain as to how the Korean economy will perform in the near term. Should economic indicators in Korea perform unfavorably in the short term and other external factors become negative, such as the degree of success of government-sponsored or brokered restructuring of large troubled companies, or the success of the restructuring of the Korean financial sector, then the Bank could be required to make adjustments to the carrying amount of its loans and investments in amounts that could be material to the financial statements.

Risks relating to Kookmin Leasing Company, Ltd.
Kookmin Leasing Company, Ltd. ("Kookmin Leasing") is a consolidated subsidiary of the Bank. At December 31, 2000, the Bank had a 89.61% ownership interest in Kookmin Leasing. For the years ended December 31, 1999 and 2000, Kookmin Leasing incurred net losses of approximately 60,976 million Won and 302,955 million Won, respectively, and had negative net assets of 132,668 million Won and 435,362 million Won, respectively. In June 2001, the creditors of Kookmin Leasing agreed to a plan whereby 1,351,177 million Won of Kookmin Leasing's debt was restructured retroactive to March 30, 2001, resulting in (i) forgiveness of 69,889 million Won of debt, (ii) early repayment of 235,552 million Won of debt, (iii) a conversion of 270,393 million Won of debt into 44,159,059 shares of Kookmin Leasing's common stock and its convertible bonds of 66,158 million Won, and (iv) extended repayments and reduced interest rates on 775,343 million

Won of debt. After giving effect to the issuance of additional shares related to the restructuring, the Bank is expected to own 88.32% of Kookmin Leasing. There can be no assurance that Kookmin Leasing will not continue to suffer losses that may be material to the financial statements of the Bank in future periods.

Basis of presentation

The accounting and reporting policies of the Bank conform with accounting principles generally accepted in the United States of America ("US GAAP"). The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses 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 Kookmin Bank and its wholly-owned and majority-owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation. The Bank has no significant investees, individually or in the aggregate, accounted for under the equity method.

Any gain or loss resulting from changes in equity of consolidated investees that change the Bank's relative ownership interest in such investees is recorded in "Additional paid-in capital".

Foreign currency translation

Foreign currency translation represents the effects of translating into Korean Won, the financial position and results of operations of entities located outside of Korea that have a functional currency other than Korean Won. Foreign currency translation is recorded as a component of "Accumulated other comprehensive income" within stockholders' equity, net of income tax effects. Assets and liabilities are translated into Korean Won at period-end exchange rates, and income and expense items are translated using average rates for the relevant periods.

Foreign currency transactions executed by domestic Korean entities are accounted for at the exchange rates prevailing on the related transactions dates. Assets and liabilities denominated in foreign currencies are remeasured using period-end exchange rates. Gains and losses resulting from the settlement of foreign currency transactions and from the remeasurement of assets and liabilities denominated in foreign currencies are recognized in the statement of income except for gains and losses arising from the translation of securities available-for-sale which are recorded as a component of "Accumulated other comprehensive income".

Cash and cash equivalents

For the purpose of reporting cash flows, cash and cash equivalents are comprised of cash and amounts due from banks. All such amounts have 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 control over the related securities has not been surrendered by the transferror. When control over the related securities has been surrendered by the transferror, 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 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. Interest earned on resale agreements and interest incurred on repurchase agreements is reported as interest income and interest expense, respectively.

The Bank reports securities as owned when they are pledged as collateral in connection with repurchase agreements, because the collateralized party generally cannot sell or pledge the securities or the Bank can substitute or otherwise redeem the collateral on short notice. The Bank does not report securities received as collateral in connection with resale agreements because the debtor generally has the right to substitute or otherwise redeem the collateral on short notice.

Trading assets and liabilities, including derivatives

Trading assets include securities held in anticipation of short-term market movements. Trading liabilities include "short" positions, which are 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 and foreign exchange contracts used for trading purposes and those used for other than trading purposes that do not qualify for hedge accounting, which the Bank carries at fair value. The Bank recognizes changes in the fair value of trading derivatives and foreign exchange contracts as they occur in net trading revenue. The fair value of trading securities, derivative financial instruments and foreign exchange contracts is determined using quoted market prices, including quotes from dealers trading those securities or instruments, when available. If quoted market prices are not available, the fair value is estimated based on pricing models, quoted prices of instruments with similar characteristics or discounted cash flows.

Derivatives used for nontrading purposes

The Bank uses various derivative instruments to modify the interest rate characteristics of certain assets or liabilities and to hedge against the effects of fluctuations in interest rates or foreign exchange rates. Instruments must be designated as hedges and must be effective throughout the hedge period. To qualify as hedges, derivative instruments must be linked to specific assets or liabilities (or pools of similar assets or liabilities). For derivative instruments that fail to qualify as hedges, the instruments are recorded at market value with changes in market value reflected in net trading revenues prospectively.

Interest rate swaps which qualify as hedges are accounted for on an accrual basis with accrued interest recognized as adjustments to interest income or expense on the related assets or liabilities.

Derivative instruments used to hedge or modify the interest rate characteristics of debt securities or to manage foreign exchange risk of securities classified as available-for-sale are carried at fair value with unrealized gains or losses deferred as a component of "Accumulated other comprehensive income (loss), net of tax".

The Bank's derivative instruments generally are not terminated prior to their designated maturities. When early terminations do occur, gains or losses are recorded as adjustments to the carrying value of the underlying assets or liabilities and recognized as income or expense over the remaining expected lives of such underlying assets or liabilities.

Securities available-for-sale

Securities are classified as available-for-sale when management intends to hold the securities for an indeterminate period of time or when the securities may be sold from time to time to effectively manage interest rate exposure and liquidity needs. Premiums and discounts for debt 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 for debt securities and the moving average method for equity securities. Securities available-for-sale are reported at fair value. Unrealized gains and losses on securities available-for-sale are excluded from earnings and reported in "Accumulated other comprehensive income (loss), 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. Factors considered in determining whether such declines in value are other than temporary include the length of time and extent to which fair value is less than cost, the financial condition and near-term prospects of the issuer, the Bank's intent and ability to hold the related security for a period of time sufficient to allow for any recovery in market value, and the state of the Korean economy (domestic securities only). The related write-downs are included in earnings as impairment losses.

Held-to-maturity securities

Securities for which the Bank has the positive ability and intent to hold until maturity are recorded at amortized cost and adjusted for accretion/amortization of discounts and premiums, respectively. Premiums and discounts for debt securities are amortized or accreted, respectively, using the effective interest rate method. Declines in fair value of individual held-to-maturity securities below their amortized 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 impairment losses.

Loans

Loans are reported at the principal amount outstanding adjusted for the allowance for loan losses, unearned income, loan fees and loan origination costs. Purchased loans are also adjusted for accretion/amortization of discounts and premiums, respectively. Interest on loans is accrued at the effective rate and credited to income based on the principal amount outstanding.

The Bank generally ceases 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. 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. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current.

Securities received by the Bank involving loans that are restructured or settled are recorded at the fair 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, as appropriate, on the loan through the allowance for loan losses.

The Bank provides equipment financing to its customers through a variety of lease arrangements. Direct financing leases are carried at the aggregate of lease payments receivable plus estimated residual value of the leased property, less unearned income. Unearned income is recognized using the effective interest method.

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 and the financial condition of the borrower. The allowance for loan losses is charged against income in the form of a provision for loan losses. Adjustments to the allowance due to changes in measurement of impaired loans are recognized through the provision for loan losses. Loan losses, net of recoveries, are charged directly to the allowance.

A commercial 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 loan. We consider the following types of loans to be impaired:

- Loans classified as "substandard" or below according to the Financial Supervisory Commission's asset classification guidelines;
- Loans that are 30 days past due;
- Loans to companies that have received a "yellow" warning from the Korean Federation of Banks, which warning indicates that the company has been in arrears for more than three months on loans in the amount of ₩15 million or more; and
- Loans which are "troubled debt restructurings" under US GAAP.

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, a specific allowance is established. Any amounts deemed uncollectible are charged against the allowance for loan losses. Recoveries of previously charged-off amounts are credited to the allowance for loan losses. Impairment criteria are applied to the loan portfolio, exclusive of leases and smaller balance homogeneous loans such as residential mortgage, consumer loans and credit cards, which are evaluated collectively for impairment.

The allowance for loan losses related to commercial loans that are not deemed to be impaired is established for such loans in the aggregate based upon the Bank's historical loss experience.

The allowance for loan losses related to consumer loans is established based on historical loss experience and charge-off information. Unsecured loan amounts greater than 180 days past due are charged-off.

The allowance for loan losses related to leases is established based on historical loss experience. The amount deemed uncollectable on financing leases is charged off when greater than one year past due.

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".

Deferred loan origination costs

The Bank recognizes certain employee and other costs associated with originating loans as a yield adjustment over the life of the loan, net of any related fees received. These costs relate to direct loan origination activities performed by the Bank which include 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 fee income related to its lending activities. 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 assets

Assets acquired through a loan foreclosure are initially recorded at fair value at the date of acquisition. After acquisition, such assets are carried at the lower of their carrying amounts or fair values as determined by their estimated public auction price, net of selling costs.

Secured borrowings

Transfers of loans related to certain securitizations, in which control over the loans has not been surrendered, are accounted for as collateralized borrowings. The liability for funds received under the related loan sale agreements are included in "Secured borrowings".

Premises and equipment

Premises, equipment and leasehold improvements are stated at cost less accumulated depreciation and amortization. Depreciation of buildings and leasehold improvements is computed on a straight-line method over the estimated useful lives of the assets, or the term of the lease, if shorter, in the case of leasehold improvements. Depreciation of equipment and vehicles is computed on a declining balance basis over the useful lives of the assets. Gains or losses on disposals of premises and equipment are determined by reference to their carrying amount. Maintenance and repairs are charged to expense as incurred.

The Bank capitalizes certain direct costs related to developing software for internal use, and begins straight-line amortization of such costs once the software is available for use.

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

Buildings	40 years
Equipment and vehicles	3–6 years
Leasehold improvements	1–5 years
Software	4 years

All leases entered into by the Bank as lessee are operating leases. Amounts due under operating leases are charged to expense on a straight-line basis over the period of the lease. 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.

Goodwill and other intangible assets

Goodwill and other acquired intangible assets are amortized over the estimated periods to be benefited, generally raging from 5 to 15 years using the straight-line method. An impairment review is performed periodically on these assets and any impaired amounts are written off.

The carrying value of goodwill is reviewed if facts and circumstances indicate that it may be impaired. Such facts and circumstances include significant or sustained declines in revenues or earnings and material adverse changes in the economic climate. If this review indicates that goodwill will not be recoverable, as determined based on the estimated undiscounted cashflows of the entities acquired, impairment is measured by comparing the carrying value of goodwill to its fair value, as determined based on discounted cash flows or appraisals.

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.

Stock based compensation

The Bank accounts for its employee stock-based compensation plans using the intrinsic-value based method in accordance with Accounting Principles Board Opinions No. 25, "Accounting for Stock Options Issued to Employees." Compensation expense is calculated by multiplying the number of shares under option by the difference between the quoted market price of the stock at the measurement date and the exercise price the employee is required to pay. The measurement date is determined when the number of shares and the exercise prices are fixed. Compensation expense is recognized over the vesting period in which an employee performs the services related to the option awards.

Trust fees and compensation to the trust accounts

The Bank receives fees for its management of trust assets, which are recognized when earned. The Bank also is entitled to receive performance-based fees for certain trust accounts. These fees, if earned, are recognized at the end of the performance period.

In addition, 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 at the end of each applicable year.

Other fees and commission income

Other fees and commissions primarily consist of fees from deposit accounts, mortgage servicing, loan commitments, commissions on factored receivables, credit card interchange income and cash advance fees. Such fees are recognized when earned, except for commissions on factored receivables, which are recognized over the service period.

Income taxes

Deferred income tax is provided, 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. Deferred income tax benefit or expense is then recognized for the change in deferred tax assets or liabilities between periods. Currently enacted tax rates are used to determine deferred tax amounts.

Deferred tax assets, including the carry-forward of unused tax losses, are recognized to the extent it is more likely than not that the deferred tax assets will be realized. To the extent the deferred tax assets are not realizable, a valuation allowance is recognized.

Venture capital activities

Certain of the Bank's subsidiaries engage exclusively in venture capital activities. Venture capital investments are carried on the balance sheet at fair value in "Other assets," with net changes in fair value recognized in "Noninterest income" or "Noninterest expense". The fair values of publicly-traded securities held by these subsidiaries are generally based on quoted market prices. Securities that are held by these subsidiaries that are not publicly trade are originally recorded at cost, which is deemed to be fair value as of the acquisition date. Subsequent to that date management estimates fair value based on investee transactions with unaffiliated parties, or based on management's review of the investee's financial results and condition.

United States dollar amounts

The Bank operates primarily in Korea and its official accounting records are maintained in Korean Won. The US dollar amounts are provided herein as supplementary information solely for the convenience of the reader. Won amount are expressed in US dollars at the rate of ₩1,267 : US$1, the US Federal Reserve Bank of New York noon buying exchange rate in effect on December 31, 2000. The US dollar amounts are unaudited and are not presented in accordance with generally accepted accounting principles in either Korea or the United States of America, and should not be construed as a representation that the Won amounts shown could be converted, realized or settled in US dollars at this or any other rate.

2. Recent Accounting Pronouncements

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities"

Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 137 and 138, supersedes and amends several existing standards and establishes accounting and reporting standards for hedging activities and for derivative financial instruments, including derivatives embedded in other contracts. SFAS No. 133 requires that all derivative instruments be recorded on the balance sheet at fair value. Changes in the fair values of derivatives in each period are recorded in either current earnings or other comprehensive income ("OCI"), based on whether the derivative contract is designated as part of a hedge transaction as well as on the effectiveness and type of hedge.

For fair value hedges, in which derivatives hedge the fair value of assets and liabilities, changes in the fair value of derivatives are reflected in current earnings together with changes in the fair value of the related hedged item. The change in fair value of a derivative that is not effective as a hedge is immediately recognized in earnings. The Bank's fair value hedges primarily include hedges of fixed rate long-term debt, loans and securities available-for-sale.

For cash flow hedges, in which derivatives hedge the variability of cash flows related to floating rate assets, liabilities or forecasted transactions, the accounting treatment will depend on the effectiveness of the hedge. To the extent these derivatives are effective in offsetting the variability of the hedged cash flows, changes in the derivatives' fair value are not included in current earnings but are reported in OCI. These changes in fair value will be included in earnings in future periods when earnings are also affected by the variability of the hedged cash flows. To the extent these derivatives are not effective, changes in their fair values will be immediately included in current earnings. The Bank did not have any cash flow hedges as of December 31, 2000.

For a derivative not designated as a hedging instrument, changes in the fair value are recognized in earnings in the period of change.

On the initial adoption date of SFAS No. 133, hedging relationships must be redesignated and documented pursuant to the provisions of the standard. SFAS No. 133 requires that derivatives that currently apply hedge accounting that do not meet the new definition of a hedging relationship be treated as trading transactions and marked to market. From January 1, 2001 a significant proportion of the Bank's non-trading derivatives will not be designated as hedging transactions as defined by SFAS No. 133. As a result, adoption of this standard may cause volatility in earnings and equity prospectively.

On adoption of SFAS No. 133, securities classified as held-to-maturity can be transferred to either the available-for-sale classification or the trading classification without calling into question an entity's intent to hold other debt securities to maturity in the future. SFAS No. 133 also allows transfers from the available-for-sale classification to the trading classification. The Bank did not make any such transfers.

The Bank adopted SFAS No. 133 on January 1, 2001. In accordance with the transition adjustment provisions of SFAS No. 133, the Bank recorded a net-of-tax cumulative-effect-type adjustment of 11,116 million Won loss in earnings to recognize at fair value derivative contracts hedging held-to-maturity securities (and accounted for on an accrual basis) which were designated as trading derivatives under SFAS No. 133.

The Bank recorded a net-of-tax reduction to income of 8,540 million Won and an increase of the same amount to accumulated OCI for interest rate swaps that were hedging available-for-sale securities, which did not qualify for hedge accounting under SFAS No. 133.

The Bank also recorded a net-of-tax cumulative-effect-type adjustment of 5,059 million Won loss in earnings and a net-of-tax gain in accumulated OCI of 5,118 million Won to recognize the fair value of embedded equity-based derivatives that was not previously separately accounted for as a derivative under generally accepted accounting principles before the initial application of SFAS No. 133.

SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities"

In September 2000, the FASB issued SFAS No. 140, "Accounting for Transfers and Servicing Financial Assets and Extinguishment of Liabilities—a replacement of SFAS No. 125". SFAS No. 140 revises the standards for accounting for securitisations and other transfers of financial assets and collateral. SFAS No. 140 requires certain new disclosures, but it carries over most of SFAS No. 125's provisions without reconsideration. Generally, the new provisions of this standard are to be applied prospectively and become effective March 31, 2001. However, certain recognition and classification requirements for collateral and disclosures for collateral and securitisation transactions are required as of December 31, 2000 and have been adopted by the Bank. Adoption of the remaining provisions of this revised accounting standard is not expected to have a material impact on the Bank.

3. Merger with H&CB

On December 22, 2000 the Bank entered into a Memorandum of Understanding related to a contemplated merger with H&CB, which is engaged in the banking business in accordance with the provisions of the *General Banking Act* of Korea.

On April 23, 2001 the Bank and H&CB signed a merger agreement (the "Merger Agreement") stipulating the terms of the merger. Currently, the effective date for consummation of the merger is scheduled to be October 31, 2001. The Merger Agreement may be cancelled at any time prior to the effective date of the merger if certain events occur. Such events include mutual agreement between the Bank and H&CB, a material breach of a representation or warranty by either party, or the failure of the related registration statement to be filed with the Securities and Exchange Commission in the United States of America to be declared effective by a certain date. The merger will be effected through the creation of a holding company to acquire each bank through an exchange of shares. Shareholders of the Bank and H&CB will receive shares in the holding company in exchange for their shares in the Bank and H&CB, based on a pre-determined ratio. All of the Bank's and H&CB's outstanding redeemable preferred stock will be exchanged on a one-for-one basis for preferred shares in the merged bank that have essentially the same terms. After the merger, the former shareholders of the Bank will own 61.3% of the merged bank, and the former shareholders of H&CB will own 38.7% of the merged bank, if outstanding convertible bonds of both banks are fully converted into common stock before the completion of the merger.

It is currently contemplated that the merger will be accounted for as a purchase, with the Bank being the acquiror for accounting purposes. The assets and liabilities of H&CB will be recorded at fair value, with any excess of the purchase price over the fair value of the tangible and intangible assets and liabilities of H&CB being assigned to goodwill.

4. Sale of Subsidiaries

Orange Mutual Savings & Finance (formerly Kookmin Mutual Savings & Finance)
On January 22, 1999, the Bank sold its wholly-owned subsidiary, Kookmin Mutual Savings & Finance ("Kookmin MSF"), to Dong-a Mutual Savings & Finance ("Dong-a"). Kookmin MSF was renamed Orange Mutual Savings & Finance ("Orange MSF") subsequent to the sale. The Bank recorded a gain of approximately 15 billion Won related to the sale, which is included in gain on disposition of subsidiaries in the statement of income for the year ended December 31, 1999.

Under Article 37-3 of the *Korean Mutual Savings and Finance Business Act,* the shareholders and directors of a mutual savings and finance company must guarantee the deposits of any mutual savings and finance company it transfers for three years after the date of transfer. On December 27, 2000, Orange MSF was notified by the Financial Supervisory Services ("FSS"), a Korean regulatory agency, that it must terminate its operations. On May 23, 2001, the FSS announced plans to liquidate Orange MSF and reimburse depositors through the Korea Deposit Insurance Corporation ("KDIC"). As a result of these actions, it is probable that the Bank will be required to make payments to KDIC under its guarantee. While it is not possible to reasonably estimate the amount that the Bank will ultimately be required to pay, the maximum estimate of the related liability is 21 billion Won. There are inherent uncertainties surrounding this estimate, as new developments may lead to a different outcome. Such developments include, but are not limited to, the actual amounts of funds realized through the liquidation of Orange MSF.

Bukook Mutual Savings & Finance
In December 1999, the Bank sold its wholly-owned subsidiary, Bukook Mutual Savings & Finance ("Bukook MSF"), to Hansol Mutual Savings & Finance ("Hansol") for 1 billion Won. The Bank recorded a loss of 56 billion Won on the sale, which is included in loss on disposition of subsidiaries in the statement of income for the year ended December 31, 1999. Under Article 37-3 of the *Korean Mutual Savings and Finance Business Act,* the Bank has guaranteed the deposits it sold to Hansol through December 2002. The Bank does not currently believe that it will incur any obligations related to this guarantee. The Bank has placed deposits with Hansol in the amounts of 97,427 million Won and 104,003 million Won at December 31, 1999 and 2000, respectively. These interest-bearing deposits may not be withdrawn by the Bank prior to their maturity in 2004.

5. Transactions with Korea Asset Management Corporation

The Bank acquired certain assets, including loans classified as normal or precautionary, and assumed substantially all of the liabilities of Daedong Bank ("Daedong") in 1998. The terms of this transaction were established in the related purchase and assumption agreement (the "P&A"). In connection with the P&A, the Bank retained the right to transfer to the Korea Asset Management Corporation ("KAMCO") any purchased assets that became non-performing within one year after the purchase date, provided the Bank was not found to be negligent in the management of those assets (the "Put-Back Option").

During 1999, the Bank exercised its put-back option through two separate transactions in an aggregate amount of 368,931 million Won. In connection with the determination of excess liabilities over assets of Daedong, and subsequent exercises of the put-back option, the Bank received a total of 828,496 million Won in cash and securities from KAMCO and KDIC during 1999. The payments represent settlements for the initial excess of Daedong's liabilities over its assets, and subsequent put-back options exercised, fund management income/loss incurred, realized losses on the securities, accrued interest, as well as realized losses on guarantees provided and realized losses on syndicated loans. No gain or loss was recognized as a result of these transactions.

The Bank sold to KAMCO non-performing loans in the net aggregate principal amount (net of related allowances for loan losses) of 183,336 million Won and 708,289 million Won for a sales price of 163,806 million Won and 491,271 million Won in 1997 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 21,593 million Won and 195,526 million Won for 1997 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. Loans for which KAMCO has the put option amounted to 59,350 million Won and 19,871 million Won at December 31, 1999 and 2000, respectively. The Bank has recorded a liability of 15,691 million Won and 5,437 million Won at December 31, 1999 and 2000, respectively, representing the Bank's obligation to repurchase loans under the put option.

6. Restricted Cash

The following table presents restricted cash as of December 31:

(All amounts expressed in millions of Won)	**1999**	**2000**
Reserve deposits with the Bank of Korea	86,711	925,121
Sinking funds deposited with the Bank of Korea	35,929	—
Deposits for severance payments	409,323	396,075
Deposits with Hansol Mutual Savings & Finance	97,427	104,003
Other	76,779	114,677
Total restricted cash	706,169	1,539,876

Reserve deposits with the Bank of Korea ("BOK") represent amounts required under the *General Banking Act* for payment of deposits. Deposits for severance payments are placed with group severance benefit insurance plans at four Korean insurance companies. Korean tax law requires any withdrawals of such severance deposits used for a purpose other than severance payments to be included in taxable income.

Deposits with Hansol are restricted from being withdrawn prior to their maturity in 2004. These deposits were placed with Hansol in connection with its purchase of Bukook MSF from the Bank.

7. Call Loans and Securities Purchased under Resale Agreements

Call loans and securities purchased under agreements to resell, at their respective carrying values, consisted of the following at December 31:

(All amounts expressed in millions of Won)	**1999**	**2000**
Call loans	279,969	991,208
Securities purchased under resale or similar arrangements	97,200	1,500,000
Total	377,169	2,491,208

8. Trading Assets and Liabilities

The following table presents trading assets and liabilities at December 31:

(All amounts expressed in millions of Won)	1999	2000
Trading assets:		
Debt securities		
Korean Treasury and government agencies	1,020,665	1,755,662
Corporate	152,103	154,591
Financial institutions	733,830	537,015
Foreign governments	9,016	—
Other	10,163	—
Equity securities	1,393,310	148,777
Total debt and equity instruments	3,319,087	2,596,045
Derivative financial instruments and foreign exchange contracts		
Foreign exchange spot contracts	6,028	1,524
Forward foreign exchange contracts	224,395	404,023
Foreign exchange options purchased	—	1,284
Interest rate contracts	71,220	56,492
Cross currency swaps	13,901	43,566
Credit derivatives	1,227	582
Equity contracts	611	172
Total derivative financial instruments and foreign exchange contracts	317,382	507,643
Total trading assets	3,636,469	3,103,688
Trading liabilities:		
Derivative financial instruments and foreign exchange contracts		
Foreign exchange spot contracts	6,461	2,420
Forward foreign exchange contracts	176,631	602,425
Foreign exchange options written	—	761
Interest rate contracts	77,385	61,787
Cross currency swaps	37,425	50,320
Credit derivatives	462	54
Total trading liabilities	298,364	717,767

Average trading assets and liabilities were as follows for the years ended December 31:

(All amounts expressed in millions of Won)	1999	2000
Trading assets:		
Debt and equity instruments	4,653,534	2,774,443
Derivative financial instruments and foreign exchange contracts	298,528	320,682
Total average trading assets	4,952,062	3,095,125
Trading liabilities:		
Derivative financial instruments and foreign exchange contracts	313,679	340,852
Total average trading liabilities	313,679	340,852

9. Net Trading Revenue

The following table presents net trading related revenue for the years ended December 31:

(All amounts expressed in millions of Won)	1999	2000
Debt securities	142,275	147,893
Equity securities	115,624	(208,431)
Foreign exchange contracts	142,306	151,742
Interest rate, cross currency and credit derivative financial instruments	106,958	(77,904)
Total net trading related revenue	507,163	13,300

For the years ended December 31, 1999 and 2000, net unrealized holding losses on trading securities of 62,210 million Won and 42,816 million Won, respectively, were included in net trading revenue.

10. Securities

At December 31, 2000, 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:

(All amounts expressed in millions of Won)

December 31, 2000	Amortized cost	Gross unrealized gain	Gross unrealized loss	Fair Value
Securities available-for-sale:				
Debt securities				
Korean Treasury and government agencies	3,418,220	121,570	3,942	3,535,848
Corporate	1,265,533	107,296	9,691	1,363,138
Financial institutions	1,516,305	37,868	5,133	1,549,040
Foreign governments	26,291	6,219	26	32,484
Mortgage-backed securities and asset-backed securities	154,802	2,769	—	157,571
Other	80,188	544	—	80,732
Equity securities	1,529,781	49,015	16,215	1,562,581
Total securities available-for-sale	7,991,120	325,281	35,007	8,281,394
Held-to-maturity securities:				
Debt securities				
Korean Treasury and government agencies	4,855,928	259,860	—	5,115,788
Corporate	528,814	15,854	1,075	543,593
Financial institutions	2,753,838	11,907	1,684	2,764,061
Foreign governments	99,640	2,512	1,517	100,635
Mortgage-backed securities and asset-backed securities	765,739	10,414	—	776,153
Other	522	—	—	522
Total held-to-maturity securities	9,004,481	300,547	4,276	9,300,752

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:

(All amounts expressed in millions of Won)

December 31, 1999	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available-for-sale:				
Debt securities				
Korean Treasury and government agencies	3,781,483	65,997	103,208	3,744,272
Corporate	1,032,020	48,866	25,492	1,055,394
Financial institutions	2,074,178	21,048	39,348	2,055,878
Foreign governments	28,491	9,152	602	37,041
Mortgage-backed securities and asset-backed securities	—	—	—	—
Other	698,581	15,168	4,338	709,411
Equity securities	541,243	25,355	1,459	565,139
Total securities available-for-sale	8,155,996	185,586	174,447	8,167,135
Held-to-maturity securities:				
Debt securities				
Korean Treasury and government agencies	3,376,464	9,302	—	3,385,766
Corporate	434,432	9,252	7,886	435,798
Financial institutions	2,812,934	1,325	2,103	2,812,156
Foreign governments	188,233	17,277	1,167	204,343
Mortgage-backed securities and asset-backed securities	19,985	—	322	19,663
Bond Market Stabilization Fund	927,800	18,288	—	946,088
Other	5,128	88	—	5,216
Total held-to-maturity securities	7,764,976	55,532	11,478	7,809,030

The BOK and the Korea Development Bank ("KDB") are both financial institutions owned and controlled by the Korean government. The amounts listed above for the fair value of debt securities available-for-sale from financial institutions include 1,279,250 million Won and 855,193 million Won as of December 31, 1999 and 2000, respectively, that are related to BOK and KDB. The amounts listed above for the amortized cost of debt securities held-to-maturity from financial institutions include 655,285 million Won and 1,121,236 million Won as of December 31, 1999 and 2000, respectively, that are related to BOK and KDB.

Gross unrealized gains and losses on swaps related to securities available-for-sale at December 31, 1999 were 1,355 million Won and 16,233 million Won, respectively. Gross unrealized gains and losses on swaps related to securities available-for-sale at December 31, 2000 were 1,045 million Won and 28,351 million Won, respectively.

In the year ended December 31, 1999, the Bank recognized impairment losses on securities available-for-sale and held-to-maturity securities of 121,379 million Won and 28,559 million Won, respectively, where decreases in values were deemed to be other-than-temporary. In the year ended December 31, 2000 the Bank recognized impairment losses on securities available-for-sale and held-to-maturity securities of 93,310 million Won and 24,203 million Won, respectively, where decreases in values were deemed to be other-than-temporary.

Any further deterioration in Korean economic conditions could adversely affect the fair value of securities held by the Bank.

For the years ended December 31, 1999 and 2000, proceeds from sales of securities available-for-sale amounted to 4,236,166 million Won and 6,191,309 million Won, respectively. Gross realized gains amounted to 148,248 million Won and 186,679 million Won for the years ended December 31, 1999 and 2000, respectively. Gross realized losses amounted to 19,508 million Won and 51,983 million Won for the years ended December 31, 1999 and 2000, respectively.

The amortized cost and estimated fair value of the Bank's debt securities available-for-sale and held-to-maturity at December 31, 2000 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.

	Securities available-for-sale(1)		**Held-to-maturity securities**	
(All amounts expressed in millions of Won)	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
Due in one year or less	1,593,814	1,631,581	3,277,674	3,292,908
Due after one year through five years	4,585,589	4,768,742	5,621,111	5,895,696
Due after five years through ten years	212,224	249,328	93,178	97,143
Due after ten years	19,343	16,956	1,301	1,238
Securities not due at a single maturity date	50,369	52,206	11,217	13,767
Total	6,461,339	6,718,813	9,004,481	9,300,752

(1) Equity securities available-for-sale are excluded.

The Bond Market Stabilization Fund (the "Fund") was established by forty Korean financial institutions on September 21, 1999 at the request of the Korean government, to stabilize the market prices of debt securities and interest rates in Korea through open market purchases of debt securities. The Bank contributed 927,800 million Won in cash to the Fund.

On March 27, 2000 (the "dissolution date"), the Korean government elected to dissolve the Fund in advance of the scheduled maturity and sold most of the securities held within the Fund (the "Distributed Investments") to the participating financial institutions. The Bank received cash of 962,710 million Won and purchased certain securities totaling 900,852 million Won previously held by the Fund. The total fair value of the investments sold to participating financial institutions was approximately 26.6 trillion Won.

On dissolution of the Fund, a portion of the securities previously held by the Fund were sold to two trusts ("the Trusts"). The first trust ("Trust I") is separately identifiable from the other trust ("Trust II"). Trust I is beneficially owned by H&CB while Trust II, which is managed by H&CB, is beneficially owned by the Bank and the remaining participating financial institutions. The securities sold to Trust I and Trust II had a fair value of 23,600 million Won and 273,600 million Won, respectively, as of the dissolution date.

As part of the dissolution agreement, the participating financial institutions agreed that any losses experienced by the participants on their share of investments purchased from the Fund would be shared with the other participating financial institutions according to their participation percentage in the Trusts until August 31, 2002, the scheduled maturity of the Trusts. The mechanism by which this operates is that in the event that any of the purchased investments go through court receivership, workout or mediation, the participating financial institutions holding those securities are able to sell these securities to the Trusts at the fair value calculated using the yield on the dissolution date. The Money Trust Committee, consisting of six participating financial institutions including the Bank, has the authority to approve the repurchase of securities by the Trusts. As the

Bank owns approximately 8.45% of the Trusts in total, the Bank is exposed to 8.45% of the potential loss on securities which are sold back to the Trusts. The dissolution agreement does not address commitments to purchase investments which exceed the assets of the Trusts.

11. Loans

The composition of the loan portfolio as of December 31, 1999 and 2000 was as follows:

(All amounts expressed in millions of Won)	1999	2000
Domestic		
Commercial:		
Commercial and industrial[(1)]	24,665,987	29,794,794
Construction loans	1,724,184	2,168,165
Other commercial[(2)]	1,053,288	1,216,256
Lease financing	882,310	592,466
Consumer:		
Mortgage and real estate	6,034,050	8,068,339
Credit cards	3,361,892	8,321,050
Other consumer[(3)]	6,143,127	8,150,969
Foreign		
Commercial:		
Commercial and industrial	1,080,211	1,084,690
Gross loans	44,945,049	59,396,729
Deferred origination costs	29,273	37,567
Less: Allowance for loan losses	(2,623,382)	(2,393,647)
Total loans, net	42,350,940	57,040,649

(1) Commercial and industrial loans include 447,395 million Won and 1,831,961 million Won of loans to the Korean government and government related agencies as of December 31, 1999 and 2000, respectively.

(2) Other commercial loans include bills bought in foreign currency and overdrafts.

(3) Other consumer loans include personal overdrafts and loans with principal due at maturity.

During 2000 and 1999, the Bank received convertible debt securities and marketable equity securities having a fair market value of 10,772 million Won (1999: 27,143 million Won) and 62,136 million Won (1999: 68,529 million Won), respectively, through restructuring of 32 (1999: 26) loans having an aggregate book value of 146,956 million Won (1999: 158,650 million Won). The Bank recognized aggregate charge-offs of 74,048 million Won (1999: 62,978 million Won) related to these transactions.

The following table sets forth information about the Bank's impaired loans as of December 31, 1999 and 2000. 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	2000
Impaired loans with an allowance	5,138,429	4,879,926
Impaired loans without an allowance	972,653	646,840
Total impaired loans	6,111,082	5,526,766
Allowance for impaired loans	2,158,192	1,808,760
Average balance of impaired loans during the year	6,541,090	5,613,299
Interest income recognized on impaired loans during the year[(1)(2)]	413,133	376,814

(1) Had the impaired loans performed in accordance with their original terms, additional interest income of 182,823 million Won and 132,603 million Won would have been recorded in 1999 and 2000, respectively.

(2) Of this amount, 240,156 million Won and 171,742 million Won as of December 31, 1999 and 2000, respectively, relate to troubled debt restructurings.

As discussed in Note 1, adverse economic conditions in the Korean economy may continue to have a negative effect on debtors of the Bank. The Bank owns investment securities of, and has loans outstanding to, a number of Korean companies that have experienced financial difficulties. The ultimate collectibility 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 credit losses:

	1999			2000		
(All amounts expressed in millions of Won)	Loans	Guarantees & Acceptances[(1)]	Total	Loans	Guarantees & Acceptances[(1)]	Total
Allowance at January 1,	2,575,978	67,659	2,643,637	2,623,382	71,841	2,695,223
Provisions for credit losses	1,010,400	4,182	1,014,582	261,929	14,094	276,023
Allowance relating to loans repurchased from KAMCO	67,058	—	67,058	24,999	—	24,999
Charge-offs	(1,080,298)	—	(1,080,298)	(729,881)	—	(729,881)
Recoveries	50,244	—	50,244	213,218	—	213,218
Allowance at December 31,	2,623,382	71,841	2,695,223	2,393,647	85,935	2,479,582

(1) The allowance for guarantees and acceptances is included in "Other liabilities".

12. Investment in Capital Leases

The Bank originates direct financing leases on certain machinery, computers, and various other equipment for customers in a variety of industries throughout Korea. Income attributable to the leases is initially recorded as unearned income and subsequently recognized as finance income using the effective interest method, over the term of the leases. The terms of the leases are generally from 3 to 12 years. The components of the net investment in direct financing leases at December 31, 1999 and 2000, which are included in "Loans" and "Accrued interest and dividend receivable", are as follows:

(All amounts in millions of Won)	**1999**	**2000**
Gross lease payments receivable	1,036,591	670,179
Estimated unguaranteed residual values[1]	12,997	11,288
Unearned income	(154,281)	(77,713)
Allowance for receivable losses	(81,626)	(96,698)
Total	813,681	507,056

(1) Included in "Accrued interest and dividend receivable" in the consolidated balance sheets.

The scheduled maturities of minimum lease payments outstanding at December 31, 2000, expressed as a percentage of the total, are approximately as follows:

Within 12 months	35.5%
13 to 24 months	23.6
25 to 36 months	12.4
37 to 48 months	9.3
After 48 months	19.2
	100.0%

13. Premises and Equipment

Premises and equipment at December 31, 1999 and 2000 were as follows:

(All amounts expressed in millions of Won)	**1999**	**2000**
Land	501,164	500,349
Building	577,267	583,652
Equipment and furniture	506,380	554,702
Capitalized software cost	21,374	28,601
Leasehold improvements	24,872	33,110
Construction in progress	7,657	5,440
Operating lease asset	30,168	12,910
Total	1,668,882	1,718,764
Less: Accumulated depreciation and amortization	538,636	565,646
Premises and equipment, net	1,130,246	1,153,118

The Bank incurred depreciation expense on its buildings, equipment, furniture and leasehold improvements of 101,782 million Won and 104,152 million Won, and amortization expense on its software of 298 million Won and 298 million Won for the years ended December 31, 1999 and 2000, respectively.

14. Other assets

Other assets as of December 31, 1999 and 2000 consisted of the following:

(All amounts expressed in millions of Won)	**1999**	**2000**
Intangible assets[(1)]	190,225	176,669
Accounts receivable	99,491	108,924
Accrued income	48,679	38,766
Payments in advance	1,560	5,283
Deferred tax assets	367,798	283,539
Other investments	360,786	416,278
Prepaid expenses	399,992	46,180
Others	191,127	99,353
Total	1,659,658	1,174,992

(1) Includes goodwill of 189,241 million Won and 175,724 million Won at December 31, 1999 and 2000, respectively.

Amortization expenses on the Bank's intangible assets of 13,647 million Won and 13,744 million Won for the years ended December 31, 1999 and 2000, respectively, were included in the statements of income in "Depreciation and amortization expense".

15. Deposits

Deposits as of December 31, 1999 and 2000 were as follows:

(All amounts expressed in millions of Won)	**1999**	**2000**	**Weighted Average Rate Paid for 2000**
Interest-bearing deposits:			
Interest-bearing demand deposits	14,280,430	15,845,278	2.73%
Savings deposits	2,441,934	3,200,993	9.54%
Certificate of deposit accounts	1,173,388	2,424,947	6.85%
Other time deposits	18,233,702	27,065,887	7.48%
Mutual installment deposits	3,949,199	5,663,510	8.77%
Total interest-bearing deposits	40,078,653	54,200,615	6.12%
Noninterest bearing deposits:			
Demand accounts	2,658,985	1,982,268	
Total deposits	42,737,638	56,182,883	5.93%

Mutual installment deposits are interest-bearing accounts offered by the Bank which enable customers to become eligible for mortgage and other consumer loans as well as corporate loans while maintaining an account with the Bank. 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 those associated with a loan request made after completing the deposit contract term.

The contractual schedule of maturities of savings deposits, certificate of deposits, other time deposits, and mutual installment deposits at December 31, 2000 was as follows:

(All amounts expressed in millions of Won)	
2001	32,953,769
2002	2,552,081
2003	1,889,760
2004	383,141
2005	566,673
Thereafter	9,913
Total	38,355,337

The KDIC provides deposit insurance up to a total of 50 million Won per depositor in each bank pursuant to the *Depositor Protection Act* for deposits due after January 1, 2001, regardless of the placement date of deposit.

16. Other Borrowed Funds

A summary of other borrowed funds at December 31, 1999 and 2000 is presented below:

	1999		**2000**	
(All amounts expressed in millions of Won)	**Outstanding Balance**	**Weighted Average Interest Rate**	**Outstanding Balance**	**Weighted Average Interest Rate**
Kookmin Bank				
Borrowings from the Bank of Korea	1,196,411	4.54%	860,127	4.63%
Borrowings in foreign currency	832,600	5.84%	454,261	6.77%
Borrowings from trust accounts	552,485	6.64%	1,044,678	5.37%
Other borrowings	78,209	7.18%	1,161,545	7.06%
Subtotal	2,659,705	5.46%	3,520,611	5.93%
Subsidiaries				
Borrowings from trust accounts of Kookmin Bank	72,260	10.57%	119,400	8.46%
Borrowings from other financial institutions	2,083,888	7.86%	2,728,546	8.42%
Subtotal	2,156,148	8.09%	2,847,946	8.49%
Total other borrowed funds	4,815,853	6.64%	6,368,557	7.07%

Other borrowed funds are defined as borrowed funds with original maturities of less than one year.

17. Secured Borrowings

During 1999 and 2000 the Bank transferred certain non-performing loans to special purpose entities, which in turn issued beneficial interests collateralized by such loans. In addition, one of the Bank's majority-owned subsidiaries, Kookmin Credit Card Co., Ltd. ("Kookmin Credit Card") transferred credit card loans and revolving assets to a special purpose entity ("SPE"). In accordance with SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", these transactions have been accounted for as secured borrowings. As a result, the loans and securities collateralizing these borrowings are included in "Loans" and "Securities available-for-sale" or "Held-to-maturity securities," respectively, and the beneficial interests issued by the SPE, which pay interest at rates of 7.24% to 10.52% per annum, are included in "Secured borrowings".

A summary of the secured borrowings and relevant collateral as of December 31, 1999 and 2000 is as follows :

		1999			2000		
		Secured	Collateral		Secured	Collateral	
(All amounts are expressed in millions of Won)	Maturity	Borrowings	Loans	Securities	Borrowings	Loans	Securities
Kookmin 1st ABS Specialty Co. Ltd. 9.52%-10.52% Senior collateralized bond obligation	2000-2001	267,653	424,051	—	107,683	212,344	—
Kookmin 2nd ABS Specialty Co. Ltd. 9.49%-9.99% Senior collateralized bond obligation	2001-2002	—	—	—	104,256	141,098	—
Kookmin 3rd ABS Specialty Co. Ltd. 8.38%–9.03% Senior collateralized bond obligation	2002	—	—	—	57,424	151,347	—
Kookmin Credit Card 1st ABS Specialty Co. Ltd. 7.24% Senior collateralized bond obligation	2005	—	—	—	300,000	326,488	—
Kookmin Credit Card 2nd ABS Specialty Co. Ltd. 7.4% Senior collateralized bond obligation	2001	—	—	—	500,000	862,490	—
Other (Kookmin Bank) 5.50%–8.10% Securities sold under repurchase agreement	2001	157,303	—	193,825	399,656	—	466,669
Gross secured borrowings		424,956			1,469,019		
Less: Discount		(2,068)			(1,029)		
Total secured borrowings, net		422,888	424,051	193,825	1,467,990	1,693,767	466,669

18. Long–term debt

The following table is a summary of long–term debt (net of unamortized original issue discount) at December 31, 1999 and 2000:

(All amounts expressed in millions of Won)		Maturity	1999	2000
Senior				
Kookmin Bank				
Won currency				
5.0%– 6.5%	Notes payable to Ministry of Finance and Economy	2009–2019	80,649	89,165
2.0%– 9.2%	Notes payable to Korea Development Bank	2001–2007	214,252	123,805
2.0%– 8.0%	Notes payable to other government funds	2001–2009	412,219	451,153
5.0%– 9.5%	Notes payable to Industrial Bank of Korea	2001–2007	540,399	406,230
5.3%–17.7%	Finance debentures	2001–2006	4,651,113	3,674,125
0.5%– 8.7%	Other notes payable	2001–2010	1,092,420	1,144,974
Subtotal			6,991,052	5,889,452
Foreign currency				
6.6%–10.8%	Floating rate finance debentures(2)	2001–2006	998,789	1,077,887
6.5%– 8.1%	Other floating rate notes payable(1)(2)	2001–2012	2,449,074	1,182,575
Subtotal			3,447,863	2,260,462
Subsidiaries				
5.5%–10.0%	Borrowings from financial institutions in Won	2001–2008	115,700	306,206
6.4%–10.5%	Borrowings from financial institutions in foreign currencies	2001–2008	609,368	373,466
3%– 6.5%	Borrowings from Small and Medium Company Promotion Fund	2001–2012	30,400	30,346
7.1%–12.3%	Finance debentures	2001–2003	1,394,628	3,524,633
Subtotal			2,150,096	4,234,651
Subordinated				
Kookmin Bank				
Won currency				
9.3%–10.0%	Notes payable to Samsung Life Insurance	2007–2008	230,000	230,000
8.5%–10.0%	Notes payable to Daehan Life Insurance	2006–2008	75,000	75,000
9.0%–11.8%	Notes payable to Chosun Life Insurance	2006	20,000	20,000
9.3%	Notes payable to Kyobo Life Insurance	2007	60,000	60,000
9.3%	Notes payable to Hungguk Life Insurance	2007	40,000	40,000
7.51%–8.51%	Floating rate finance debentures(2)	2003–2004	533,600	533,600
8.7%–16.0%	Finance debentures	2003–2006	265,100	965,100
Subtotal			1,223,700	1,923,700
Foreign currency				
6.4%–8.2%	Floating rate finance debentures(2)	2006	286,350	302,328
3.0%–6.2%	Convertible debentures	2004-2005	265,353	286,861
Subtotal			551,703	589,189
Gross long-term debt			14,364,414	14,897,454
Less: Discount			(152,424)	(100,864)
Total long-term debt, net			14,211,990	14,796,590

(1) At December 31, 1999, 1,197,649 million Won of long-term debt was redeemable through April 8, 2001, at par, at the option of the Bank. During 2000, the Bank redeemed 1,197,649 million Won of long-term debt. The terms of borrowings with call options require the Bank to maintain sinking funds. At December 31, 1999, the balance of the sinking funds was 35,929 million Won. At December 31, 1999, the amount of the sinking funds was included in "Restricted cash".

(2) Interest rates on floating rate debt are those rates in effect at December 31, 2000.

Long-term debt is predominately denominated in Won, US 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 monthly, semi-annual and quarterly basis, respectively. The weighted-average interest rate for long-term debt was 8.98% and 8.33% as of December 31, 1999 and 2000, respectively.

Convertible Debentures

Convertible debentures outstanding consist of two issuances which were held by Goldman Sachs Capital Koryo, L.P. ("GSCK") and International Financial Corporation ("IFC"), respectively. Both issuances of convertible debentures are denominated in US dollars. Terms are as follows :

	GSCK	IFC
Face value	US$200 million	US$25 million
Issue price	US$200 million	US$25 million
Conversion price	₩13,802 per share	₩8,822 per share
Conversion stock	Common stock	Common stock
Convertible period	July 14,1999–May 14, 2005	September 22, 1998–June 14, 2004
Conversion exchange rate	US$1 : ₩1,170.50	US$1 : ₩1,402.00
Principal payment if not converted	Due in full at maturity	Due in full at maturity

The carrying amounts of convertible debentures held by GSCK and IFC as of December 31, 2000 were 251,940 million Won and 34,921 million Won, respectively.

The beneficial conversion feature of the debentures is calculated as the difference between the average market price of the Bank's shares as of the commitment date versus the conversion price, multiplied by the number of the Bank's shares into which the debentures may be converted. In 1999, 55,722 million Won was recorded as interest expense relating to the beneficial conversion feature of the GSCK convertible debentures.

Debt Maturity Schedule

The combined aggregate amount of contractual maturities of all long-term debt at December 31, 2000 was as follows:

(All amounts expressed in millions of Won)	
Due in 2001	5,643,747
Due in 2002	3,066,736
Due in 2003	2,733,481
Due in 2004	779,868
Due in 2005	838,776
Thereafter	1,834,846
Gross long-term debt	14,897,454
Less: Discount	(100,864)
Total long-term debt, net	14,796,590

Early Extinguishment of Debt

Kookmin Leasing, an 89.61%-owned subsidiary of the Bank, made a partial repayment of certain borrowings in accordance with an agreement reached with its creditors. As a result, Kookmin Leasing recognized a gain on extinguishment of debt of 13,323 million Won, which is net of tax of 5,930 million Won, for the year ended December 31, 2000.

19. Other Liabilities:

Other liabilities at December 31, 1999 and 2000 comprise the following:

(All amounts expressed in millions of Won)	1999	2000
Accrued retirement benefits	554,401	541,363
Accrued expenses	178,043	301,911
Accounts payable	109,199	354,453
Unearned income	151,635	142,376
Tax withholdings and income tax payable	226,593	378,387
Guarantee deposits received	64,069	82,930
Due to agencies	120,184	320,574
Allowance for losses of guarantees & acceptances	71,841	85,935
Utility bill payments received	56,455	36,004
Others	320,124	238,529
Total	1,852,544	2,482,462

20. Noninterest Income:

The components of noninterest income for the years ended December 31, 1999 and 2000 were as follows:

(All amounts expressed in millions of Won)	1999	2000
Trust fees, net	95,805	119,662
Other fees and commission income		
Commissions received on credit card	265,438	450,671
Commissions received in remittance	34,887	34,841
Commissions received on letters of credit	24,742	25,716
Other	142,743	117,572
Subtotal	467,810	628,800
Net trading revenue		
Gain on equity securities	271,023	18,830
Gain on debt securities	148,197	147,896
Net gain on foreign exchange contracts and derivative instruments	249,264	73,838
Loss on equity securities	(155,399)	(227,261)
Loss on debt securities	(5,922)	(3)
Subtotal	507,163	13,300

(All amounts expressed in millions of Won)	1999	2000
Net gain (loss) on investment securities		
Equities securities	(43,073)	(55,979)
Debt securities	166,796	62,129
Other	62,244	5,320
Subtotal	185,967	11,470
Gain on disposition of subsidiaries	14,972	—
Other noninterest income		
Net gain on sale of loans	25,497	4,505
Other	100,470	88,717
Subtotal	125,967	93,222
Total noninterest income	1,397,684	866,454

21. Noninterest Expense:

The components of noninterest expense for the years ended December 31, 1999 and 2000 were as follows:

(All amounts expressed in millions of Won)	1999	2000
Salaries and employee benefits		
Salaries and other benefits	550,437	607,124
Provision for accrued severance benefits	108,594	98,423
Subtotal	659,031	705,547
Depreciation and amortization		
Depreciation on premises and equipment	102,080	104,450
Amortization on intangible assets	13,647	13,744
Subtotal	115,727	118,194
Other administrative expenses	299,395	334,484
Credit card fees		
Commissions paid on credit card	75,559	135,744
Commissions paid on troubled credit card	3,312	6,047
Subtotal	78,871	141,791
Other fees and commissions		
Insurance fees on deposits to KDIC	23,218	40,285
Contribution to guarantee funds	52,017	67,165
Commissions on overdue loans	3,462	76,435
Other	117,434	39,916
Subtotal	196,131	223,801
Loss on disposition of subsidiaries	56,213	—
Other noninterest expenses		
Loss on disposition of assets	23,439	28,626
Tax expenses other than income tax	49,968	51,250
Other	52,829	78,934
Subtotal	126,236	158,810
Total noninterest expense	1,531,604	1,682,627

22. Preferred Stock:

On December 28, 1998, the Bank issued 40 million shares of non-cumulative, non-participating redeemable preferred stock with a par value of 5,000 Won per share to KDIC. KDIC purchased the shares for 200,000 million Won and in turn, the Bank purchased marketable, non-callable bonds having a face amount of 200,000 million Won issued by KDIC. The issuance of the redeemable preferred stock and the purchase of the bonds from KDIC was effected to improve the Bank's Bank of International Settlements ("BIS") ratio after the purchase and assumption arrangement related to Daedong. Under the decision of Financial Supervisory Commission ("FSC") in accordance with the *Act Concerning The Structural Improvement of the Financial Industry,* the Bank took over certain assets, including loans classified as normal or precautionary, and assumed substantially all of the liabilities of Daedong in 1998.

The preferred shares have priority over the Bank's common shares in the event of the Bank's liquidation. The preferred shares were issued at par value and have scheduled redemption dates through January 2004. Any shares that are not redeemed at the scheduled redemption dates will be converted into the Bank's common shares as follows:

Number of Shares Outstanding at December 31, 2000	Scheduled Redemption Date	Conversion Date if not Redeemed
8,000,000	January 2001	March 2002
12,000,000	January 2002	March 2002
6,000,000	January 2003	March 2004
6,000,000	January 2004	March 2004

The KDIC bonds are guaranteed by the Korean government and have a maturity of March 2004. Interest on the bonds is paid quarterly and principal is payable in full at maturity. The KDIC bonds bear interest of 1% per annum, and the preferred shares are subject to a non-cumulative dividend of 1%. Preferred shares that are not redeemed at the scheduled redemption date are subject to an increased dividend rate equal to the current market rate of the KDIC bonds at such date.

Pursuant to the redemption schedule, the Bank repurchased 8 million preferred shares at par value from KDIC in January 2000, and 8 million preferred shares at par value in January 2001. In connection with these redemptions of the preferred shares, KDIC redeemed 40,000 million Won of its corporate bonds in January 2000 and another 40,000 million Won of its bonds in January 2001.

At December 31, 1999 and 2000, the KDIC bonds were netted against the preferred shares in stockholders' equity since the bonds are not deemed to be economically separable from the preferred shares. In addition interest income on the bond was netted against the dividends declared on the preferred shares, resulting in no net effect on the statements of operations or retained earnings in 1999 and 2000.

23. Common Stock:

As of December 31, 2000, the Bank had 299,613,413 common shares issued and outstanding, including 18,598,517 common shares (6.21%) issued as Global Depositary Shares, which are listed on the London Stock Exchange.

On June 14, 1999, the Bank issued 30,000,000 common shares to GSCK, for 12,000 Won per share. The Bank recorded total gross proceeds of 360,000 million Won, less issuance costs in the amount of 3,624 million Won.

On November 19, 1999, the Bank issued 33,314,050 common shares for 11,400 Won per share. The Bank recorded total gross proceeds of 379,780 million Won, less issuance costs in the amount of 969 million Won.

The Bank is authorized to issue to non-shareholders convertible bonds and bonds with stock purchase warrants up to total par value amounts of 2,500,000 million Won and 500,000 million Won, respectively. With regards to these instruments, at December 31, 2000, the Bank had subordinated foreign currency convertible bonds outstanding of 34,921 million Won (equivalent to US$25 million, 3,973,021 shares at December 31, 2000) issued to IFC and of 251,940 million Won (equivalent to US$200 million, 16,961,309 shares at December 31, 2000) to GSCK.

On February 9, 2001, IFC exercised its right to convert bonds with a carrying amount of 17,461 million Won into the Bank's common stock. The Bank issued additional common stock of 1,986,510 shares on March 6, 2001 and the Bank's shareholders' equity increased by 17,461 million Won.

On June 23, 2000, Kookmin Credit Card issued 14,720,298 shares of its common stock on the KOSDAQ market, an over-the-counter market in Korea, at 15,000 Won per share. The offering reduced the Bank's percentage ownership in Kookmin Credit Card from 93.77% to 74.78%, however the offering price per share was substantially higher than the Bank's carrying value per share. This difference resulted in a gain of 99,933 million Won, which the Bank recognized in "Additional paid-in capital".

On January 31, 2001, the Bank's board of directors declared a cash dividend of 10% to shareholders of record as of December 31, 2000. The total payment, which amounted to 149,409 million Won, was paid on March 19, 2001 and will be deducted from retained earnings in 2001.

All of the Bank's employees are eligible to participate in the Bank's employee stock ownership association plan. The Bank is not required to and does not make contributions to this plan. Members of the Bank's employee stock ownership association plan have pre-emptive rights to acquire up to 20% of the Bank's shares in public offerings pursuant to the *Korean Securities and Exchange Act*.

24. Retained Earnings (Accumulated Deficit):

Retained earnings (Accumulated deficit) consist of the following as of December 31, 1999 and 2000:

(All amounts expressed in millions of Won)	1999	2000
Appropriated retained earnings:		
Legal reserve	267,640	339,640
Reserve for business rationalization	34,960	39,760
Reserve for overseas investment losses	24,700	13,900
Other statutory reserves	973	1,008
Unappropriated (accumulated deficit) retained earnings	(421,770)	424,806
Total	(93,497)	819,114

The *General 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 or used to reduce an accumulated deficit, if any, by an appropriate resolution of the Bank's board of directors.

Pursuant to the *Tax Preferential 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 a legal reserve of up to 10% of annual income until such reserve equals two billion Japanese Yen. This reserve is used only to reduce any accumulated deficit related to the branch in Japan.

25. Components of Other Comprehensive (Loss) Income

Comprehensive income includes net income plus transactions and other occurrences that are the result of non-owner changes in equity. For the years ended December 31, 1999 and 2000, 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 OCI and the related tax effects allocated to each component for the years ended December 31.

(All amounts expressed in millions of Won)	**1999**	**2000**
Foreign currency translation adjustments	(5,035)	(20,829)
Tax benefit attributable to foreign currency translation adjustments	1,551	6,415
Net foreign currency translation adjustments	(3,484)	(14,414)
Unrealized holding (losses) gains arising on securities available-for-sale and related swaps during the year	(354,614)	269,134
Tax benefit (expense) attributable to unrealized holding gains (losses) arisen during the year	109,221	(82,893)
Net unrealized holding (losses) gains	(245,393)	186,241
Total components of other comprehensive (loss) income	(248,877)	171,827

26. Regulatory Requirements

In conformity with the FSS and the Basle Committee on Banking Regulations and Supervisory Practices/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% 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 the Bank's consolidated balance sheets prepared in accordance with generally accepted accounting principles in Korea ("KGAAP"). In the event the Bank does not maintain a consolidated BIS ratio of 8%, it is subject to corrective actions recommended by the FSS 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 guidelines, which is materially consistent with BIS guidelines, and the Bank's consolidated financial statements prepared in accordance with KGAAP.

(All amounts expressed in millions of Won, except capital ratio)	1999	2000
Tier 1 Capital	3,300,798	3,843,002
Tier 2 Capital	1,870,769	2,454,884
Total risk-adjusted capital	5,171,567	6,297,886
Risk-Weighted Assets		
On-balance sheet assets	43,082,994	52,702,885
Off-balance sheet assets	2,351,774	3,643,982
Total risk-weighted assets	45,434,768	56,346,867
Total assets	72,979,670	91,098,765
Capital Adequacy Ratio (%)		
Tier 1 capital ratio (%)	7.26	6.82
Tier 2 capital ratio (%)	4.12	4.36
Capital adequacy ratio (%)	11.38	11.18

The *General Banking Act* provides for a minimum paid-in capital of 100 billion Won for nationwide banks, such as the Bank, and 25 billion Won for regional banks.

All banks in Korea, including foreign bank branches, are required to maintain a prescribed solvency position in addition to the minimum capital requirements discussed above. Until March 31, 2000, a bank's outstanding liabilities arising from guarantees and other contingent liabilities (except those specifically excluded under the *General Banking Act*) were not permitted to exceed 20 times its equity capital amounts. However, beginning on April 1, 2000, 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.

27. Income Taxes

The components of income tax expense for the years ended December 31, 1999 and 2000 were as follows:

(All amounts expressed in millions of Won)

For the years ended December 31,	1999	2000
National tax		
Current	90,738	579,397
Deferred	227,873	(7,074)
Total national income tax expense	318,611	572,323
Local tax		
Current	9,074	57,940
Deferred	22,787	(707)
Total local income tax expense	31,861	57,233
Total income tax expense	350,472	629,556

The preceding table does not reflect the tax effects of unrealized gains and losses on securities available-for-sale. 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. Taxes on the operating profit differ from the theoretical amount that would arise at the statutory tax rate of the home country of the parent as follows:

(All amounts expressed in millions of Won)	**1999**	**2000**
Income before income taxes and minority interest for the year ended December 31,	837,402	1,624,551
Prima facie tax calculated at a statutory tax rate	257,920	500,362
Income not assessable for tax purposes	(12,822)	(78,443)
Expenses not deductible for tax purposes	97,872	111,369
Adjustment for overseas tax rates	(3,132)	(2,628)
Losses incurred by subsidiaries	18,781	99,240
Other	(8,147)	(344)
Income tax expense	350,472	629,556

The tax effects of temporary differences that give rise to significant portions of the deferred income tax assets ("DTA") and deferred income tax liabilities at December 31, 1999 and 2000 are as follows:

(All amounts expressed in millions of Won)	**1999**	**2000**
Deferred income tax assets:		
Allowance for loan losses	220,894	179,343
Allowance for guarantees and acceptances	8,756	11,498
Valuation of trading assets	90,429	70,019
Securities available-for-sale	5,381	—
Premises and equipment	106,344	96,777
Long-term debt	73,807	40,386
Other borrowed funds	10,227	—
Valuation of the merged bank's net assets	146,838	140,781
Other temporary differences	103,044	67,046
Net operating loss	60,409	58,160
Total gross deferred income tax asset	826,129	664,010
Less: Valuation allowance	(60,409)	(58,160)
Deferred income tax asset	765,720	605,850
Deferred income tax liabilities:		
Valuation of trading assets	—	2,421
Securities available-for-sale	—	25,841
Accrued interest and dividend receivable	193,481	157,194
Other assets	162,804	63,645
Reserve for loss on overseas investments	7,608	4,307
Other temporary differences	34,029	68,903
Total gross deferred income tax liabilities	397,922	322,311

(All amounts expressed in millions of Won)	**1999**	**2000**
Net deferred income tax assets, including OCI related DTA	367,798	283,539
Less: OCI related DTA	(6,232)	(82,710)
Net deferred income tax assets, excluding OCI related DTA	374,030	366,249

Deferred income tax assets are recognized only to the extent that realization of the related tax benefit is more likely than not. Management believes it is uncertain whether Kookmin Leasing will generate profits to offset its tax losses in 1999 and 2000, thus has recorded a valuation allowance to the extent of the deferred income tax assets related to Kookmin Leasing as of December 31, 1999 and 2000.

At December 31, 2000, the Bank has tax net operating losses carryforwards ("NOLs") as follows:

(All amounts expressed in millions of Won)	
Year of expiration:	
2003	169,402
2004	19,429
Total	188,831

In accordance with SFAS No. 109, "Accounting for Income Taxes", a valuation allowance totaling 60,409 million Won and 58,160 million Won in 1999 and 2000, respectively, was established for deferred income tax assets related to NOLs that may not be realized.

28. Earnings Per Share

Basic earnings per share ("EPS") 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 stock. Also, for purposes of diluted earnings per share, net income available for common stock is adjusted, if applicable, for any convertible debt interest or any other changes in income that could result from the assumed conversion of securities and other contracts. The Bank has three categories of dilutive potential common shares: shares issuable on exercise of stock options granted to employees, shares issuable on conversion of convertible debentures, and shares issuable on conversion of preferred shares.

In the diluted EPS calculation, the convertible debentures and preferred shares are assumed to have been converted into common shares. Net income is adjusted to eliminate the applicable interest on the convertible debentures, however no adjustment was made to net income related to the preferred shares.

For the stock options, a calculation is performed to determine the number of shares that could be acquired at market price (determined as the average annual share price of the Bank's common shares) based on the proceeds the Bank would receive upon exercise of the outstanding options. The difference between the number of shares to be issued upon exercise and the number of shares that could be acquired with the proceeds is the number of shares that must be added to the common shares outstanding for the purpose of computing the dilution. For the stock option calculation, no adjustment is made to net income.

The exercise price of all outstanding options to purchase common shares was higher than the average market price of the Bank's common stock in 2000. As a result, such options were excluded from the computation of diluted EPS in 2000. There were no options outstanding in 1999.

The following table is a summary of the computation of earnings per share for the years ended December 31:

(All amounts expressed in millions of Won, except share data)	**1999**	**2000**
Basic Net Income Per Share:		
Net income before extraordinary item	480,655	914,225
Extraordinary item	—	13,323
Net income	480,655	927,548
Weighted average number of common shares outstanding (thousands)	256,737	299,613
Net income per share:		
Net income before extraordinary item	1,872	3,052
Extraordinary item	—	44
Basic net income per share	1,872	3,096
Diluted Net Income Per Share:		
Net income before extraordinary item	480,655	914,225
Plus: Interest expense on convertible debentures, net of tax	2,353	4,889
Net income before extraordinary item for purposes of computing diluted net income per share	483,008	919,114
Extraordinary item	—	13,323
Net income for purposes of computing diluted net income per share	483,008	932,437
Weighted average number of common shares outstanding (thousands)	256,737	299,613
Dilutive effect of convertible preferred shares (thousands)	40,000	32,568
Dilutive effect of convertible debentures	13,313	20,934
Weighted average common shares outstanding—assuming dilution (thousands)	310,050	353,115
Net income per share:		
Net income before extraordinary item	1,558	2,603
Extraordinary item	—	38
Diluted net income per share	1,558	2,641

29. Employee Severance 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. Under the *Korean National Pension Fund Law*, the Bank was required to pay a certain percentage of employee severance benefits to the National Pension Fund prior to April 1999. The Bank has no additional liability once the amount has been contributed, thus the Bank deducts contributions made to the National Pension Fund from accrued employee severance plan obligations.

Accrued employee severance plan obligations included in "Other liabilities" as of December 31, 1999 and 2000 are as follows:

(All amounts expressed in millions of Won)	**1999**	**2000**
Balance at January 1,	568,940	554,401
Severance plan expense	108,594	98,423
Plan payments	(123,133)	(111,461)
Balance at December 31,	554,401	541,363

In addition to regular termination benefits, the Bank paid special termination benefits of 11,275 million Won and 28,102 million Won for the years ended December 31, 1999 and 2000, respectively, to approximately 508 employees who accepted early retirement.

30. Employee Stock Option Plan

On March 18, 2000, the Bank granted certain executive officers 395,000 options to purchase the Bank's common stock at an exercise price of 13,900 Won per share, which expire on March 18, 2005. The Bank may issue common shares or pay in cash the difference between the exercise and the market price at the date of exercise. Restrictions on the grants, including continued employment for a specified period, lapse after the third year of vesting. Options granted become exercisable three years after the date of grant and expire at the end of the fifth year. However, there is a pending litigation against the Bank seeking to invalidate the stock options granted on March 18, 2000. Although the ultimate disposition of legal proceedings cannot be predicted with certainty, the Bank's management believes that the final disposition of this matter will not have a material adverse effect on the Bank's financial position, results of operation or liquidity.

The following table summarizes information about options granted and expense recognized at award date:

	2000	
	Options	**Exercise Price Per Share (Won)**
Outstanding, beginning of year	—	—
Granted	395,000	13,900
Forfeited	(145,000)	13,900
Exercised	—	—
Outstanding, end of year	250,000	13,900
Exercisable at year end	—	—

An additional 60,000 options were forfeited after December 31, 2000. For the years ended December 31, 2000, the Bank recognized 148 million Won in compensation expense for the options granted.

On March 15, 2001, the Bank granted stock options to purchase 363,000 shares of common stock to certain executive officers, directors and employees of the Bank. The stock options are exercisable 3 years after the grant date at a price of 16,600 Won per share and expire on March 15, 2009.

On March 22, 2001, Kookmin Credit Card granted 75,000 stock options to purchase Kookmin Credit Card's common stock at an exercise price of 31,690 Won per share. The options are exercisable three years after the grant date, and expire on March 22, 2011.

The following table summarizes information about stock options outstanding at December 31, 2000:

Grant Date	Options	Weighted Average Remaining Contractual Life	Exercise Price (Won)	Weighted Average Fair Value of Option at Grant Date (Won)
March 18, 2000	250,000	50.5 months	13,900	6,679

As permitted by SFAS No. 123, "Accounting for Stock-Based Compensation", the Bank has chosen to apply the recognition and measurement provisions of APB Opinion No. 25, "Accounting for Stock Options 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		2000	
(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	—	—	148	991
Net income	480,655	480,655	927,548	926,705
Earnings per share:				
Basic	1,872	1,872	3,096	3,093
Diluted	1,558	1,558	2,641	2,638

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 2000 are as follows (there were no grants made in 1999):

Year Ended December 31	2000 Grants
Dividend yield	2.25%
Expected volatility	71.75%
Risk-free interest rate	9.33%
Expected option life	4 years

31. Fair Value of Financial Instruments

The fair value of financial instruments is defined as the value at which positions could be closed out or sold in a transaction with a willing and knowledgeable counterparty. Fair value is based on quoted market prices, where available. 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 carrying values of certain financial assets and liabilities reported at cost, including cash and due from banks and other financial institutions, restricted cash, interest-bearing deposits in other banks, call loans, accrued interest receivable and payable, dividends receivable and payable, noninterest-bearing deposits, call money, other borrowed funds and other liabilities are considered to approximate their fair values due to their short-term nature and negligible credit losses.

Interest-bearing deposits: 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 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: Nonmarketable 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 contractual 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 long-term and revolving credit had a contract value of 70,553 million Won and 0 Won at December 31, 1999 and 2000, respectively. Unused lines of credit had a contract value of 25,374,222 million Won and 53,471,425 million Won at December 31, 1999 and 2000, respectively. Letters of credit and financial guarantees had a combined contract value of 2,028,327 million Won and 1,996,329 million Won for 1999 and 2000, respectively. These financial instruments are transacted at the Bank's current pricing levels. The estimated fair values of the Bank's financial instruments at December 31, 1999 and 2000 were as follows:

	1999		2000	
(All amounts expressed in millions of Won)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and due from banks	2,160,501	2,160,501	1,701,471	1,701,471
Restricted cash	706,169	706,169	1,539,876	1,539,876
Interest-bearing deposits in other banks	628,503	628,503	1,586,600	1,586,600
Call loans and securities purchased under resale agreements	377,169	377,169	2,491,208	2,491,208
Trading assets	3,636,469	3,636,469	3,103,688	3,103,688
Securities available-for-sale	8,167,135	8,167,135	8,281,394	8,281,394
Held-to-maturity securities	7,764,976	7,809,030	9,004,481	9,300,752
Loans, net	42,350,940	42,341,509	57,040,649	57,036,313
Due from customers on acceptances	995,427	995,427	1,916,111	1,916,111
Accrued interest and dividends receivable	1,089,644	1,089,644	1,107,219	1,107,219
Other assets	1,659,658	1,667,884	1,174,992	1,187,297
Financial liabilities:				
Noninterest-bearing deposits	2,658,985	2,658,985	1,982,268	1,982,268
Interest-bearing deposits	40,078,653	40,165,480	54,200,615	54,282,671
Call money	1,332,857	1,332,857	581,112	581,112
Trading liabilities	298,364	298,364	717,767	717,767
Acceptances outstanding	995,427	995,427	1,916,111	1,916,111
Other borrowed funds	4,815,853	4,815,853	6,368,557	6,368,557
Accrued interest payable	2,104,688	2,104,688	2,310,986	2,310,986
Secured borrowings	422,888	426,887	1,467,990	1,462,440
Long-term debt	14,211,990	14,518,439	14,796,590	15,021,282
Other liabilities	1,852,544	1,852,544	2,482,462	2,482,462

The differences between the carrying amounts and 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 below.

32. Derivative financial instruments 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. Generally, 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.

Foreign exchange contracts

The Bank's principal foreign exchange related contracts are spot foreign exchange contracts, forward foreign exchange contracts, foreign exchange futures and currency options. Spot and forward foreign exchange contracts are agreements to buy or sell a specified quantity of foreign currency usually on a specified future date at an agreed rate.

Foreign exchange futures are exchange traded financial instruments that are settled every day and the results are reflected in margin accounts.

Currency options provide the buyer with the right, but not the obligation, either to purchase or sell a fixed amount of a currency at a specified exchange rate on or before a future date. As compensation for assuming the option risk, the option writer generally receives a premium at the start of the option period.

Interest rate contracts

The Bank's principal interest rate related contracts are interest rate swaps and forward rate agreements.

An interest rate swap is an agreement between two parties to exchange fixed rate and floating rate interest by means of periodic payments based upon a notional principal amount and the interest rates defined in the contract. A basis swap is a form of interest rate swap, in which both parties exchange interest payments based on floating rates, where the floating rates are based upon different underlying reference rates.

In a forward rate agreement, two parties agree a future settlement of the difference between an agreed rate and a future interest rate, applied to a notional principal amount. The settlement, which generally occurs at the start of the contract period, is the discounted present value of the payment that would otherwise be made at the end of that period.

Cross currency swaps

A cross-currency swap generally involves the exchange, or notional exchange, of equivalent amounts of two currencies and a commitment to exchange interest periodically until the principal amounts are re-exchanged on a future date.

Credit derivatives

Credit derivatives are financial instruments that enable banks to manage credit risk without changing their underlying asset portfolios. The effect of a credit derivative is to transfer credit risk from one party, the protection buyer, to another party, the protection seller. The nature of the credit event is established by the buyer and seller at the inception of the transaction, and such events include bankruptcy, insolvency and failure to meet payment obligations when due. The buyer of the credit derivative pays a periodic fee in return for a contingent payment by the seller should a credit event occur.

Equity contracts

The Bank's principal equity related contracts are equity options. An equity option provides the buyer with the right, but not the obligation, either to purchase or sell a specified stock or stock index at a specified price or level on or before a specified date.

The Bank uses interest rate derivatives principally to manage exposure to interest rate risk. Pay fixed interest rate swaps are used to convert fixed rate assets, principally securities, into synthetic variable rate instruments. Receive fixed interest rate swaps contracts are used to convert fixed rate funding sources into synthetic variable 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.

(a) Derivative financial instruments and foreign exchange contracts—Trading activities

Gross notional (or contractual) amounts of derivative financial instruments and foreign exchange contracts held, issued or classified under US GAAP as being held for trading purposes as of December 31, 2000 are noted below.

(All amounts expressed in millions of Won)

December 31, 2000	Notional Amount(1)	Estimated Fair Value Assets	Estimated Fair Value Liabilities	Average Fair Value Assets	Average Fair Value Liabilities
Foreign exchange contracts					
Foreign exchange spot contracts	962,259	1,524	2,420	2,226	3,108
Forward foreign exchange contracts	8,615,755	404,023	602,425	242,724	241,937
Foreign exchange futures	1,086,113	—	—	—	—
Foreign exchange options purchased	47,159	1,284	—	257	—
Foreign exchange options written	22,589	—	761	—	152
Interest rate contracts					
Interest rate swaps	1,837,197	56,492	61,716	49,724	58,862
Interest rate futures	69,284	—	—	—	—
Interest rate forwards	40,000	—	71	—	17
Cross currency swaps	1,014,385	43,566	50,320	24,454	36,518
Credit derivatives	559,307	582	54	905	258
Equity contracts	1,890	172	—	392	—
Total	14,255,938	507,643	717,767	320,682	340,852

(1) Notional amounts in foreign currencies were converted into Won at prevailing exchange rates as of December 31, 2000.

Gross notional (or contractual) amounts of derivative financial instruments and foreign exchange contracts held, issued or classified under US GAAP as being held for trading purposes as of December 31, 1999 are noted below.

(All amounts expressed in millions of Won)

December 31, 1999	Notional Amount[(1)]	Estimated Fair Value Assets	Estimated Fair Value Liabilities	Average Fair Value Assets	Average Fair Value Liabilities
Foreign exchange contracts					
Foreign exchange spot contracts	1,476,120	6,028	6,461	2,459	2,417
Forward foreign exchange contracts	4,955,118	224,395	176,631	226,331	173,830
Foreign exchange futures	64,142	—	—	—	—
Foreign exchange options purchased	—	—	—	132	97
Interest rate contracts					
Interest rate swaps	1,929,002	71,220	77,385	56,084	62,984
Interest rate futures	74,451	—	—	—	—
Interest rate options purchased	2,291	—	—	—	—
Cross currency swaps	627,951	13,901	37,425	9,745	70,236
Credit derivatives	508,558	1,227	462	3,472	4,115
Equity contracts	1,145	611	—	305	—
Total	9,638,778	317,382	298,364	298,528	313,679

(1) Notional amounts in foreign currencies were converted into Won at prevailing exchange rates as of December 31, 1999.

(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			2000		
(All amounts expressed in millions of Won)	Notional Amount[(1)]	Unrealized Gains	Unrealized Losses	Notional Amount[(1)]	Unrealized Gains	Unrealized Losses
Interest rate swaps	343,281	3,480	47,867	426,709	2,012	50,811
Cross currency swaps	19,221	608	3	9,906	317	439
Total	362,502	4,088	47,870	436,615	2,329	51,250

(1) Notional amounts in foreign currencies were converted into Won at prevailing exchange rates as of December 31, 1999 and 2000.

33. Commitments and Contingencies

Legal proceedings

The Bank is a party to certain legal actions arising from its normal course of operations. Management believes that these actions are without merit and that the ultimate liability, if any, will not materially affect the Bank and its subsidiaries' financial position, liquidity, or results of operations.

Lease commitments

Total rental expense for the years ended December 31, 1999 and 2000 was 72,188 million Won and 68,594 million Won, respectively. Future minimum rent commitments under noncancelable lease agreements that the Bank entered into as of December 31, 1999 and 2000 are not material.

In lieu of rent, certain lease agreements require the Bank to advance a non-interest-bearing refundable deposit to the landlord for the landlord's use during the lease term. The amount of the advance is determined by the prevailing market rate. The Bank has recorded an equal amount of rent expense and interest income related to these leases of 53,556 million Won and 49,472 million Won on deposit balances of 672,092 million Won and 659,033 million Won for the years ended December 31, 1999 and 2000, respectively. Such amounts were calculated based on the fixed interest rate for time deposits with similar maturities.

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.

Additionally, management computes specific and expected loss components for credit-related commitments. At December 31, 1999 and 2000, the allowance for credit losses on credit-related commitments was 71,841 million Won and 85,935 million Won, respectively, which is reported in "Other Liabilities".

At December 31, 1999 and 2000, the financial instruments whose contract amounts represent credit risk to the Bank were as follows:

	Contract Amount	
(All amounts expressed in millions of Won)	**1999**	**2000**
Guarantees	997,731	979,082
Commercial letters of credit	1,030,596	1,017,247
Unused lines of credit:		
Commercial	6,129,662	12,052,465
Consumer(1)	19,244,560	41,418,960
Commitments to extend credit:		
Original term to maturity of more than one year	70,553	—
Interest rate swaps (unrealized gain)	3,480	2,012
Cross currency swaps (unrealized gain)	608	317

(1) Of this amount, 15,794,864 million Won and 36,392,211 million Won as of December 31, 1999 and 2000, respectively, relate to the unused credit card limits that may be cancelled by the Bank at any time.

Pledged assets

The primary components of assets pledged as collateral for borrowings and other purposes as of December 31, 1999 and 2000 were as follows:

(All amounts expressed in millions of Won)	**1999**	**2000**
Short-term and long-term deposits	74,175	100,192
Trading securities	—	98,421
Securities available for sale	170,379	280,194
Held-to-maturity securities	2,711,221	2,541,006
Loans	424,051	1,693,767
Real estate	3,901	1,268
Other assets	7,439	—
Total	3,391,166	4,714,848

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.

34. Concentrations of Geographic and Credit Risk

Geographic Risk

Loans to borrowers based in Korea comprised 97% and 98% of the Bank's loan portfolio at December 31, 1999 and 2000, respectively. Investments in debt and equity securities of Korean entities comprised 95% and 97% of the Bank's investment portfolio, including investments held by the Bank's venture capital subsidiaries, as of December 31, 1999 and 2000, respectively.

Credit Risk

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. No entity was responsible for 10% or more of the Bank's total interest and dividend income for the years ended December 31, 1999 or 2000.

The table below indicates major products including both on-balance sheet (principally loans) and off-balance sheet (principally unused credit lines) exposures:

	1999			2000		
(All amounts expressed in millions of Won)	Credit Exposure	On-Balance Sheet	Off-Balance Sheet	Credit Exposure	On-Balance Sheet	Off-Balance Sheet
Commercial and industrial loans	31,867,309	24,665,987	7,201,322	42,809,423	29,794,794	13,014,629
Construction loans	1,724,184	1,724,184	—	2,168,165	2,168,165	—
Other commercial loans	1,821,910	1,053,288	768,622	1,927,552	1,216,256	711,296
Lease financing	882,310	882,310	—	592,466	592,466	—
Mortgages and real estate	6,034,050	6,034,050	—	8,068,339	8,068,339	—
Credit cards	19,156,756	3,361,892	15,794,864	44,713,261	8,321,050	36,392,211
Other consumer	9,851,421	6,143,127	3,708,294	13,500,587	8,150,969	5,349,618
Foreign loans	1,080,211	1,080,211		1,084,690	1,084,690	—
Total	72,418,151	44,945,049	27,473,102	114,864,483	59,396,729	55,467,754

35. Related Party Transactions

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits, debt securities, acceptances outstanding and foreign currency transactions. These transactions are carried out on commercial terms and conditions and at market rates.

KDIC

On December 28, 1998, in connection with the purchase and assumption arrangement related to Daedong, the Bank issued 40 million shares of noncumulative and nonparticipating redeemable preferred stocks to KDIC. In exchange, KDIC issued marketable, non-callable bonds to the Bank. At December 31, 1999 and 2000, the bonds were netted against the preferred shares in shareholders' equity. The Bank repurchased 8 million shares of those preferred stocks at par value from KDIC in January 2000.

Goldman Sachs Capital Koryo, L.P. ("GSCK")

In June 1999 GSCK acquired 30 million shares of the Bank's common stock and US$200 million in convertible bonds issued by the Bank.

Youngpoong Co.

One of the Bank's outside directors is the chief executive officer of Youngpoong Co. ("Youngpoong"), a public company based in Korea. As of December 31, 2000 Youngpoong owned 0.12% of the Bank's outstanding common shares.

Loans to Related Parties

The table below summarizes the changes in the amount of loans to directors, executive officers and principal shareholders.

(All amounts expressed in millions of Won)	2000
Loan at January 1,	295
New loans	387
Repayments	(206)
Loan at December 31	476

The outstanding balances at December 31, 1999 and 2000 and the related expense and income for the years then ended for related party transactions were as follows:

	1999					2000				
(All amounts expressed in millions of Won)	**KDIC**	**Trust**	**GSCK**	**Youngpoong**	**Directors**	**KDIC**	**Trust**	**GSCK**	**Youngpoong**	**Directors**
Due from other financial institution	—	—	—	—	—	—	263,286	—	—	—
Debt securities	2,910,232	—	—	—	—	3,113,635	—	—	—	—
Loans	387,037	—	—	10,218	295	1,587,037	—	—	760	476
Due from customers on acceptance	—	—	—	33,300	—	—	—	—	6,570	—
Receivables	36,067	17,536	—	—	—	34,905	8,878	—	—	—
Deposits	—	—	—	288	3,943	—	—	—	50	5,942
Borrowings	—	624,746	—	—	—	—	1,164,078	—	—	—
Convertible debentures	—	—	229,080	—	—	—	—	251,940	—	—
Acceptances outstanding	—	—	—	33,300	—	—	—	—	6,570	—
Interest income on deposits	—	1,373	—	—	—	—	16,298	—	—	—
Interest income on securities	255,515	—	—	—	—	324,383	—	—	—	—
Interest income on Loans	22,601	—	—	1,330	19	51,503	—	—	398	31
Fees and commission income	—	135,654	—	366	—	—	273,252	—	107	—
Interest expense on deposits	—	—	—	35	296	—	—	—	43	352
Interest expense on borrowings	—	22,954	—	—	—	—	33,398	—	—	—
Interest expense on debentures	—	—	3,837	—	—	—	—	7,228	—	—
Trust performance guarantee	—	40,735	—	—	—	—	158,325	—	—	—
Dividend	22	—	—	—	—	2,000	—	1,659	—	—

In 2000, the Bank provided additional loans of 1,500,000 million Won to KDIC and collected 300,000 million Won and 9,458 million Won from KDIC and Youngpoong, respectively.

36. Principal Subsidiaries

	Country of Incorporation	Percentage Ownership[1]
Kookmin Credit Card Co., Ltd	Korea	76.47%
Kookmin Leasing Co., Ltd.	Korea	89.61%
Kookmin Venture Capital Co., Ltd.	Korea	94.11%
Kookmin Data System Corp.	Korea	99.98%
Kookmin Futures Co., Ltd.	Korea	99.98%
Kookmin Bank Venture Capital Co., Ltd.	Korea	99.99%
Kookmin Bank Investment Trust Management Co., Ltd.	Korea	87.00%
Kookmin Bank Luxembourg S.A.	Luxembourg	100.00%
K.B. International (London) Ltd.	United Kingdom	100.00%
Kookmin Finance Asia Ltd.	Hong Kong	100.00%
Kookmin Leasing & Finance (Hong Kong) Ltd.	Hong Kong	89.61%
Kookmin 1st ABS Specialty Co., Ltd.[2]	Korea	15.00%
Kookmin 2nd ABS Specialty Co., Ltd.[3]	Korea	15.00%
Kookmin 3rd ABS Specialty Co., Ltd.[3]	Korea	15.00%
Kookmin Credit Card 1st ABS Specialty Co., Ltd.[3]	Korea	7.65%
Kookmin Credit Card 2nd ABS Specialty Co., Ltd.[3]	Korea	7.65%

(1) Direct and indirect ownership are combined.

(2) Kookmin 1st ABS Specialty Co., Ltd., a loan securitization vehicle established in 1999, has been included in the consolidated financial statements of the Bank at December 31, 1999 and 2000, respectively, as the majority owner has only a nominal capital investment.

(3) Kookmin 2nd and 3rd ABS Specialty Co., Ltd. and Kookmin Credit Card 1st and 2nd ABS Specialty Co., Ltd., loan securitization vehicles established in 2000, have been included in the consolidated financial statements of the Bank at December 31, 2000 as the majority owner of each vehicle has only a nominal capital investment.

All holdings are in the common shares of the subsidiary concerned.

37. Segment Reporting

For management reporting purposes, the Bank's business segment results are reported to management under accounting principles generally accepted in the Republic of Korea ("KGAAP"). The Bank is organized into four major business segments: Retail Banking, Corporate Banking, International Banking and Capital Markets Activities, and Credit Card Operations. 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:

- 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, consumer loans and mortgages.
- Corporate banking—The corporate banking segment's assets and liabilities are mainly with private and public enterprises. The activities within the segment include loans, overdrafts, other credit facilities, deposits in foreign currencies and other foreign currency activities.
- International banking and capital markets activities—Activities within this segment include trading activities in securities and derivatives, activities involving investment security portfolios, making overseas loans, and foreign currency funding through debentures and borrowings.

• Credit card operations—This segment is composed of the operations of Kookmin Credit Card.

Other operations of the Bank comprise certain subsidiary activities except Kookmin Credit Card, trust account management activities, and activities within guaranteed trust accounts, none of which constitutes a separately reportable segment.

The unaudited segment results were prepared based upon KGAAP, which is a basis other than US GAAP. A reconciliation to US GAAP has been provided for certain line items.

Operating revenues and expenses and interest income and expense, related to both third party and inter-segment transactions, are included in determining the operating earnings of each respective segment. 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.

Transactions between the business segments are reflected on terms established by management.

A summary of the business segment results is shown in the following table.

(All amounts expressed in millions of Won)

Year ended December 31, 1999	Retail Banking	Corporate Banking	International Banking and Capital Markets Activities	Credit Card Operations	Other	Subtotal before Elimination	Elimination[1]	Total
Operating income	4,545,782	2,815,717	3,765,003	904,102	1,418,988	13,449,592	(3,310,060)	10,139,532
Operating expense	4,302,599	3,173,220	3,611,396	818,155	1,506,749	13,412,119	(3,366,265)	10,045,854
Segment result	243,183	(357,503)	153,607	85,947	(87,761)	37,473	56,205	93,678
Interest income	4,373,753	2,596,794	2,074,999	598,761	730,175	10,374,482	(3,521,437)	6,853,045
Interest expense	3,470,979	1,787,049	1,882,200	373,046	705,286	8,218,560	(3,189,636)	5,028,924
Net interest income	902,774	809,745	192,799	225,715	24,889	2,155,922	(331,801)	1,824,121
Provision for loan losses	44,802	961,837	91,904	109,099	280,312	1,487,954	(100,764)	1,387,190
Noninterest income	172,029	218,923	1,690,004	305,341	688,813	3,075,110	211,377	3,286,487
Noninterest expense	722,035	405,078	1,635,403	268,055	418,613	3,449,184	(75,530)	3,373,654
Net non-interest income (loss)	(550,006)	(186,155)	54,601	37,286	270,200	(374,074)	286,907	(87,167)
Depreciation and amortization	64,783	19,256	1,889	67,955	102,538	256,421	(335)	256,086
Net income (loss) before tax	243,183	(357,503)	153,607	85,947	(87,761)	37,473	56,205	93,678
Income tax expense	77,008	(113,209)	48,642	43,056	65,987	121,484	—	121,484
Net income (loss) for the period	166,175	(244,294)	104,965	42,891	(153,748)	(84,011)	56,205	(27,806)
US GAAP adjustments	64,800	223,718	22,812	96,694	128,094	536,118	—	—
Intersegment transactions	—	89,989	367	72,219	(134,027)	28,548	—	—
Consolidated net income (loss)	230,975	69,413	128,144	211,804	(159,681)	480,655	—	—
Segments' total assets	51,603,731	25,508,567	22,783,895	4,226,895	7,542,246	111,665,334	(38,685,664)	72,979,670

(1) Includes eliminations for consolidation, intersegment transactions and certain differences in classification under management reporting system.

(All amounts expressed in millions of Won)

Year ended December 31, 2000	Retail Banking	Corporate Banking	International Banking and Capital Markets Activities	Credit Card Operations	Other	Subtotal before Elimination	Elimination[1]	Total
Operating income	4,966,220	2,895,907	3,946,275	1,468,041	1,474,198	14,750,641	(3,863,768)	10,886,873
Operating expense	4,440,520	2,808,893	3,739,179	1,032,343	1,542,977	13,563,912	(3,717,724)	9,846,188
Segment result	525,700	87,014	207,096	435,698	(68,779)	1,186,729	(146,044)	1,040,685
Interest income	4,732,510	2,712,582	2,055,366	984,271	424,018	10,908,747	(4,120,191)	6,788,556
Interest expense	3,594,715	1,894,394	1,837,693	477,595	444,828	8,249,225	(3,302,155)	4,947,070
Net interest income (loss)	1,137,795	818,188	217,673	506,676	(20,810)	2,659,522	(818,036)	1,841,486
Provision for loan losses	9,800	585,006	55,074	113,611	358,150	1,121,641	(205,017)	916,624
Noninterest income	233,710	183,325	1,890,909	483,770	1,050,180	3,841,894	256,423	4,098,317
Noninterest expense	772,486	313,643	1,843,785	423,368	677,463	4,030,745	(210,077)	3,820,668
Net noninterest income (loss)	(538,776)	(130,318)	47,124	60,402	372,717	(188,851)	466,500	277,649
Depreciation and amortization	63,519	15,850	2,627	17,769	62,536	162,301	(475)	161,826
Net income (loss) before tax	525,700	87,014	207,096	435,698	(68,779)	1,186,729	(146,044)	1,040,685
Income tax expense	161,694	26,764	63,698	135,156	71,186	458,498	(10,229)	448,269
Net income (loss) for the period	364,006	60,250	143,398	300,542	(139,965)	728,231	(135,815)	592,416
US GAAP adjustments	117,565	210,824	78,709	24,922	(44,456)	387,564	—	—
Intersegment transactions	—	133,178	(1,228)	59,560	(379,757)	(188,247)	—	—
Consolidated net income (loss)	481,571	404,252	220,879	385,024	(564,178)	927,548	—	—
Segments' total assets	66,071,618	31,245,884	27,607,258	8,193,594	7,752,421	140,870,775	(49,772,010)	91,098,765

(1) Includes eliminations for consolidation, intersegment transactions and certain differences in classification under management reporting system.

The allowance for loan losses for each of the segments are as follows:

(All amounts expressed in millions of Won)	Retail Banking	Corporate Banking	International Banking and Capital Markets Activities	Credit Card Operations	Other	Total
As of December 31, 1999	211,172	1,952,221	142,866	105,974	211,149	2,623,382
As of December 31, 2000	232,060	1,681,725	124,588	156,682	198,592	2,393,647

Management does not use information on segments' total assets to allocate resources and assess performance.

Following is a reconciliation of the business segments' total assets as of December 31, 1999 and 2000 to the consolidated total assets.

(All amounts expressed in millions of Won)	1999	2000
Segments' total assets	111,665,334	140,870,775
US GAAP adjustments	(1,670,416)	(831,992)
Intersegment transactions	(38,641,348)	(49,248,237)
Consolidated total assets	71,353,570	90,790,546

Following is a reconciliation of the business segment's revenue for the years ended December 31, 1999 and 2000 to the consolidated revenue.

(All amounts expressed in millions of Won)	**1999**	**2000**
Segments' revenue	13,449,592	14,750,641
US GAAP adjustments	(2,322,419)	(3,105,716)
Intersegment transactions	(3,245,577)	(3,421,824)
Consolidated revenue	7,881,596	8,223,101

The adjustments presented in the tables above represent consolidated assets and revenues not specifically allocated to individual business segments.

Geographic segment disclosures have been excluded as assets and revenues attributable to external customers in foreign countries are not significant.

38. 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.

Guaranteed Principal Money Trusts require the Bank to 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 Guaranteed Fixed Rate Money Trusts. The Bank accrued a payable related to such guarantees in the amount of 40,735 million Won and 158,325 million Won as of December 31, 1999 and 2000, respectively. The Bank guarantees neither the principal amount nor the rate of return on the Securities Investment Trusts or the No-Guarantee Money Trusts. The Bank charges investment management fees to Guaranteed Principal Money Trusts and other trusts, and receives commission income, including penalty charges for early withdrawal of fixed term deposits.

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, 2000 and 1999, and the related consolidated statements of income, of changes in stockholders' equity, and of cash flows for each of the years in the three year period ended December 31, 2000. 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 of America. 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, 2000 and 1999, and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers
Seoul, Korea
June 12, 2001

H&CB

CONSOLIDATED BALANCE SHEETS

	Note	December 31, 2000	December 31, 1999
		(All amounts expressed in millions of Korean Won ("Won"), except share data)	
ASSETS			
Cash and due from banks and other financial institutions		1,154,195	1,280,960
Restricted deposits	8	425,937	930,967
Interest-bearing deposits in other banks		329,696	318,110
Call loans and securities purchased under resale agreements		719,679	75,621
Trading assets	9	2,548,546	2,371,009
Securities available for sale	10	5,782,117	4,359,742
Held-to-maturity securities (fair value of 2,240,415 in 2000 and 2,659,216 in 1999)	10	2,182,085	2,659,657
Loans (net of allowance for loan losses of 1,317,026 in 2000 and 1,286,552 in 1999)	12	44,926,644	30,869,296
Premises and equipment, net	13	827,378	744,636
Due from customers on acceptances		363,455	264,966
Accrued interest and dividends receivable		381,062	378,076
Security deposits		516,891	511,076
Other assets		798,235	512,508
Total assets		60,955,920	45,276,624
LIABILITIES			
Due to depositors:			
Noninterest bearing	15	93,926	109,385
Interest bearing	15	47,185,091	33,269,948
Call money		51,323	758,000
Trading liabilities	9	31,197	3,950
Other borrowed funds	16	2,215,503	1,466,361
Acceptances outstanding		363,455	264,966
Accrued interest payable		2,678,396	2,523,475
Other liabilities		1,023,604	815,711
Secured borrowings	17	1,247,319	533,684
Long-term debt	18	3,703,420	3,775,520
Total liabilities		58,593,234	43,521,000
Commitments and contingencies (Notes 6, 11, 28, 29, 30 and 36)			
Minority interest		6,715	—
STOCKHOLDERS' EQUITY			
Preferred stock, (5,000 Won par value, authorized 1,000,000,000 shares; Issued and outstanding 17,790,000 shares in 2000 and 59,300,000 shares in 1999)	19	88,950	296,500
Less: KDIC bonds (at par value) purchased in connection with preferred shares issued		(88,950)	(296,500)
Common stock, (5,000 Won par value, authorized 1,000,000,000 shares; Issued and outstanding 119,968,809 shares in 2000 and 109,062,555 shares in 1999 (adjusted for each 10% stock dividend approved March 24, 2001 and February 28, 2000))	20	599,844	545,313
Additional paid-in capital		1,060,241	838,878
Deferred stock compensation		(205)	(725)
Retained earnings	21	563,620	349,450
Accumulated other comprehensive income, net of taxes		132,471	22,708
Total stockholders' equity		2,355,971	1,755,624
Total liabilities, minority interest, and stockholders' equity		60,955,920	45,276,624

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

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CONSOLIDATED STATEMENTS OF INCOME

	Note	2000	1999	1998
		For the year ended December 31,		
		(All amounts expressed in millions of Korean Won ("Won"), except per share data)		
Interest and dividend income				
Interest and fees on loans		4,228,630	3,276,334	3,462,238
Interest and dividends on investment securities:				
Interest		794,163	674,442	765,677
Dividends		9,126	1,543	368
Interest and dividends on trading securities:				
Interest		116,547	128,989	11,347
Dividends		1,422	1,042	911
Call loans and securities purchased under resale agreements		36,114	25,228	159,564
Interest from deposits in other banks		61,947	104,279	122,425
Other interest income		6,808	30,611	48,149
Total interest and dividend income		5,254,757	4,242,468	4,570,679
Interest expense				
Deposits		2,879,536	2,277,467	2,315,087
Call money		28,936	18,502	67,322
Other borrowed funds		104,616	109,896	296,051
Long-term debt		326,062	383,816	447,783
Secured borrowings		112,604	27,639	74,155
Total interest expense		3,451,754	2,817,320	3,200,398
Net interest income		1,803,003	1,425,148	1,370,281
Provision for loan losses	12	378,000	306,151	433,228
Provision for guarantees and acceptances	12	(788)	(7,966)	(37,398)
Net interest income after provision for loan losses, guarantees and acceptances		1,425,791	1,126,963	974,451
Noninterest income				
Trust fees		106,275	161,507	155,699
Commission received on funds management		162,720	156,304	145,737
Other fees and commission income		217,255	141,586	102,858
Net trading revenue		153,429	156,961	80,501
Net (loss) gain on securities		(131,245)	53,333	16,688
Other noninterest income		127,693	120,702	29,451
Total noninterest income		636,127	790,393	530,934
Noninterest expense				
Salaries and employee benefits		509,178	517,746	609,331
Trust performance payments	35	95,001	53,006	206,427
Equity in net loss of affiliates		2,991	19,714	6,311
Depreciation and amortization		107,560	76,795	61,097
Administrative expenses		237,366	158,869	126,303
Loss on sale of loans		19,633	1,046	61,155
Credit card fees		37,349	19,850	13,693
Other fees and commissions		162,286	108,729	87,290
Taxes and dues		37,308	33,091	31,211
Other noninterest expense		100,969	120,349	70,901
Total noninterest expense		1,309,641	1,109,195	1,273,719

CONSOLIDATED STATEMENTS OF INCOME — (Continued)

	Note	For the year ended December 31, 2000	1999	1998
		(All amounts expressed in millions of Korean Won ("Won"), except per share data)		
Income before income taxes and minority interest		752,277	808,161	231,666
Income tax expense	24	243,657	267,504	102,058
Income before minority interest		508,620	540,657	129,608
Less: Minority interest income (loss)		2,559	(8)	1,698
Net income		506,061	540,665	127,910
Net income applicable to common stockholders		506,061	540,665	127,910
Net income per common share:	25			
Basic:		4,218.26	4,753.18	1,248.50
Diluted:		3,569.39	3,116.28	1,242.32

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

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CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Note	December 31, 2000	1999	1998
		(All amounts expressed in millions of Korean Won ("Won"))		
Preferred Stock				
Balance, beginning of year		296,500	296,500	—
Issuance of stock		—	—	296,500
Redemption of stock		(207,550)	—	—
Balance, end of year		88,950	296,500	296,500
KDIC Bonds, at par value				
Balance, beginning of year		(296,500)	(296,500)	—
KDIC bonds purchased		—	—	(296,500)
Redemption of bonds		207,550	—	—
Balance, end of year		(88,950)	(296,500)	(296,500)
Common Stock				
Balance, beginning of year		545,313	446,165	321,165
Issuance of stock		—	49,574	125,000
Stock dividend		54,531	49,574	—
Balance, end of year		599,844	545,313	446,165
Additional Paid-in Capital				
Balance, beginning of year		838,878	284,263	242,371
Issuance of stock		—	275,462	41,763
Stock dividend		222,194	274,639	—
Stock options granted, net of change in variable plan compensation		(730)	4,514	129
Stock options forfeited		(101)	—	—
Balance, end of year		1,060,241	838,878	284,263
Deferred Stock Compensation				
Balance, beginning of year		(725)	(116)	—
Stock options granted		—	(1,414)	(129)
Amortization of deferred stock compensation expense		470	805	13
Stock options forfeited		50	—	—
Balance, end of year		(205)	(725)	(116)
Retained Earnings				
Balance, beginning of year		349,450	132,998	37,205
Net income		506,061	540,665	127,910
Cash dividends declared:				
Common stock		(14,871)	—	(32,117)
Stock dividend		(277,020)	(324,213)	—
Balance, end of year		563,620	349,450	132,998
Accumulated Other Comprehensive Income, net of taxes				
Balance, beginning of year		22,708	239,282	(327,070)
Other comprehensive income (loss)	22	109,763	(216,574)	566,352
Balance, end of year		132,471	22,708	239,282
Total stockholders' equity		2,355,971	1,755,624	1,102,592
Comprehensive Income				
Net income		506,061	540,665	127,910
Other comprehensive income (loss), net of taxes		109,763	(216,574)	566,352
Comprehensive income		615,824	324,091	694,262

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the year ended December 31,		
	2000	1999	1998
	(All amounts expressed in millions of Korean Won ("Won"))		
Cash flows from operating activities:			
Net income	506,061	540,665	127,910
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses, guarantees and acceptances	377,212	298,185	395,830
Depreciation and amortization	107,560	76,795	61,097
Amortization of loan origination costs	20,718	15,021	9,517
Amortization of discounts on borrowings	109,318	102,873	68,425
Net loss (gain) on securities	131,245	(53,333)	(16,688)
Equity in net loss of affiliates	2,991	19,714	6,311
Net loss on sales of loans	19,633	1,046	61,155
Net (gain) loss on disposal of property and equipment	(1,122)	2,023	76
Deferred income taxes	(10,273)	(45,426)	148,180
Unrealized foreign exchange gain	(44,578)	(88,592)	(311,749)
Stock compensation expense	(311)	3,905	13
Minority interest in net income of consolidated subsidiaries	2,559	(8)	1,698
Net change in			
Trading assets	(173,782)	(1,186,660)	(15,674)
Accrued interest and dividend receivable	(2,986)	107,085	(159,828)
Other assets	(65,770)	405,655	(146,588)
Trading liabilities	27,247	(15,176)	(255,148)
Accrued interest payable	150,952	189,961	(158,288)
Other liabilities	(133,198)	(175,757)	(822,153)
Net cash provided by (used in) operating activities	1,023,476	197,976	(1,005,904)
Cash flows from investing activities:			
Net change in interest-bearing deposits in other banks and financial institutions	34,457	(111,755)	1,144,907
Net change in restricted deposits	505,093	(267,904)	(60,075)
Net change in call loans and securities purchased under resale agreements	(637,864)	390,928	205,667
Net change in security deposits	(3,681)	55,143	2,060
Proceeds from sales of securities available for sale	2,176,639	2,707,230	761,920
Redemption and maturities of securities available for sale	7,259,148	9,271,636	17,395,253
Purchases of securities available for sale	(10,790,045)	(8,642,402)	(20,651,059)
Proceeds from maturities, prepayments, and calls of held-to-maturity securities	2,156,690	39,305	15,139
Purchases of held-to-maturity securities	(1,690,397)	(2,474,236)	(194,008)
Cash acquired as part of acquisition	17	—	484,120
Net proceeds on sales of loans	162,272	220,453	2,160
Net originations and repayments of loans	(14,244,416)	(6,480,190)	1,665,799
Additions to premises and equipment	(298,159)	(256,055)	(117,793)
Disposals of premises and equipment	120,263	110,717	11,949
Net cash (used in) provided by investing activities	(15,249,983)	(5,437,130)	666,039
Cash flows from financing activities:			
Net increase in deposits	13,877,519	5,835,867	1,968,900
Net increase in secured borrowings	713,635	533,684	—
Net (decrease) increase in call money	(706,677)	578,863	(1,622,786)
Net (decrease) increase in short-term borrowings	(113,136)	(1,413,085)	279,729
Proceeds from issuance of long-term debt	2,628,814	849,487	927,985
Repayment of long-term debt	(2,288,713)	(1,846,813)	(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	(14,871)	—	(32,117)
Other	(296)	(6,429)	(5,373)
Net cash provided by financing activities	14,096,275	4,856,610	462,900

H&CB

CONSOLIDATED STATEMENTS OF CASH FLOWS — (Continued)

	For the year ended December 31,		
	2000	1999	1998
	(All amounts expressed in millions of Korean Won ("Won"))		
Effect of exchange rate changes on cash	3,467	(1,159)	(123)
Net (decrease) increase in cash and cash equivalents	(126,765)	(383,703)	122,912
Cash and cash equivalents, beginning of year	1,280,960	1,664,663	1,541,751
Cash and cash equivalents, end of year	1,154,195	1,280,960	1,664,663
Supplemental disclosure of cash flow information:			
Cash paid during the year for interest	3,307,847	2,627,394	3,357,005
Cash paid during the year for income taxes	322,950	47,350	106,295
Supplemental schedule of noncash investing and financing activities:			
Acquisitions			
Fair value of assets acquired	287,648	—	4,861,524
Less: liabilities assumed	324,623	—	5,854,236
Cash acquired	17	—	484,120
Acquisitions, net of cash acquired	(36,992)	—	(1,476,832)
KAMCO and KDIC Bonds received in connection with acquisition	—	—	540,100
Stock dividend	277,020	324,213	—
Subordinated bonds issued in exchange for KDIC bonds	—	—	148,000
Loans (repurchased from) sold to KAMCO in exchange for bonds (Note 6)	(21,814)	(17,784)	128,473
Repurchase of preferred stock held against KDIC bonds (Note 19)	207,550	—	—
Transfer of securities available for sale to the trading portfolio	—	—	979,746
Increase (decrease) in unrealized gains (losses) on securities available for sale, net of tax	105,458	(215,213)	566,177
Increase (decrease) in foreign currency translation adjustments, net of tax	4,260	(1,159)	(123)
Transfer of held-to-maturity securities to securities available for sale due to other than temporary impairment (Note 10)	6,134	—	—
Bonds and securities received in connection with loan restructuring (Note 12)	21,300	99,119	—

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

All amounts are expressed in millions 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 552 local branches and three overseas branches as of December 31, 2000. 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, 2000, the Korean government and foreign investors owned 14.5% and 66.4%, respectively, of the outstanding common shares of the Bank.

On December, 22, 2000, the Bank entered into a memorandum of understanding for a merger with Kookmin Bank and signed a merger agreement with Kookmin Bank on April 23, 2001. The merger is scheduled to be completed in the fourth quarter of 2001 (See Note 36).

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.

While economic conditions in the Republic of Korea may have improved since the financial crisis, and some of the trends and conditions noted above may have reversed, the Bank and its customers 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.

During 2000, the economic recovery in the Republic of Korea slowed compared to 1999 and in particular, the economic indicators for the fourth quarter of 2000 dropped unfavorably. The economic indicators in the first quarter of 2001 have been mixed, and it is uncertain as to how the Korean economy will perform in the near term. Should economic indicators in Korea perform unfavorably in the short term and other external factors become negative, such as the degree of success of government-sponsored or brokered restructurings of large troubled companies, or the success of the restructuring of the Korean financial sector, then the Bank could be required to make adjustments to the carrying amount of its loans and investments in the near term in amounts that could be material to the financial statements.

Basis of presentation

The accounting and reporting policies of the Bank conform with accounting principles generally accepted in the United States of America ("US GAAP"). The preparation of financial statements in conformity with US 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 33). 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 in net loss of affiliates'. All significant inter-company transactions and balances have been eliminated on consolidation.

Foreign currency translation

Foreign currency translation, which represents the effects of translating into Korean Won, at exchange rates at the end of the fiscal year, financial results from entities outside Korea who have a functional currency other than 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 Korean Won as a functional currency are included in other income, except for gains and losses arising from translation of securities available for sale which are included as a component of other comprehensive 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 forward commitments to resell and accounts for its repurchase agreements as sales of securities with related forward commitments to repurchase. It is the Bank's policy to take possession 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 are 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. The realized gains or losses on these swaps are recognized together with the realized gains or losses on the underlying instruments in the income statement.

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 is 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.

Venture capital activities

One of the Bank's subsidiaries engages exclusively in venture capital activities. Venture capital investments are carried in the balance sheet at fair value in 'Other assets,' with net changes in fair value recognized in 'Net gain (loss) on securities'. The fair values of publicly-traded securities held by these subsidiaries are generally based on quoted market prices. Securities that are held by this subsidiary that are not publicly traded are originally recorded at cost, which is deemed to be fair value as of the acquisition date. Subsequent to that date, management estimates fair value based on investee transactions with unaffiliated parties, or evidence of decline or increases in value from management's review of the investee's financial results and condition. Any change in fair value is recognized in 'Net gain (loss) on securities'.

Equity securities without readily determinable fair values

The Bank holds certain equity securities that do not have readily determinable fair values. Those equity securities are recorded as 'Other assets' in the balance sheet and are accounted for at cost, with any other-than-temporary impairment recorded as 'Net gain (loss) on securities'.

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 effective rate and credited to income based on the principal amount outstanding.

It is the 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.

The Bank provides equipment financing to its customers through a variety of lease arrangements. Direct financing leases are carried at the aggregate of lease payments/receivables plus estimated residual value of the leased property, less unearned income. Unearned income is recognized using the effective interest method.

Allowance for loan losses

The allowance for loan losses is available to absorb management's estimate of incurred loan losses in the loan portfolio. Additions to the allowance for loan losses are made by changes to the provision for loan losses. Credit exposures deemed to be uncollectible are charged against the allowance for loan losses. Recoveries of previously charged off amounts are credited to the allowance for loan losses.

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 and migration of loans, the financial condition of the borrower and current economic conditions.

Commercial loans are generally evaluated individually due to a general lack of uniformity among individual loans within each loan type. If necessary, an allowance for loan losses is established for individual impaired loans. 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 carrying value of the loan, an allowance is established for the amount deemed uncollectible.

The allowance for loan losses on commercial loans which are not deemed to be impaired is established for such loans as an aggregate pool based upon historical loss trends.

Due to their homogeneous nature, consumer loans and certain smaller loans, which includes household mortgages, credit cards and other household loans, are generally evaluated for loan loss reserve purposes as a group, based on individual loan type. This evaluation is based primarily on historical loss trends.

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.

Deferred loan 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 or securities that are transferred where the Bank retains the control of assets transferred are retained on the balance sheet and treated as collateralized borrowings. The liability for funds received under the loan sale agreement is included within secured borrowings.

Collateral

The Bank pledges loans as collateral for certain borrowings. These borrowings are structured as transfers of loans through asset securitization although they are retained on the balance sheet, as the Bank retains control of the assets transferred. The Bank also pledges securities as collateral, primarily for certain deposit transactions and borrowings structured as a transfer of securities through asset securitization. The Bank retains control of the securities and retains them on the balance sheet. Securities pledged against deposits cannot be sold or re-pledged by the Bank. However, the Bank has the right to substitute the collateral provided that this is not to the detriment of the depositor.

Accounting for securitizations

The Bank periodically transfers loans and other assets through an asset securitization structure where such transfer qualifies as a sale transaction. The Bank maintains a residual interest in these loans and services these loans. In addition, the Bank may extend certain limited recourse over the assets sold. In calculating the gain or loss on the sale, the Bank allocates the cost basis of the loans sold between the assets sold, the retained interest and servicing rights based on their relative fair values at the date of the sale. A gain or loss is recognized as the difference between the cash proceeds from the sale and the allocated cost basis of the assets sold, less the estimated fair value of any recourse.

The retained interest represents subordinated bonds, classified as available for sale and is subsequently valued at estimated market value using the present value of future cash flows considering fees paid to the senior bond holders and certain administrative fees and expenses. The Bank recognizes interest income on retained interests using the effective yield method.

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 basis 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 lives of premises and equipment are 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.

Stock based compensation

The Bank accounts for its employee stock-based compensation plans using the intrinsic-value based method in accordance with Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees". Compensation expense is the number of shares under option times the difference between the quoted market price of the stock at the measurement date, the date on which the number of shares and the exercise price are fixed, less the exercise price that the employee is required to pay. Compensation expense is recognized over the vesting period in which an employee performs the services related to the option awards.

Interest expense

Interest expense is recognized on an accrual basis. For deposits where a portion of the interest payments are linked to the Bank's stock price, interest is recognized based on the price of the Bank's stock at the end of the period.

Advertizing costs

Advertizing costs are expensed as incurred and are included in the Statement of Income in 'Administrative expenses'.

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. These fees, if earned, are recognized at the end of the performance period.

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.

Other fees and commissions income

Fees and commissions primarily consist of fees from trust investment management, deposit accounts, mortgage servicing, loan commitments, credit card interchange income and cash advance fees. Such fees are recognized when earned.

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 and impairments on loans and investments, 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.

Goodwill and impairment of goodwill

Goodwill, which is recognized as the excess of cash paid or liabilities assumed over net assets acquired, is being amortized on a straight-line basis over its estimated useful life.

The carrying amount of goodwill is reviewed annually for impairment. If this review indicates that the carrying amount of goodwill may not be recoverable, as determined based on the estimated undiscounted cash flows of the entity acquired over the remaining economic period, then the carrying amount will be adjusted.

Earnings per common share

Earnings per common share for all periods presented is computed by dividing net income, reduced by dividends on preferred stock by the weighted average number of common shares issued and outstanding. Diluted earnings per common share is computed by dividing net income available to common stockholders, adjusted for the effect of assumed conversions, by the weighted average number of common shares issued and outstanding and dilutive potential common shares, which include convertible preferred stock and stock options. Dilutive potential common shares are calculated using the treasury method.

Reclassification

Certain reclassifications have been made in the 1999 and 1998 financial statements to conform to the 2000 presentation for comparability purposes.

2. Recent accounting pronouncements

SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities"

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133) and Statement of Financial Accounting Standards No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities — an amendment of SFAS No. 133" (collectively, "SFAS No. 133"). SFAS No. 133 establishes accounting and reporting standards for derivative financial instruments, including certain derivatives used for hedging activities and derivatives embedded in other contracts. SFAS No. 133 is effective for the Bank from January 1, 2001. Adjustments resulting from initial adoption of the new standards will be reported in a manner similar to the cumulative effect of a change in accounting principle and will be reflected in net income or accumulated other comprehensive income based upon existing hedging relationships, if any.

SFAS No. 133 requires all derivatives to be recognized on the balance sheet at fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, depending on the type of hedge transaction. Derivatives which are not designated as hedging instruments are adjusted to fair value through current-period earnings.

For fair-value hedge transactions in which the Bank is hedging changes in an asset's, liability's, or firm commitment's fair value, changes in the fair value of the derivative instrument should generally be offset in the income statement by changes in the hedged item's fair value for the risk being hedged.

For cash-flow hedge transactions in which the Bank is hedging the variability of cash flows related to a variable-rate asset, liability, or a forecasted transaction, changes in the fair value of the derivative instrument are reported in other comprehensive income. The gains and losses on the derivative instrument that are reported in other comprehensive income are reclassified as earnings in the periods in which earnings are impacted by the variability of the cash flows of the hedged item. The ineffective portion of all hedges will be recognized in current-period earnings.

The impact at the date of initial application will result in a net-of-tax reduction to income of 312 million Won and a reduction to shareholders' equity of 194 million Won. The reduction in income is primarily attributable to derivative contracts which are currently designated as hedging (and accounted for on an accrual basis) which would be accounted for as trading under SFAS No. 133.

As a result of this standard, management may make changes to risk management strategies outside of its trading activities, and it also anticipates a significant increase in the complexity of the accounting and record keeping requirements for these hedging activities.

Adoption of this standard may cause volatility in quarterly earnings and equity, prospectively, due to the methods used to measure hedges and management's decision to no longer apply hedge accounting to certain business strategies.

SFAS No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities"

In September 2000, the FASB issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities — a replacement of SFAS No. 125". SFAS No. 140 revises the standards for accounting for securitizations, other transfers of financial assets and collateral, and restricts the use of special purpose vehicles in transfers. SFAS No. 140 requires certain new disclosures, but it carries over most of SFAS No. 125's provisions without reconsideration. Generally, the new provisions of this standard are to be applied prospectively and become effective March 31, 2001. However, certain recognition and classification requirements for collateral and disclosures for collateral and securitization transactions are required as of December 31, 2000. These have been adopted by the Bank. Adoption of the remaining provisions of this revised accounting standard is not expected to have a material impact on the Bank.

3. Acquisition of Jooeun Leasing

On January 20, 2000, the Bank acquired an additional 35% of Jooeun Leasing Co., Ltd. ("Jooeun Leasing") through a debt to equity swap bringing the Bank's total ownership to 85%. The swap was the result of a memorandum of understanding between Jooeun Leasing and its creditors. The Bank converted its loans to Jooeun Leasing to an equity investment in the amount of 82,300 million Won on January 20, 2000 and, correspondingly, Jooeun Leasing issued 16.4 million shares of its common stock to the Bank.

As of December 31, 2000, the Bank holds 85% of the outstanding shares of Jooeun Leasing. The Bank included the net assets of Jooeun Leasing and the related minority interest in its consolidated balance sheet as of the acquisition date. The purchase of the additional 35% has been accounted for under the purchase method and accordingly, the results of operations for Jooeun Leasing have been incorporated in the Bank's consolidated statement of income from the date of acquisition.

The net liabilities of Jooeun Leasing at the date of acquisition were 36,975 million Won. The excess of consideration given over the net liabilities assumed has been recorded as goodwill of 54,602 million Won. The goodwill is being amortized using the straight-line method over a period of 5 years. The amortization period is consistent with the Bank's current strategy to run off the current portfolio of leases and customers. In accordance with the memorandum of understanding related to the transaction, Jooeun Leasing's maturities on debt of 244,234 million Won were extended until the end of 2005.

The memorandum of understanding requires the Bank to provide two additional loans in the amount of 100 billion Won upon request by Jooeun Leasing. A loan totaling 47 billion Won has been extended as of March 2001. The remaining 53 billion Won will be granted during the twelve-month period ending March 31, 2002.

The following unaudited pro forma consolidated statement of income of the Bank is presented as if the acquisition of the majority interest in Jooeun Leasing had occurred at the beginning of the period presented.

	1999
	(all amounts expressed in millions of Won except per share data) (unaudited)
Revenue	4,267,189
Net income	485,068
Earnings per share: (in Won)	
Basic	4,264.41
Diluted	2,795.83

The unaudited pro forma consolidated statement of income includes adjustments to give effect to amortization of goodwill and related income tax effects. The unaudited pro forma information is not necessarily indicative of the results of operations that would have occurred had the purchase occurred at the beginning of the year presented or of future consolidated results.

4. Acquisition of DongNam 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 DongNam Bank and its subsidiary, DongNam Finance Limited (collectively, "DNB"). In addition, the Bank retained the right to transfer any purchased assets which became non-performing within a year after the purchase date to the Korea Asset Management Corporation ("KAMCO") on condition that the Bank was 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 under the purchase method and the results of operations have been included in the Bank's results of operations since June 29, 1998.

Additionally, 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 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 DNB 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. No additional compensation was received during 2000.

5. Securitization of non-performing loans

During 2000, the Bank established H&CB 0004 ABS Specialty Co., Ltd. ("HAS-4"), a special purpose vehicle, together with one investor in order to securitize certain assets of the Bank.

On December 6, 2000, the Bank sold non-performing and other loans to HAS-4, which in turn issued bonds in the amount of 97,000 million Won collaterized by such loans. In accordance with SFAS No. 125 "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities," this transaction was accounted for as a sale.

In conjunction with the sale, the Bank recognized cash proceeds of 75,752 million Won and de-recognized 162,272 million Won of loans (net of allowance of 48,529 million Won). The Bank also recognized a liability in the amount of 1,148 million Won related to certain recourse provisions associated with the transfer and retained a junior bond interest in the special purpose vehicle of 71,112 million Won determined on a relative fair market value basis. The Bank recognized a loss on the sale of loans totaling 16,557 million Won.

As a result of the sale, the Bank retained interest in the loans through its investment in junior bonds. The cash flows from the junior bonds represent residual interest remaining in the special purpose vehicle after payment of senior bond interest and principal and payment of certain fees and expenses. The Bank determined the fair value of the junior bonds using present value of future cash flows taking into consideration the priority of payments. The key economic assumptions used in estimating the fair value of retained interests capitalized during the year ended December 31, 2000 are as follows:

	2000
Weighted average life (in years)	1.42
Weighted average collection ratio	65.81%
Reinvestment ratio	5.00%
Weighted average asset cash flows discounted at	12.63%

The Bank recognized an impairment charge of 12,020 million Won at December 31, 2000 to reflect the then market value, which was less than the relative fair market value calculated at the transfer date.

The Bank entered into a servicing arrangement contract whereby the Bank will service and maintain the records for these loans. In exchange, the Bank receives 0.5% of the outstanding securitized bond balance of the beginning of every quarter as quarterly servicing fees.

The Bank received cash flows from the special purpose vehicle for the period from transfer to the end of the year as follows:

	2000
	(all amounts expressed in millions of Won)
Proceeds from new securitization	75,752
Servicing fees received	101

At December 31, 2000, the key economic assumptions and the sensitivity of the current fair value of residual cash flows to immediate 10 percent and 20 percent adverse changes in those assumptions are as follows:

	10% Impact	20% Impact
	(all amounts expressed in millions of Won)	
Estimated fair value of junior bond	47,000	32,979
Weighted average collection ratio	59.23%	52.65%
Reinvestment ratio	5.00%	5.00%
Weighted average asset cash flows discounted at	12.10%	12.00%

These sensitivities are hypothetical and should be used with caution. The changes in fair value based on a variation in assumptions may not be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in this table, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption; in reality, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities.

Given the nature of these assumptions, it is at least reasonably possible that changes in actual results or future changes in assumptions could materially affect the short-term carrying value of the junior bonds and the related results of the Bank's operations.

6. Other KAMCO loan sales

The Bank sold to KAMCO certain non-performing loans to increase the liquidity of the Bank 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 elimination of these assets from the Bank's balance sheet, the Bank was obligated under the provisions of the sales agreement, to repurchase certain loans at the option of KAMCO. The Bank repurchased loans of 23,967 million Won pursuant to these provisions during 2000. The Bank also received certain settlement payments related to prior period sales or recourse obligations of 8,637 million Won. In addition, the Bank has guaranteed the realization of the transfer price in the individual adjustment contract of certain loans identified under the terms of the agreement. As of December 31, 2000, 59,396 million Won is guaranteed against which the Bank has 3,683 million Won as a recourse liability.

7. Other investing activities

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. ("ING Life") for 41,384 million Won. This represents 20% of the total outstanding common shares of ING Life Insurance Company, Korea, Ltd. As part of this purchase, the Bank recognized goodwill totaling 37,173 million Won as its cost exceeded its share of the carrying value of ING Life's equity. This goodwill is being amortized over 5 years and relates primarily to the future cash flows from insurance premiums.

As part of the same agreement, ING Insurance International B.V. acquired 1.2 million common shares of Jooeun Investment Trust Management Co., Ltd., a consolidated subsidiary of the Bank, for 27,840 million Won, which represents 20% of the total outstanding common shares. The Bank recognized a gain of 23,709 million Won on the sale which is reported as 'Other noninterest income' on the income statement.

8. Restricted deposits

The following table presents restricted deposits as of December 31, 2000 and 1999.

	2000	1999
	(all amounts expressed in millions of Won)	
Reserve deposits with the Bank of Korea	169,665	652,216
Sinking Funds deposited with the Bank of Korea	—	14,293
Deposits for severance payments	255,289	263,500
Other deposits	983	958
Total restricted deposits	425,937	930,967

Reserve deposits with the Bank of Korea represent amounts required to be kept on deposit under the Banking Act for payment of deposits. Deposits for severance payments are made under a group severance benefit plan, and any withdrawal other than for the actual payment of severance benefits is subject to tax under Korean Tax Law.

9. Trading assets and liabilities

The following table presents trading assets and trading liabilities for December 31, 2000 and 1999.

	2000	1999
	(all amounts expressed in millions of Won)	
Trading assets:		
Debt securities		
Korean Treasury and government agency securities	10,048	2,025,304
Corporate debt securities	—	60,080
Debt securities issued by financial institutions	—	47,510
Other debt securities	2,397,336	10,807
Equity securities	31,949	122,335
Total debt and equity instruments	2,439,333	2,266,036
Derivative financial instruments:		
Cross currency contracts	106,294	101,134
Interest rate contracts	789	—
Foreign exchange contracts	2,130	3,839
Total derivative financial instruments	109,213	104,973
Total trading assets	2,548,546	2,371,009
Trading liabilities:		
Derivative financial instruments:		
Interest rate contracts	22	972
Foreign exchange contracts	31,175	2,978
Total trading liabilities	31,197	3,950

Average trading assets and liabilities were as follows for December 31, 2000 and 1999:

	2000	1999
	(all amounts expressed in millions of Won)	
Total trading assets — debt and equity instruments	2,346,352	1,504,044
Total trading assets — derivative financial instruments	104,157	120,906
Total trading liabilities — derivative financial instruments	5,864	5,642

10. Securities

At December 31, 2000, 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, 2000			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(all amounts expressed in millions of Won)			
Securities available for sale:				
Debt securities				
Korean Treasury and government agency securities	2,558,383	98,709	658	2,656,434
Corporate debt securities	326,118	11,037	4,974	332,181
Mortgage-backed securities	802,895	21,420	1,637	822,678
Debt securities issued by financial institutions	363,897	14,576	371	378,102
Other debt securities	1,458,162	81,674	—	1,539,836
Equity securities	85,438	—	32,552	52,886
Total securities available for sale	5,594,893	227,416	40,192	5,782,117
Held-to-maturity securities:				
Korean Treasury and government agency securities	1,502,572	42,589	1,069	1,544,092
Corporate debt securities	322,164	7,317	1,122	328,359
Mortgage-backed securities	180,000	6,566	—	186,566
Debt securities issued by financial institutions	174,864	4,077	—	178,941
Debt securities issued by foreign governments	2,485	—	28	2,457
Total held-to-maturity securities	2,182,085	60,549	2,219	2,240,415

During the year ended December 31, 2000, the Bank recognized other-than-temporary impairment losses on securities available for sale and held-to-maturity securities of 120,810 million Won and 5,144 million Won, respectively. As discussed in Note 1 and Note 12, 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 securities other than those issued by governmental entities. During 2000, the Bank transferred held-to-maturity securities with an amortized cost of 12,856 million Won and an other-than-temporary impairment loss of 6,722 million Won to securities available for sale. The transfer of these securities was due to significant deterioration in the issuers' credit worthiness.

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			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(all amounts expressed in millions of Won)			
Securities available for sale:				
Debt securities				
Korean Treasury and government agency securities	2,541,897	10,865	26,868	2,525,894
Corporate debt securities	302,924	5,460	2,422	305,962
Mortgage-backed securities	128,845	1,111	—	129,956
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 and government agency securities	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 11)	870,137	16,302	—	886,439
Total held-to-maturity securities	2,659,657	22,528	22,969	2,659,216

During the year ended December 31, 1999, the Bank recognized impairment losses on securities available for sale 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.

Gross unrealized losses on interest rate swaps related to securities available for sale at December 31, 2000 and 1999 were 168 million Won and 391 million Won, respectively.

For the years ended December 31, 2000 and 1999, proceeds from sales of securities available for sale amounted to 2,176,639 million Won and 2,707,230 million Won, respectively. For the years ended December 31, 2000 and 1999, gross realized gains amounted to 54,176 million Won and 126,396 million Won, and gross realized losses amounted to 31,266 million Won and 73,063 million Won, respectively for such securities.

The amortized cost and estimated fair value of the Bank's debt securities available for sale and held-to-maturity securities at December 31, 2000 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, 2000			
	Securities available for sale		Held-to-maturity securities	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(all amounts expressed in millions of Won)			
Due in one year or less	1,818,256	1,859,230	424,118	428,878
Due after one year through five years	3,671,989	3,846,864	1,725,822	1,778,815
Due after five years through ten years	19,210	23,137	32,145	32,722
Total	5,509,455	5,729,231	2,182,085	2,240,415

11. Bond market stabilization fund

On September 21, 1999, at the request of the government, forty Korean financial institutions established the Bond Market Stabilization Fund ("the Fund") 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. The Bank contributed 872,200 million Won in cash to the Fund. In exchange for the contribution, the Bank received an 8.1% interest in the Fund.

On March 27, 2000 (the "dissolution date"), the government elected to dissolve the Fund in advance of the scheduled maturity and sell most of the securities held within the Fund to the participating financial institutions. The Bank received cash of 872,200 million Won and purchased certain securities totaling 846,700 million Won previously held by the Fund. The total fair value of all investments sold to participating financial institutions was approximately 26.6 trillion Won. These securities consisted of national and local government bonds, financial debentures issued by government-invested corporations and corporate bonds with credit ratings of mostly A or higher as rated by the Korean credit rating agencies.

On dissolution of the Fund, a portion of the securities previously held by the Fund were transferred to two trusts ("the Trusts") and the Bank received a 100% of the interest in one of the trusts ("Trust I"). Trust I is separately identifiable from the other trust ("Trust II"), is managed by a third party and received 23.6 billion Won of assets from the Fund. The Bank manages Trust II which is beneficially owned by the other participating financial institutions. Trust II received 273.4 billion Won of assets from the Fund. The Bank consolidates Trust I.

As part of the dissolution agreement, the participating financial institutions agreed that any losses experienced by the participants on their share of investments purchased from the Fund would be shared with the other participating financial institutions according to their share of the Trusts until August 31, 2002, the scheduled maturity of the Trusts. The mechanism by which this operates is that in the event that any of the purchased investments go through court receivership, workout or mediation, the participating financial institutions holding those securities are able to sell these securities to the Trusts at the fair value calculated using the yield on the dissolution date. The Money Trust Committee, consisting of six participating financial institutions including the Bank, has the authority to approve the repurchase of securities by the Trusts. As the Bank owns approximately 7.94% of the Trusts in total, the Bank is exposed to 7.94% of the potential loss on securities which are sold back to the Trusts. The dissolution agreement does not address commitments to purchase investments which exceed the assets of the Trusts.

In April 2001, the Money Trust Committee approved a repurchase by the Trusts of securities issued by Hyundai Engineering & Construction Co., Ltd. with a total face amount of 234.0 billion Won for 238.0 billion Won.

12. Loans

The composition of the loan portfolio as of December 31, 2000 and 1999 was as follows:

	2000	1999
	(all amounts expressed in millions of Won)	
Consumer:		
Residential mortgages	20,987,156	17,246,119
Installment loans to individuals	4,675,442	2,265,976
Credit cards	2,881,259	1,216,213
Other consumer[1]	7,082,964	4,209,623
Commercial:		
Commercial and industrial	6,357,724	3,944,406
Construction loans	771,173	1,601,338
Lease financing	263,724	—
Other commercial[2]	3,188,419	1,650,129
Gross loans	46,207,861	32,133,804
Deferred origination costs	35,809	22,044
Less: Allowance for loan losses	(1,317,026)	(1,286,552)
Total loans, net	44,926,644	30,869,296

(1) Other consumer loans include personal overdrafts, consumer loans collaterized by real estate, loans with principal due at maturity, auto installment loans and loans for low-income housing leases.

(2) Other commercial loans include commercial bills discounted, overdrafts, and loans to public agencies.

During 2000, the Bank received convertible debt securities, marketable equity securities and non-marketable equity securities having a fair market value of 3,405 million Won, 14,226 million Won, and 1,490 million Won, respectively, through restructuring of eleven loans having an aggregate net book value of 34,627 million Won. The Bank recognized aggregate charge-offs of 19,807 million Won and recoveries of 4,300 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 37,239 million Won and 47,380 million Won at December 31, 2000 and 1999, respectively. From January 1, 2000, through December 31, 2000, directors and executive officers of the Bank and their related interests borrowed 34,860 million Won and repaid 30,943 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, 2000 and 1999. 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.

	2000	1999
	(all amounts expressed in millions of Won)	
Impaired loans with an allowance	2,097,618	2,063,915
Impaired loans without an allowance	398,517	736,505
Total impaired loans	2,496,135	2,800,420
Allowance for impaired loans under SFAS 114	987,102	1,061,085
Average balance of impaired loans during the year	2,922,831	3,521,344
Interest income recognized on impaired loans during the year[1]	26,913	65,371

(1) Had the impaired loans performed in accordance with their original terms, additional interest income of 117,728 million Won, 22,588 million Won and 33,028 million Won would have been recorded in 2000, 1999 and 1998, respectively.

As discussed in Note 1, adverse economic conditions in the Korean economy may continue to have an adverse effect on debtors of the Bank. The Bank owns investment securities of, and has loans outstanding to, a number of Korean companies that have experienced financial difficulties. The ultimate collectibility 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:

	2000			1999		
	Loans	**Guarantees & acceptances**	**Total**	**Loans**	**Guarantees & acceptances**	**Total**
	(all amounts expressed in millions of Won)					
Allowance at January 1,	1,286,552	31,938	1,318,490	1,258,592	39,904	1,298,496
Allowance from acquisition of Jooeun Leasing	49,668	—	49,668	—	—	—
Provision for loan losses, guarantees and acceptances	378,000	(788)	377,212	306,151	(7,966)	298,185
Allowance relating to loans repurchased from (sold to) KAMCO	29,178	—	29,178	(5,744)	—	(5,744)
Allowance relating to loans sold to other companies	(48,529)	—	(48,529)	(17,071)	—	(17,071)
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	(423,190)	—	(423,190)	(244,186)	—	(244,186)
Recoveries	29,647	—	29,647	16,420	—	16,420
Foreign currency translation	15,480	2,286	17,766	7,000	—	7,000
Other	220	(189)	31	(7,413)	—	(7,413)
Allowance at December 31,	1,317,026	33,247	1,350,273	1,286,552	31,938	1,318,490

The allowance for guarantees and acceptances in the above table is included in 'Other liabilities' in the consolidated balance sheet.

Investment in capital leases

The Bank originates direct financing leases on certain machinery, computers, and various other equipment for customers in variety of industries throughout Korea. Income attributable to the leases is initially recorded as unearned income and subsequently recognized as interest income using the straight-line method, which approximates the effective interest method, over the term of leases. The terms of leases are generally from 3 to 12 years. The components of the net investment in direct financing leases at December 31, 2000, which are included in 'Loans,' are as follows:

	2000
	(all amounts expressed in millions of Won)
Gross lease payment receivable	324,465
Estimated unguaranteed residual values	8,811
Unearned income	(69,552)
Total	263,724

The scheduled maturities of minimum lease payments outstanding at December 31, 2000, expressed as a percentage of total, are due approximately as follows:

	2000
Within 12 months	27.1%
13 to 24 months	20.3%
25 to 36 months	14.0%
37 to 48 months	12.6%
After 48 months	26.0%
Total	100.0%

13. Premises and equipment

Premises and equipment at December 31, 2000 and 1999 were as follows:

	2000	1999
	(all amounts expressed in millions of Won)	
Land	187,193	187,453
Building and leasehold improvements	645,689	558,139
Equipment and furniture	397,306	338,722
Total	1,230,188	1,084,314
Less: Accumulated depreciation and amortization	(402,810)	(339,678)
Premises and equipment, net	827,378	744,636

The Bank incurred depreciation expense of 96,559 million Won, 75,957 million Won and 60,599 million Won for the years ended December 31, 2000, 1999 and 1998, respectively.

14. 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 or equal to fifty percent ("Affiliates"). Equity in net income or loss of the Affiliates is presented separately in the consolidated statements of income.

On January 20, 2000, the Bank acquired an additional 35% ownership in Jooeun Leasing Co., Ltd., bringing its total ownership to 85%. As a result, Jooeun Leasing Co., Ltd. was consolidated during 2000, while it was accounted for under the equity method in 1999. The table below presents summarized financial information for the Bank's investments accounted for under the equity method during 2000 and 1999.

The Bank's investments in Affiliates, accounted for under the equity method were as follows:

	Country of incorporation	Percentage of ownership
As of December 31, 2000:		
Jooeun Credit Information Co., Ltd.	Korea	50%
ING Life Insurance Korea Co., Ltd.	Korea	20%
Korea Asset Investment Co., Ltd.	Korea	25%
As of December 31, 1999:		
Jooeun Credit Information Co., Ltd.	Korea	50%
Jooeun Leasing Co., Ltd.	Korea	50%

The net undistributed losses of these Affiliates were 16.0 billion Won and 164.3 billion Won as of December 31, 2000 and 1999, respectively. The Bank recognizes its share of cumulative net income subsequent to the acquisition date. A gain of 3.4 billion Won and a loss of 82.0 billion Won were recorded as of December 31, 2000 and 1999, respectively. Investments in and loans to these Affiliates, included in 'Other assets,' as of December 31, 2000 and 1999 were 45.0 billion Won and 109.9 billion Won, respectively, after recognition of the Bank's share of Affiliates' gains (losses).

Summary financial information of Affiliates at December 31, 2000 and 1999 is presented below:

	2000	1999
	(all amounts expressed in millions of Won)	
Balance sheet		
Assets	623,642	292,842
Liabilities	561,586	418,918
Stockholders' equity (deficit)	62,056	(126,076)
Statement of Income		
Net interest income (loss) after provision for credit losses	17,647	(45,055)
Noninterest income	415,392	24,336
Noninterest expense	415,769	18,594
Income (loss) before income tax	17,270	(39,313)
Income tax expense	2,300	115
Net income (loss)	14,970	(39,428)

15. Deposits

Due to depositors as of December 31, 2000 and 1999, and the weighted average interest rates on deposits at December 31, 2000, were as follows:

	2000	1999	Weighted Average Rate Paid for 2000
	(all amounts expressed in millions of Won)		
Interest-bearing deposits:			
Interest-bearing demand deposits	8,943,541	7,394,239	2.44%
Savings deposits	1,002,483	920,111	3.28%
Certificate of deposit accounts	149,643	41,225	6.11%
Other time deposits	32,647,156	20,075,244	7.84%
Mutual installment deposits	4,442,268	4,839,129	8.98%
Total interest-bearing deposits	47,185,091	33,269,948	6.87%
Noninterest bearing deposits:			
Demand accounts	93,926	109,385	
Total due to depositors	47,279,017	33,379,333	

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 may not be as favorable as those associated with a loan requested after the completion of the deposit contract term.

The contractual schedule of maturities of certificate of deposits, other time deposits, and mutual installment deposits at December 31, 2000 was as follows:

	2000
	(all amounts expressed in millions of Won)
2001	30,733,318
2002	3,028,645
2003	2,637,378
2004	326,936
2005	265,609
Thereafter	247,181
Total deposits	37,239,067

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 principal amount plus an agreed interest rate. Deposits made after July 31, 1998 greater than 20 million Won are insured for their full principal amount. Starting January 1, 2001, the KDIC insures up to a total of 50 million Won per depositor in each bank, regardless of the timing or size of the deposits.

16. Other borrowed funds

A summary of other borrowed funds at December 31, 2000 and 1999 is presented below:

	2000		1999	
	Outstanding[1] Balance	Weighted Average Interest Rate	Outstanding[1] Balance	Weighted Average Interest Rate
	(all amounts expressed in millions of Won, except interest rate data)			
H&CB				
Borrowings from the Bank of Korea	151,564	3.71%	71,431	6.11%
Borrowings in foreign currency	823,705	6.62%	686,706	7.73%
Short-term finance debentures in foreign currency	81,788	7.51%	106,522	6.82%
Other borrowings	953,265	6.21%	300,407	8.08%
Total H&CB other borrowed funds	2,010,322	6.24%	1,165,066	7.64%
Subsidiaries				
Borrowings from H&CB Trust Accounts	39,700	12.70%	87,250	11.46%
Borrowings from other financial institutions	165,481	10.75%	214,045	9.22%
Total subsidiaries, other borrowed funds	205,181	11.36%	301,295	9.87%
Total other borrowed funds	2,215,503	6.69%	1,466,361	8.10%

(1) Original maturities of less than one year.

17. Secured borrowings

During 2000 and 1999, the Bank transferred certain non-performing loans and impaired bonds to four special purpose entities. In accordance with SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," these transactions have been accounted for as secured borrowings.

The following table is a summary of secured borrowings (net of unamortized original issue discount) at December 31, 2000 and 1999.

	2000			1999
	Collateral	Maturity	Borrowing	Borrowing
	(all amounts expressed in millions of Won)			
9.74%-10.54% Senior Mortgage-backed securities	121,802	2001	40,000	85,000
9.98% Senior Collateralized bond obligation		2001	177,000	—
13.00%-13.50% Subordinated Collateralized bond obligation	273,506	2003-2004	64,400	—
1.00% Subordinated Collateralized bond obligation		2005	20,300	—
9.62%-10.12% Senior Mortgage-backed securities	232,164	2001-2002	72,000	—
9.24%-9.54% Senior Mortgage-backed securities	152,944	2001	85,000	—
4.9%-6.2% Secured Deposits	1,259,170	2001	788,915	449,420
Gross secured borrowings			1,247,615	534,420
Less: Unamortized discount			(296)	(736)
Total secured borrowings	2,039,586[1]		1,247,319	533,684

(1) Collateral consists of non-performing loans and impaired bonds. Amounts are disclosed at par value.

18. Long-term debt

The following table is a summary of long-term debt (net of unamortized original issue discount) at December 31, 2000 and 1999.

	Maturity Date	2000 Total	1999 Total
	(all amounts expressed in millions of Won)		
Senior			
H&CB:			
Won currency:			
5.0%-6.5% Ministry of Finance and Economy notes	2001-2019	288,798	302,312
3.0% National Housing Fund notes	2001	—	397,267
8.0% National Housing Fund notes	2001-2009	9,901	10,000
4.0%-9.5% Industrial Bank of Korea notes	2001-2008	156,798	192,725
6.1%-11.99% H&CB Finance Debentures	2001-2003	515,000	329,000
5.5%-16.46% Housing Debentures	2001-2005	207,931	718,341
7.51%-9.3% Floating rate Housing Debentures[2]	2001	50,000	90,900
3.5%-9.76% Notes	2001-2010	127,532	154,984
Subtotal		1,355,960	2,195,529
Foreign currency:			
5.0% -7.91% Floating rate Finance Debentures[2]	2003	326,497	114,540
0.53%-8.8% Other floating rate notes[1][2]	2001-2006	200,396	515,418
Subtotal		526,893	629,958
Subsidiaries:			
3.0%-9.0% National Housing Fund notes	2001-2027	126,596	111,689
9.38% National Housing Fund notes	2001-2006	106,277	6,558
3.0%-8.5% Notes	2002-2014	82,185	1,164
Subtotal		315,058	119,411

	Maturity Date	2000 Total	1999 Total
	(all amounts expressed in millions of Won)		
Subordinated			
H&CB:			
Won currency:			
9.0% Handuk Life Insurance notes	2004	—	10,000
8.69% Daehan Life Insurance notes	2007	150,000	150,000
8.5% Kyobo Life Insurance notes	2007	100,000	100,000
8.65%-15.02% H&CB Finance Debentures	2003-2009	174,900	174,900
15.30% H&CB Finance Debentures	2002	40,000	40,000
7.51%-8.51% Floating rate H&CB Finance Debentures(2)	2003-2004	348,200	348,200
7.51%-8.51% Floating rate Housing Debentures(2)	2003-2004	79,000	79,000
8.65%-9.65% H&CB Finance Debentures	2006-2010	666,026	—
Subtotal		1,558,126	902,100
Gross long-term debt		3,756,037	3,846,998
Less: Unamortized discount		(52,617)	(71,478)
Total long-term debt, net		3,703,420	3,775,520

(1) During 2000, the Bank redeemed all of its remaining redeemable long-term debt of 492,984 million Won.
(2) Interest rates on floating rate debt are those rates in effect at December 31, 2000.

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 formula 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.

H&CB Finance Debentures represent discounted borrowings issued under the Banking Act for the purpose of general funding. It is intended to be a primary source of funding for the Bank in the future.

During 2000, the Bank retired early 3% National Housing notes and 9.0% Handuk Life Insurance notes at par. As the retirements were at par, no gain or loss was recognized.

The combined aggregate amount of contractual maturities of all long-term debt at December 31, 2000 was as follows:

	2000
	(all amounts expressed in millions of Won)
Due in 2001	485,786
Due in 2002	365,392
Due in 2003	1,175,973
Due in 2004	264,220
Due in 2005	87,682
Thereafter	1,376,984
Total long-term debt	3,756,037

19. Preferred stock

The number of preferred shares outstanding at December 31, 2000 and 1999 was as follows:

	2000	1999
	(all amounts expressed in thousands)	
Beginning balance	59,300	59,300
Redemption of shares	(41,510)	—
Ending balance	17,790	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"). 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, 2000 and 1999, the KDIC bonds were netted against the preferred shares in stockholders' equity since both instruments related to the same transaction.

At the Annual Shareholders Meeting in February 1999, it was determined that the holders of preferred shares would not be paid a cash dividend. As a result, the preferred shares became entitled to voting rights equivalent to those of holders of the same number of common shares, and had retained such rights until it was determined that the preferred shareholders would receive dividends. At the Annual Shareholders Meeting in February 2000, cash dividends were declared and paid to the holders of preferred share. Therefore, preferred shares no longer retain such voting rights.

The Bank repurchased 41.5 million preferred shares at par value from KDIC on January 31, 2000 and February 1, 2000, for 207.6 billion Won. Subsequent to the redemption of the preferred shares, KDIC redeemed 207.6 billion Won of its corporate bonds.

20. Common stock

The number of common stock outstanding at December 31, 2000 and 1999 was as follows:

	2000	1999
	(all amounts expressed in thousands)	
Beginning balance	109,063	89,233
Issuance of shares	—	9,915
Stock dividend	10,906	9,915
Ending balance	119,969	109,063

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, representing approximately 10% of the total outstanding shares, at a price of 33,500 Won per share. Pursuant to the related investment agreement, III 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.

Further, ING holds certain rights under the investment agreement which provide ING with the ability to prevent dilution to its percentage ownership.

Provisions of certain agreements related to this transaction permit ING to appoint one standing executive director and one non-standing executive director to the board of directors of the Bank. In conjunction with the share transfer and joint venture agreements entered into by III and the Bank on November 24, 1999, the Bank on January 11, 2000 purchased one million common shares of ING Life Insurance Company, Korea, Ltd. ("ILI") while III purchased 1.2 million common shares of Jooeun Investment Trust Management Co., Ltd. ("JIT"). In connection with the pending merger with Kookmin Bank, the Bank and III have agreed to renegotiate the terms of the agreements.

21. Retained earnings

Retained earnings consist of the following as of December 31, 2000 and 1999:

	2000	1999
	(all amounts expressed in millions of Won)	
Appropriated retained earnings:		
Legal reserve	221,165	169,000
Reserve for business rationalization	101	62
Reserve for overseas investment losses	4,664	5,555
Other statutory reserves	25	23
Voluntary reserve	314,134	—
Unappropriated retained earnings	23,531	174,810
Total	563,620	349,450

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 Japanese Yen. This reserve is used only to reduce any accumulated deficit incurred by the Japanese branch.

The voluntary reserve does not have any specified purpose and may be restored to unappropriated retained earnings through shareholders' resolution.

22. 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, 2000 and 1999, the non-owner equity changes are composed of foreign currency translation adjustments, minimum pension liability 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:

	2000	1999
	(all amounts expressed in millions of Won)	
Foreign currency translation adjustments	6,156	(1,675)
Tax (expense) benefit attributable to foreign currency translation adjustments	(1,896)	516
Net foreign currency translation adjustments	4,260	(1,159)
Unrealized holding gains (losses) arising on Equity investee securities available for sale during the year	65	(418)
Tax (expense) benefit attributable to unrealized holding gains (losses) arisen during the year	(20)	126
Net unrealized holding gains (losses)	45	(292)
Unrealized holding gains (losses) arising on Securities available for sale and related swaps during the year	152,396	(310,872)
Tax (expense) benefit attributable to unrealized holding gains (losses) arisen during the year	(46,938)	95,749
Net unrealized holding gains (losses)	105,458	(215,123)
Total components of other comprehensive income (loss)	109,763	(216,574)

23. Regulatory requirements

In conformity with the Financial Supervisory Services ("FSS") and the Basle Committee on Banking Regulations and Supervisory Practices/Bank for 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 FSS 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 guidelines, that are materially consistent with BIS guidelines, utilizing the Bank's consolidated financial statements prepared in accordance with accounting principles generally accepted in the Republic of Korea.

	2000	1999
	(all amounts expressed in billions of Won, except capital ratio)	
Tier 1 Capital		
Total Tier 1 Capital	2,087.7	1,793.7
Tier 2 Capital		
Total Tier 2 Capital	1,739.8	1,243.5
Less: Investment in a non-consolidated affiliate(1)	47.2	—
Total risk-adjusted Capital	3,780.3	3,037.2
Total Risk-Weighted Assets		
On-balance sheet assets	35,596.1	24,927.3
Off-balance sheet assets	2,507.0	943.9
Total risk-weighted assets	38,103.1	25,871.2
Total Assets	61,886.5	46,651.3
Capital Adequacy Ratio(%)		
Tier 1 capital ratio(%)	5.48	6.93
Tier 2 capital ratio(%)	4.57	4.81
Capital adequacy ratio(%)	9.92	11.74

(1) The Bank has a minority equity investment in 2000 in an insurance company, ING Life Insurance Korea Co., which is deducted from total capital, not deducted directly from Tier 1 or Tier 2 pursuant to the guidelines of the FSS.

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.

24. Income taxes

The components of income tax expense for the years ended December 31, 2000 and 1999 were as follows:

	For the year ended December 31, 2000	For the year ended December 31, 1999
	(all amounts expressed in millions of Won)	
Federal:		
Current	230,845	287,860
Deferred	(9,339)	(45,012)
Total federal income tax expense	221,506	242,848
Local:		
Current	23,085	28,786
Deferred	(934)	(4,130)
Total local income tax expense	22,151	24,656
Total income tax expense	243,657	267,504

The preceding table does not reflect the tax effects of unrealized gains and losses on securities available-for-sale. 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:

	2000	1999
	(all amounts expressed in millions of Won)	
Profit before tax for the year ended December 31,	752,277	808,161
Prima facie tax calculated at a statutory tax rate	231,701	248,914
Income not assessable for tax	(7,257)	(5,293)
Expenses not deductible for tax purposes	2,373	6,954
Losses carried forward, not recognized	58,838	24,739
Adjustment for overseas tax rates	(5,176)	(12,049)
Equity in net income (loss) of Affiliates	(40,415)	6,072
Other	3,593	(1,833)
Income tax expense	243,657	267,504

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2000 and 1999 are as follows. Certain items, including valuation of securities available for sale are excluded from the calculation of deferred tax benefit (expense).

	2000	1999
	(all amounts expressed in millions of Won)	
Deferred tax assets:		
Allowance for loan losses	72,279	99,613
Allowance for guarantees and acceptances	10,240	9,837
Impairment of securities	64,126	20,168
Amortization of securities	24,402	—
Foreign exchange adjustments	—	16,585
Retirement benefits	309	—
Other temporary differences	19,600	24,912
Net operating loss	40,097	7,427
Total gross deferred tax assets	231,053	178,542
Less: valuation allowance	(44,408)	(8,219)
	186,645	170,323
Deferred tax liabilities:		
Interest income accrual	37,532	46,533
Derivatives valuation	4,679	19,275
Valuation of trading securities	23,195	6,367
Foreign exchange adjustments	149	—
Other temporary differences	20,163	7,494
Total gross deferred tax liabilities	85,718	79,669
Net deferred tax assets	100,927	90,654

Deferred tax assets are recognized only to the extent that realization of the related tax benefit is more likely than not. Nine subsidiaries have tax losses to carry forward against future taxable income that will expire in various amounts over the next five years. The full benefit of these losses has not been recognized in the financial statements due to the uncertainty of their recovery. Under Korean Tax, the deductibility of net operation losses expires 5 years subsequent to their origination.

25. 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 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 Bank's shares) based on the monetary value of the subscription rights attached to outstanding share options. This calculation serves to determine the "un-purchased" 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 March 24, 2001, the shareholders approved a 10% stock dividend to be distributed in April 2001. 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,	
	2000	1999
	(all amounts expressed in millions of Won, except per share data)	
Basic Earnings Per Share:		
Net income applicable to common stockholders	506,061	540,665
Weighted average number of common shares outstanding (in thousands)	119,969	113,748
Net Income Per Share	4,218.26	4,753.18
Diluted Earnings Per Share:		
Net income applicable to common stockholders	506,061	540,665
Weighted average number of common shares outstanding (in thousands)	119,969	113,748
Dilutive effect of convertible preferred shares (in thousands)	21,371	59,300
Dilutive effect of share options (in thousands)	438	449
Dilutive weighted average common shares outstanding (in thousands)	141,778	173,497
Net Income Per Share	3,569.39	3,116.28

The diluted share base for the year ended December 31, 2000 excludes incremental shares of 267,000 related to the stock option plans. These shares are excluded due to their antidilutive effect.

26. 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 employee benefit 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, 2000 and 1999 are as follows:

	2000	1999
	(all amounts expressed in millions of Won)	
Balance at January 1,	339,791	348,795
Benefit plan expense	61,992	62,136
Plan payments	(84,423)	(71,140)
Balance at December 31,	317,360	339,791

27. Stock-based compensation

Incentive Stock Option Plan

The Incentive Stock Option Plan ("Incentive Plan") was established on October 31, 1998 after adoption by the Board of Directors and approval by shareholders. The Incentive Plan provides for the grant of stock options to certain directors and employees. In accordance with the Incentive Plan, options are granted at a stated exercise price and vest over 3 years. Upon vesting, options may be exercised up to six years from the grant date. If a director or an employee resigns or ceases to be employed by the Bank during the vesting period, that director or employee retains the right to exercise options earned on a pro-rata basis over the vesting period. Exercised options can be settled through the payment of cash or the issuance of shares at the Bank's discretion.

On October 31, 1998, the Bank granted 300,000 share options at a price of 5,000 Won per share, which expire on October 31, 2004. An additional 280,000 share options were granted on February 27, 1999 at a price of 13,900 Won per share and expire on February 27, 2005. On February 28, 2000, the Bank granted an additional 267,000 share options at a price of 27,600 Won per share, which expire on February 27, 2006. Also on February 28, 2000, a director who was granted 30,000 shares option resigned and thereby, forfeited 20,000 of the total 30,000 options granted. The Bank has recognized 419 million Won of compensation expense in 2000 under its incentive stock option plans, net of 51 million Won for shares forfeited.

President Stock Option Plan

The President Stock Option Plan (the "President's Plan") was established on October 31, 1998 after adoption by the Board of Directors and approval by shareholders. The President's Plan provides for the grant of stock options to the President if certain measurement criteria have been met. In accordance with the President's Plan, 100,000 options will be granted if the stock price of the Bank is the highest among the stocks of banks listed on the Korea Stock Exchange on the basis of average price of daily closing price announced for three months (August 31, 2001 — October 31, 2001) prior to the launch of exercise period (or in the case of premature retirement, prior to the date of retirement). These options vest over a three-year period beginning on October 31, 1998 and may be exercised up to six years from the grant date. Exercised options can be settled through the payment of cash or the issuance of shares at the Bank's discretion.

For the year ended December 31, 2000, the Bank reduced compensation expense by 730 million Won due to a decrease in stock price from 36,000 Won on December 31, 1999 to 28,700 Won on December 31, 2000.

The following table summarizes information about stock options outstanding and market value at award date.

	2000	1999	1998
	Number of Stock Options	Number of Stock Options	Number of Stock Options
Stock options outstanding,			
Beginning of year	580,000	300,000	—
Shares granted	267,000	280,000	300,000
Exercised	—	—	—
Forfeited	(20,000)	—	—
Stock options outstanding, end of year	827,000	580,000	300,000
Market value at award date (Won)	19,750	18,950	5,430

For the year ended December 31, 1999, the Bank recognized 3,892 million Won in compensation expense for the shares granted.

The following table summarizes information about stock options outstanding at December 31, 2000. At December 31, 2000, 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	2.8 Years	5,000	12,530
13,900	260,000	3.2 Years	13,900	27,195
27,600	267,000	4.2 Years	27,600	9,989
5,000-27,600	827,000	3.4 Years	15,095	

As permitted by SFAS No. 123, "Accounting for Stock-Based Compensation," the Bank has chosen to apply Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related Interpretations in accounting for the Incentive Plan and the President's Plan. Had these plans 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, and earnings per share data would have been as follows:

	2000		1999		1998	
	As Reported	Pro Forma	As Reported	Pro Forma	As Reported	Pro Forma
	(all amounts expressed in millions of Won, except per share data)					
Compensation expense related to stock options	(311)	4,629	3,892	6,523	13	485
Net income	506,061	502,643	540,665	538,844	127,910	127,583
Earnings per share:						
Basic	4,218.26	4,189.77	4,753.18	4,737.17	1,248.50	1,245.30
Diluted	3,569.39	3,545.27	3,116.28	3,105.79	1,242.32	1,239.14

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 2000, 1999, and 1998 are as follows:

	Year Ended December 31		
	2000 Grants	1999 Grants	1998 Grants
Dividend yield	3.90%	1.80%	0.00%
Expected volatility	79.79%	75.38%	77.13%
Risk-free interest rate	8.99%	10.05%	7.25%
Expected option life	5.0 years	5.0 years	5.0 years

28. 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 and describes 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 carrying values of certain financial assets and liabilities, 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, approximate 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, held to maturity securities 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 factors such as 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 and borrowings 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. The contract amount of commitments to extend credit was 22,405 million Won for 1999. This amount was reduced to zero in 2000. The amounts of unused line of credit were 12,976,751 million Won and 9,112,065 million Won for 2000 and 1999, respectively. Letters of credit and financial guarantees had a combined contract value of 405,493 million Won and 472,399 million Won for 2000 and 1999, respectively. These financial instruments are transacted at the Bank's current pricing levels. The fair values of guarantees, commercial letters of credit, standby letters of credit, and other lending commitments are immaterial to the financial statements.

The estimated fair values of the Bank's financial instruments at December 31, 2000 and 1999 were as follows:

	2000		1999	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(all amounts expressed in millions of Won)			
Financial assets:				
Cash and due from banks	1,154,195	1,154,195	1,280,960	1,280,960
Restricted deposits	425,937	425,937	930,967	930,967
Interest-bearing deposits in other banks	329,696	330,093	318,110	312,702
Call loans and securities purchased under resale agreements	719,679	719,679	75,621	75,621
Trading account assets	2,548,546	2,548,546	2,371,009	2,371,009
Securities available for sale	5,782,117	5,782,117	4,359,742	4,359,742
Held-to-maturity securities	2,182,085	2,240,415	2,659,657	2,659,216
Loans and leases, net	44,926,644	45,341,587	30,869,296	30,867,235
Accrued interest receivable	381,062	381,062	378,076	378,076
Other assets	798,235	815,240	512,508	515,660
Financial liabilities:				
Noninterest-bearing deposits	93,926	93,926	109,385	109,385
Interest-bearing deposits	47,185,091	47,434,226	33,269,948	33,564,485
Call money	51,323	51,323	758,000	758,000
Trading account liabilities	31,197	31,197	3,950	3,950
Other borrowed funds	2,215,503	2,215,503	1,466,361	1,466,361
Accrued interest and dividends payable	2,678,396	2,678,396	2,523,475	2,523,475
Secured borrowings	1,247,319	1,257,925	533,684	533,684
Long-term debt	3,703,420	3,820,193	3,775,520	3,724,124

Fair values for derivative financial instruments are disclosed in Note 29.

29. 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.

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 the possibility that loss may occur from counterparty failure to perform according to the terms of an agreed contract. 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 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 meet the criteria for hedge accounting under US GAAP and are therefore shown within "(a) Derivative financial instruments and foreign exchange contracts — 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 and foreign exchange contracts — 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, 2000 are noted below:

	2000				
	Notional Amount	Estimated Fair Value Assets	Estimated Fair Value Liabilities	Average Fair Value Assets	Average Fair Value Liabilities
	(all amounts expressed in millions of Won)				
Interest rate swaps[1]	25,300	789	(22)	107	(232)
Cross-currency swaps[1]	327,003	106,294	—	101,325	—
Foreign-exchange contracts:					
Spot, forwards, and futures purchased	190,403	2,242	(210)	651	(969)
Spot, forwards, and futures sold	705,706	243	(31,435)	2,453	(5,040)

(1) Notional amounts in U.S. Dollar were converted into Won at December 31, 2000 at exchange rate of 1,265 Won.

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				
	Notional Amount	Estimated Fair Value Assets	Estimated Fair Value Liabilities	Average Fair Value Assets	Average Fair Value Liabilities
	(all amounts expressed in millions of Won)				
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 U.S. Dollar were converted into Won at December 31, 1999 at exchange rate of 1,140 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.

	2000	1999
	(all amounts expressed in millions of Won)	
Interest rate and cross-currency swaps	3,383	7,087
Foreign-exchange contracts	67,559	25,219
Net trading gain on foreign exchange contracts and derivative financial instruments	70,942	32,306

(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:

	2000			1999		
	Notional Amount(1)	Unrealized Gains	Unrealized Losses	Notional Amount(1)	Unrealized Gains	Unrealized Losses
	(all amounts expressed in millions of Won)					
Interest rate swaps	19,861	—	(445)	32,519	883	(913)

(1) Notional amounts in U.S. Dollar were converted into Won at December 31, 2000 and 1999 exchange rate of 1,265 and 1,140 Won, respectively.

30. Contingent liabilities and commitments

In the normal course of business, there are various outstanding commitments and contingent liabilities that have not been reflected in the consolidated financial statements. In addition, in the normal course of business, there are various other outstanding legal proceedings. In the opinion of management, after consultation with legal counsel, the financial position and results of operations of the Bank will not be affected materially as a result of such commitments and contingent liabilities or by the outcome of such legal proceedings.

The principal commitments and contingent liabilities of the Bank are discussed in the following paragraphs.

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, 2000 and 1999. Pursuant to the Settlement Agreement, the Bank purchased additional 490,170 shares of common stock of SKS for US$2,130,759 which equals 2,405 million Won at the October 16, 2000 exchange rate. On acquisition of the additional shares on October 16, 2000, the Bank recognized a loss of 1,341 million Won due to the difference between the acquisition price and the quoted market price on the date of acquisition.

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 Seoul District Court Southern Branch and the Seoul High Court. That decision is, however, being appealed to the Supreme Court. 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, 2000 and 1999, but not recognized in the financial statements, related to the purchase of property and equipment totaled 16,020 million Won and 4,908 million Won, respectively.

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 purchased a 20% interest in ING Life Insurance Company, Korea, Ltd. ("ILI") and sold a 20% interest in Jooeun Investment Trust Management Co., Ltd. ("JIT") to ING Insurance International B.V. The Bank is further obligated to purchase additional percentages of ILI and concurrently, sell equal percentages of JIT to ING Insurance International B.V. at fair value. Under the terms of the agreements, each of the 20% shareholdings will be increased by 15% after March 31, 2000 over the next 3 years, bringing total ownership to 35%.

In addition, if the insurance business of ILI reaches certain levels, then the Bank will be obligated to purchase up to 50% of ILI and ING Insurance International B.V. will be obligated to purchase up to 50% of JIT. In connection with the pending merger with Kookmin Bank, additional purchases and the terms of the share transfer and joint venture agreements will be renegotiated.

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, 2000 and 1999, the allowance for credit losses on credit-related commitments was 29,564 million Won and 31,938 million Won, respectively, which is reported in 'Other liabilities'.

At December 31, 2000 and 1999, the following financial instruments were outstanding whose contract amounts represent credit risk to the Bank:

	Contract Amount	
	2000	1999
	(all amounts expressed in millions of Won)	
Guarantees	255,563	278,512
Commercial letters of credit	149,930	193,887
Unused lines of credit:		
Commercial	3,933,463	2,116,496
Consumer	9,043,288	6,995,569
Commitments to extend credit:		
Original term to maturity of more than one year	—	22,405
Interest rate swaps (unrealized gain)	—	883

Lease commitments

Pursuant to the terms of noncancelable lease agreements in effect at December 31, 2000 pertaining to office space, premises and equipment, future minimum rent commitments under various operating leases were as follows:

	Year ended December 31, 2000
	(all amounts expressed in millions of Won)
2001	3,145
2002	2,361
2003	1,855
2004	1,202
2005	1,180
Thereafter	1,762
Total	11,505

Total rental expense for the years ended December 31, 2000 and 1999 was 523 million Won and 4,424 million Won, respectively. In lieu of rent, certain lease agreements require the Bank to advance a noninterest bearing refundable deposit to the landlord for the landlord's use during the lease term. The amount of the advance is determined by the prevailing market rate. The additional rent expense under such agreements is immaterial to the financial statements.

31. 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:

	2000			1999		
	Credit Exposure	On-Balance Sheet	Off-balance Sheet	Credit Exposure	On-Balance Sheet	Off-balance Sheet
	(all amounts expressed in millions of Won)					
Credit cards	11,248,013	2,881,259	8,366,754	7,232,431	1,216,213	6,016,218
Residential mortgages	20,987,156	20,987,156	—	17,246,119	17,246,119	—
Installment and other consumer loans	12,606,096	11,758,406	847,690	7,454,950	6,475,599	979,351
Corporate loans	13,572,174	9,809,867	3,762,307	7,733,436	5,594,535	2,138,901
Commercial real estate loans	771,173	771,173	—	1,601,338	1,601,338	—
Total	59,184,612	46,207,861	12,976,751	41,268,274	32,133,804	9,134,470

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 loan to KHGC of 480 billion and 333 billion Won as of December 31, 2000 and 1999, respectively. In addition, KHGC has guarantees outstanding on 44 billion and 147 billion Won of the Bank's loans to construction companies, of which 25 billion and 97 billion Won are classified as impaired for December 2000 and December 1999, respectively. The Bank has provided for loan losses directly associated with the KHGC of 153 billion and 126 billion Won at December 31, 2000 and 1999, respectively. This calculation considers estimated future cash flows from KHGC under the loan workout plan and the estimated value of the Bank's equity investment as determined by the management of the Bank. The Bank anticipates that the government of the Republic of Korea will inject cash of 1,279 billion Won into KHGC which in turn will be used to pay off debt to creditors of KHGC. In addition, the Bank will convert its remaining debt to equity in KHGC. 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 17.8 billion and 15.9 billion Won as of December 31, 2000 and 1999, respectively. These securities were received on conversion of 82.2 billion Won of KHGC's loans as part of a previous loan workout plan.

32. 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 (the "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 6.5% for the Low-Income Household loans and 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 19). The Bank repurchased 41.5 million preferred shares in total at par from KDIC on January 31 and February 1, 2000, respectively. Corresponding amounts of the bonds were redeemed by KDIC on the same dates.

Housing Finance Credit Guarantee Fund

Prior to January 1, 1999, the Bank managed the Housing Finance Credit Guarantee Fund (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, 2000 and 1999, these fees amounted to 4.5 billion Won and 4 billion Won, respectively.

The outstanding balances at December 31, 2000 and 1999 and the related expense and income for the years then ended for related party transactions were as follows:

	2000				1999			
	KDIC	Trust Accounts[(1)]	NHF	HFCGF	KDIC	Trust Accounts[(1)]	NHF	HFCGF
	(all amounts expressed in millions of Won)							
Investment securities	1,588,642	—	—	—	2,129,518	—	—	—
Loans	190,000	—	—	—	190,000	—	—	—
Receivable	10,703	—	—	—	15,191	—	—	—
Interest bearing demand deposits	—	565,233	—	—	—	333,171	—	—
Borrowings	—	—	9,901	—	—	—	407,266	—
Preferred stocks	88,950	—	—	—	296,500	—	—	—
Interest income on securities	147,988	—	—	—	118,474	—	—	—
Interest income on loans	12,058	—	—	—	30,622	—	—	—
Fees and commission income	—	63,939	158,546	4,495	—	74,788	152,141	4,163
Interest expense	—	18,552	5,360	—	—	25,989	7,623	—
Trust performance payments	—	95,001	—	—	—	53,000	—	—
Fees and commission expense	—	—	—	20,249	—	—	—	17,421

(1) See Note 35

33. Principal subsidiary undertakings and minority interest

	Country of incorporation	Percentage Ownership
Jooeun Investment Trust Management Co., Ltd.	Korea	80%
Jooeun Real Estate Trust Co., Ltd.	Korea	100%
Jooeun Industrial Co., Ltd.	Korea	100%
H&CB Finance Ltd. (H.K.)	Hong Kong	100%
Jooeun Leasing Co., Ltd.	Korea	85.4%
Frontier Investment Co., Ltd.	Korea	100%
H&CB9901 ABS Specialty Co., Ltd.	Korea	15%(1)
H&CB0002 ABS Specialty Co., Ltd.	Korea	15%(1)
H&CB0003 ABS Specialty Co., Ltd.	Korea	15%(1)
Jooeun Real Estate Co. (JERECO) Asset Securitization Specialty Co., Ltd.(2)	Korea	15%(1)

(1) H&CB ABS Specialty Co., Ltd. 1, 2, 3, and JERECO securitization vehicles, have been included in the consolidated financial statements of the Bank at December 31, 2000 as the majority owner has only a nominal capital investment.

(2) JERECO Asset Securitization Specialty Co., Ltd., a subsidiary of Jooeun Real Estate Trust Co., Ltd., was established during 2000.

All holdings are in the common shares of the undertaking concerned.

34. Segment reporting

For management reporting purposes, only the Bank's business segment results under Korean Generally Accepted Accounting Principles ("KGAAP") are reported to management. The Bank is organized into four major business segments: Retail Banking, Credit Card, Corporate Banking, and Treasury and Investment Management. During 2000, management began to separately measure the performance of the credit card business formerly included as part of the retail banking segment. As a result of this change in internal organization, segment information has been adjusted to separately disclose the credit card business for years ended December 31, 2000 and 1999. It is impracticable to present similar disclosures for the year ended December 31, 1998.

The 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:

- 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, consumer loans and mortgages.

- Credit card — The credit card segment's asset and liabilities are mainly with individuals or corporate cardholders and card merchants. The segment handles domestic as well as overseas credit and debit card operations.

- 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 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 the Bank, 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. The Bank does not allocate income tax expense to unprofitable segments.

Transactions between the business segments are reflected 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 be allocated to the segments and are included in 'Other'.

A summary of the business segment results is shown in the following table:

	Retail Banking	Credit Card	Corporate Banking	Treasury & Investment Management	Other	Total
			(in millions of Won)			
Year ended December 31, 2000						
Operating income	3,062,798	440,756	1,189,645	1,183,665	659,580	6,536,444
Operating expense	2,569,206	278,133	1,206,789	1,106,723	663,506	5,824,357
Segment operating result	493,592	162,623	(17,144)	76,942	(3,926)	712,087
Interest income	3,060,507	333,233	825,275	909,644	138,380	5,267,039
Interest expense	1,841,232	135,051	563,387	904,908	74,718	3,519,296
Net interest income	1,219,275	198,182	261,888	4,736	63,662	1,747,743
Provision for loan losses	69,416	44,924	287,156	(24,813)	66,301	442,984
Noninterest income	2,291	107,523	364,370	274,021	521,200	1,269,405
Noninterest expense	594,136	91,204	348,451	225,548	477,413	1,736,752
Net noninterest income (expense)	(591,845)	16,319	15,919	48,473	43,787	(467,347)
Depreciation	64,422	6,954	7,795	1,080	45,074	125,325
Profit (loss) before tax	493,592	162,623	(17,144)	76,942	(3,926)	712,087
Income tax expense (benefit)	150,200	49,486	(5,217)	23,413	(1,934)	215,948
Net profit (loss) for the period	343,392	113,137	(11,927)	53,529	(1,992)	496,139
US GAAP adjustments	(26,903)	27,558	59,146	(51,675)	24,070	32,196
Intercompany transactions	(30,168)	—	(43,403)	44,220	7,077	(22,274)
Consolidated net profit	286,321	140,695	3,816	46,074	29,155	506,061
Assets	34,059,640	2,916,732	10,638,336	11,849,966	2,540,987	62,005,661
US GAAP adjustments	(438,660)	(66,529)	28,114	(45,775)	(19,067)	(541,917)
Intercompany transactions	(81,583)	—	(88,148)	(414,828)	76,735	(507,824)
Consolidated assets	33,539,397	2,850,203	10,578,302	11,389,363	2,598,655	60,955,920

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Retail Banking	Credit Card	Corporate Banking	Treasury & Investment Management	Other	Total
			(in millions of Won)			
Year ended December 31, 1999						
Operating income	2,298,495	228,015	1,014,468	1,089,089	1,074,215	5,704,282
Operating expense	1,943,360	153,807	948,508	1,165,323	905,809	5,116,807
Segment operating result	355,135	74,208	65,960	(76,234)	168,406	587,475
Interest income	2,298,495	162,497	655,316	872,507	304,274	4,293,089
Interest expense	1,309,146	67,890	410,447	896,735	376,745	3,060,963
Net interest income (expense)	989,349	94,607	244,869	(24,228)	(72,471)	1,232,126
Provision for loan losses	17,936	12,600	301,872	—	37,968	370,376
Noninterest income	—	65,518	359,152	216,582	769,941	1,411,193
Noninterest expense	563,730	68,097	234,111	268,217	436,660	1,570,815
Net noninterest income (expense)	(563,730)	(2,579)	125,041	(51,635)	333,281	(159,622)
Depreciation	52,548	5,220	2,078	371	54,436	114,653
Profit (loss) before tax	355,135	74,208	65,960	(76,234)	168,406	587,475
Income tax expense (benefit)	114,000	24,847	21,331	(24,654)	83,590	219,114
Net profit (loss) for the period	241,135	49,361	44,629	(51,580)	84,816	368,361
US GAAP adjustments	(65,274)	(11,383)	(6,197)	96,221	131,752	145,119
Intercompany transactions	—	—	44,323	(12,735)	(4,403)	27,185
Consolidated net profit	175,861	37,978	82,755	31,906	212,165	540,665
Assets	24,814,561	1,007,539	7,512,626	10,392,070	3,992,267	47,719,063
US GAAP adjustments	7,915	(58,715)	276,121	(267,761)	(1,906,549)	(1,948,989)
Intercompany transactions	—	—	(504,589)	(28,823)	39,962	(493,450)
Consolidated assets	24,822,476	948,824	7,284,158	10,095,486	2,125,680	45,276,624

	Retail Banking	Corporate Banking	Treasury & Investment Management	Other	Total
		(in millions of Won)			
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 operating 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 (expense)	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 (expense)	(704,684)	237,458	(228,511)	116,672	(579,065)
Depreciation	46,462	1,671	298	84,999	133,430
Profit (loss) before tax	307,913	(209,251)	(147,256)	(340,998)	(389,592)
Income tax expense (benefit)	(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	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

The allowances for loan losses based on US GAAP allocated to each of the segments are as follows:

	Retail Banking	Credit Card	Corporate Banking	Treasury & Investment Management	Other	Total
			(in millions of Won)			
Allowances for loan losses						
As of December 31, 2000	138,443	71,895	1,016,848	—	89,840	1,317,026
As of December 31, 1999	108,745	68,000	1,065,327	—	44,480	1,286,552

Geographic segment disclosures have been excluded as revenues and assets attributable to external customers in foreign countries are not significant.

35. 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 principal 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 an expense related to the trust performance payments of 95,001 million Won and 53,006 million Won for the years ended December 31, 2000 and 1999, respectively. Of these Accounts, trust performance guarantees comprised 85,001 million Won for the year ended December 31, 2000 while no payment related to the trust guarantees for the year ended December 31, 1999. The remaining payments represent the Bank's voluntary reimbursement of trust losses incurred primarily as a result of holdings in the member companies of the Daewoo Group.

Details of the trust funds managed by the Bank at December 31, 2000 and 1999 based on accounting principles generally accepted in the Republic of Korea are set out below:

	Guaranteed Principal Money Trusts	Fixed Rate Money Trusts	Securities Investments Trusts	No Guarantee Money Trusts	Total
		(all amounts expressed in millions of Won)			
Trust net assets:					
Assets:					
Loans	197,624	172,349	—	1,610,210	1,980,183
Securities	679,106	252,569	15,499,589	3,437,095	19,868,359
Call loans	—	—	1,107,400	—	1,107,400
Other assets	70,490	7,600	1,657,507	399,805	2,135,402
Liabilities:					
Accrued allocations payable	14,409	6,741	1,592	97,192	119,934
Reserve for future trust losses	3,821	—	—	4,203	8,024
Other liabilities	15,698	409,040	157,233	124,669	706,640
Net assets at December 31, 2000	913,292	16,737	18,105,671	5,221,046	24,256,746

	Guaranteed Principal Money Trusts	Fixed Rate Money Trusts	Securities Investments Trusts	No Guarantee Money Trusts	Total
	(all amounts expressed in millions of Won)				
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

36. Merger with Kookmin Bank

On December 22, 2000 the Bank entered into a Memorandum of Understanding related to a contemplated merger with Kookmin Bank ("Kookmin"), which is engaged in the banking business in accordance with the provisions of the *General Banking Act* of Korea.

On April 23, 2001 the Bank and Kookmin signed a merger agreement (the "Merger Agreement") stipulating the terms of the merger. Currently, the effective date for consummation of the merger is scheduled to be October 31, 2001. The Merger Agreement may be cancelled at any time prior to the effective date of the merger if certain events occur. Such events include mutual agreement between the Bank and Kookmin, a material breach of a representation or warranty by either party, or the failure of the related registration statement to be filed with the Securities and Exchange Commission in the United States of America to be declared effective by a certain date. The merger will be effected through the creation of a holding company that acquires each bank through an exchange of shares. Shareholders of the Bank and Kookmin will receive shares in the holding company in exchange for their shares in the Bank and Kookmin, based on a pre-determined ratio. All of the Bank's and Kookmin's outstanding redeemable preferred stock will be exchanged on a one-for-one basis for preferred shares in the merged bank that have essentially the same terms. After the merger the former shareholders of the Bank will own 40.2% of the merged bank, and the former shareholders of Kookmin will own 59.8% of the merged bank.

It is currently contemplated that the merger will be accounted for as a purchase, with the Kookmin being the acquirer for accounting purposes. The assets and liabilities of the Bank will be recorded at fair value, with any excess of the purchase price over the fair value of the tangible and intangible assets and liabilities of the Bank being assigned to goodwill.

37. Subsequent events

On May 28, 2001, the Bank issued subordinated bonds of 200 billion Won for the purpose of enhancing the Bank's current BIS risk-adjusted capital ratio. The subordinated bonds consist of three tranches: (1) paying interest on a monthly basis, (2) paying interest on a quarterly basis and (3) zero coupon bonds. The effective yield on all the subordinated bonds is 7.87%. The term to maturity for all tranches is 5 years and 9 months maturing on February 28, 2007.

[Annex I]

MERGER AGREEMENT

This Merger Agreement (this "Agreement") dated as of the 23rd day of April, 2001 is entered into by and between Kookmin Bank, a corporation organized and existing under the laws of the Republic of Korea ("Korea"), with its registered office at 9-1, 2-ga, Namdaemoon-ro, Choong-gu, Seoul, Korea ("KB") and H&CB, a corporation organized and existing under the laws of Korea, with its registered office at 36-3, Yoido-dong, Youngdeungpo-gu, Seoul, Korea.

Recitals

WHEREAS, since its establishment on February 1, 1963, KB has been engaged principally in the banking business as defined under the Banking Act of Korea (the "Banking Act"). As of the date of this Agreement, the authorized capital stock of KB is 1,000,000,000 shares, of which 301,599,923 shares of common stock and 40,000,000 shares of preferred stock have been issued;

WHEREAS, since its establishment on July 10, 1967, H&CB has been engaged principally in the banking business as defined under the Banking Act. As of the date of this Agreement, the authorized capital stock of H&CB is 1,000,000,000 shares, of which 119,968,809 shares of common stock and 59,300,000 shares of preferred stock have been issued;

WHEREAS, KB and H&CB have agreed to merge in order to strengthen their leading position in the financial market and to maximize the development of the national economy and the benefits to customers and shareholders by capitalizing on the strengths of each bank, and have entered into the Memorandum of Understanding regarding the Merger of KB and H&CB (the "MOU") on December 22, 2000;

WHEREAS, pursuant to the MOU, KB and H&CB have established a Merger Steering Committee (the "MSC") on January 4, 2001 for the efficient proceeding of the Merger as defined below and, thereafter, the MSC has been responsible for Merger-related matters, including consultation and coordination with respect thereto;

WHEREAS, KB and H&CB have agreed to consummate the Merger amicably and in the spirit of mutual trust, such that the parties will be dissolved and a new bank will be established simultaneously (the "Merger").

NOW, THEREFORE, in order to specify the details of their mutual understanding with respect to the Merger, the parties hereby agree as follows:

Article 1 Definitions

1.1 "Affiliate" has the meaning ascribed to such term in Article 2 of the Monopoly Regulation and Fair Trade Act.

1.2 "Agreement" means this Merger Agreement as entered into by and between KB and H&CB.

1.3 "Derivative Products" means currency forward, interest rate forward, equity forward, currency futures, interest rate futures, index futures, currency swap, interest rate swap, equity swap, currency and currency futures option, interest rate and interest rate futures option, equity option or credit derivative contracts or arrangements or any other derivative financial instruments.

1.4 "Governmental Entity" means any foreign or domestic government, regulatory agency or administrative body, court or arbitrator.

1.5 "Incorporators" means persons, who will be appointed in accordance with Article 3.5, to be responsible for actions relating to the establishment of the New Bank, including the preparation of its articles of incorporation.

1.6 "Laws" means all laws, decrees, regulations, rules and other binding actions of any Governmental Entity.

1.7 "Losses" means any and all losses, penalties, claims, liabilities and expenses (including related attorneys' fees and disbursements).

1.8 "Material Adverse Effect" means a material adverse effect on either (1) the financial condition, results of operations or business of a party or (ii) the ability of a party to perform its obligations under this Agreement.

1.9 "Merger" means the merger of the parties in accordance with the terms and conditions of this Agreement, such that the parties are dissolved and the New Bank is established simultaneously.

1.10 "MSC" means the merger steering committee established by KB and H&CB on January 4, 2001 for proceeding of the Merger pursuant to the MOU.

1.11 "MOU" means the "Memorandum of Understanding regarding the Merger of KB and H&CB" dated December 22, 2000, entered into by and between KB and H&CB.

1.12 "New Bank" means the new bank that will be established as a result of the Merger.

1.13 "Representatives" means the officers, directors, employees, agents, accountants, consultants or attorneys of any party or of the MSC.

1.14 "Subsidiary" has the meaning ascribed to such term in Article 37 of the Banking Act.

1.15 "Taxes" means all taxes imposed by the government including local government, including corporate tax, income tax, value added tax, education tax, securities transaction tax, acquisition tax, registration tax, real and personal property taxes, general land tax, franchise tax, resident tax, stamp tax, special excise tax, import duties and other obligations of the same or of a similar nature, including any interest, liabilities, fines, penalties or impositions that may become payable in respect of such taxes.

Article 2 Principle of Merger

2.1 Form of Merger

Through the Merger, KB and H&CB shall be dissolved and the New Bank shall be established simultaneously. However, if the parties agree in writing that the merger through the establishment of the New Bank is not possible due to material policy restrictions, the form of the Merger shall be changed so that KB shall be the surviving bank.

2.2 Merger Date

The scheduled date of the Merger is October 31, 2001. In the event that conditions precedent set forth in Article 9 have not been satisfied, the date of the Merger may be changed by agreement of the parties.

2.3 Merger Ratio

2.3.1 The New Bank shall issue and deliver the following shares to the shareholders listed on the shareholder registry of KB as of the date of the Merger.

(1) The New Bank shall issue and deliver one share of its common stock (par value 5,000 Won) per 1.688346 shares of common stock (par value 5,000 Won) of KB.

(2) The New Bank shall issue and deliver one share of its preferred stock (par value 5,000 Won), with the same terms and conditions as those of KB's preferred stock, per one share of preferred stock (par value 5,000 Won) of KB. The

principal terms and conditions of the preferred stock to be issued by the New Bank are set forth in Schedule 2.3.1.

2.3.2. The New Bank shall issue and deliver the following shares to the shareholders listed on the shareholder registry of H&CB as of the date of the Merger.

(1) The New Bank shall issue and deliver one share of its common stock (par value 5,000 Won) per one share of common stock (par value 5,000 Won) of H&CB.

(2) The New Bank shall issue and deliver one share of its preferred stock (par value 5,000 Won), with the same terms and conditions as those of H&CB's preferred stock, per one share of preferred stock (par value 5,000 Won) of H&CB. The principal terms and conditions of the preferred stock to be issued by the New Bank are set forth in Schedule 2.3.2.

2.3.3. No new shares shall be issued with respect to treasury shares held by KB or H&CB.

2.3.4. In the event that any fractional shares are required to be delivered in connection with the delivery of new shares under this Article, the disposition of such fractional shares shall be determined through mutual consultation between the parties and in accordance with the Commercial Code.

2.4 Capital

2.4.1. The aggregate number of shares capital stock of the New Bank to be issued shall be 1,000,000,000 shares.

2.4.2. In connection with the Merger, the New Bank shall issue 298,605,132 shares of common stock and 41,790,000 shares of preferred stock. The paid-in capital of the New Bank at the time of its incorporation shall be 1,701,975,660,000 Won.

2.4.3. The total reserves of the New Bank shall be 5,554,055,455,200 Won. However, in the event that there is a discrepancy between the foregoing amount and the amount of total reserves calculated in accordance with the relevant Laws and generally accepted accounting principles (the "New Amount"), the New Amount shall be the total reserves of the New Bank.

2.4.4. The number of shares to be issued and the paid-in capital set forth in Article 2.4.2 may be adjusted in the event that any of the following occurs prior to the date of the Merger. However, such adjustment shall not affect the Merger ratio set forth in Article 2.3.

(1) New shares are issued pursuant to the exercise of the conversion rights attached to convertible bonds issued by KB prior to the date of this Agreement;

(2) New shares are issued pursuant to the exercise of stock options granted to directors, officers or employees of KB or H&CB; or

(3) Treasury shares acquired by KB or H&CB are cancelled pursuant to an offset against earnings or in accordance with capital reduction procedures or are sold.

(4) KB or H&CB acquires shares as a result of the exercise of appraisal rights by its shareholders who oppose to the Merger.

2.5 Shareholders Meeting for Approval of Merger

The parties shall cooperate with each other in order to convene a shareholders' meeting for approval of the Merger by October 20, 2001.

2.6 Effectiveness of the Merger

The Merger shall take effect upon completion of the registration for the Merger.

Article 3 The New Bank

3.1 Purpose

The purpose of the New Bank is to run banking business as defined under the Banking Act. The New Bank may be engaged in businesses other than the banking business to the extent permitted under the Laws including the Banking Act.

3.2 Name

The name of the New Bank shall be Kookmin Bank. However, in the event that the form of the Merger is changed so that KB is the surviving bank pursuant to the proviso of Article 2.1, the name of the surviving bank shall be H&CB.

3.3 Head Office

The New Bank shall have its head office in Seoul, Korea.

3.4 Par Value per Share

The par value of capital stock to be issued by the New Bank is 5,000 Won per share.

3.5 Incorporators

Four (4) or more Incorporators appointed by the parties shall jointly perform any acts relating to the establishment of the New Bank, including the preparation of its articles of incorporation. The Incorporators shall be appointed by special resolutions at the shareholders' meetings of KB and H&CB for the approval of the Merger.

3.6 Employees

The employees of the parties shall become employees of the New Bank as a result of the Merger.

Article 4 Stock Options, Convertible Bonds and Treasury Stock

4.1 Stock Options

The exercise period, exercise price and method of exercise and other terms related to the exercise of stock options granted, prior to the date of this Agreement, to the directors, officers or employees of the parties shall be adjusted by mutual agreement of the parties. KB and H&CB shall take measures for the adoption of resolutions providing for the stock option adjustments described above at meetings of their board of directors and at the shareholders' meeting for the approval of the Merger, as well as measures for the amendment, prior to the date of the Merger, of stock option agreements entered into with the relevant directors, officers and employees. However, any such amendment to the stock option agreements shall take effect on the date of the registration of the Merger. In the event that Losses result to directors, officers or employees of the parties as a result of stock option adjustments made pursuant to this Article 4.1, the New Bank shall indemnify such directors, officers or employees for such Losses.

4.2 Convertible Bonds

If the parties agree that the terms and conditions of either (i) the convertible bonds issued to the International Finance Corporation (the "IFC") pursuant to the Subordinated Convertible Notes Agreement dated June 22, 1998 between KB (the successor of Korea Long Term Credit Bank) and the IFC or (ii) the convertible bonds issued under the Investment Agreement dated May 27, 1999 between KB and Goldman Sachs Capital Koryo, L.P. ("Goldman Sachs") may potentially have a Material Adverse Effect on the Merger, KB shall use its best efforts to amend the relevant terms and conditions of such convertible bonds prior to the date of the Merger through consultations with the IFC or with Goldman Sachs and the Bank of New York.

4.3 Treasury Stock

4.3.1 As of the date of this Agreement, KB holds 16,000,000 preferred shares as treasury stock, of which 8,000,000 shares shall be cancelled by May 30, 2001 in accordance with the procedure for the reduction of capital under the Commercial Code. The basic terms of the capital reduction are set forth in Schedule 4.3.1.

4.3.2 KB plans to purchase 24,000,000 shares of preferred shares from the Korea Deposit Insurance Corporation (the "KDIC"). The plan for such purchase of preferred shares is set forth in Schedule 4.3.2.

4.3.3 As of the date of this Agreement, H&CB holds 41,510,000 preferred shares as treasury stock and has no plan to cancel, sell or otherwise dispose of such shares prior to the date of the Merger.

4.3.4 H&CB plans to purchase 17,790,000 preferred shares from the KDIC. The plan for such purchase of preferred stock is set forth in Schedule 4.3.4.

Article 5 Articles of Incorporation of the New Bank

The MSC shall prepare and propose to the Incorporators the articles of incorporation of the New Bank. The Incorporators shall respect such proposal and shall adopt the articles of incorporation in accordance with the relevant Laws. The MSC may prepare and propose regulations of the board of directors and other material internal regulations to the New Bank.

Article 6 Governance Structure of the New Bank

6.1 Composition of Board of Directors

Immediately after the Merger, the board of directors of the New Bank shall consist of up to 30 directors.

6.2 Appointment of Directors

In the event that the New Bank does not hold an inaugural shareholders' meeting, the directors of the New Bank shall be appointed by resolutions at the shareholders' meetings of KB and H&CB for the approval of the Merger. In such event, prior to the shareholders' meetings of the parties for the approval of the Merger, the parties shall after mutual consultation attach a list of candidates for directors and their qualifications (the "List") as Schedule 6.2 and shall notify their shareholders of, and make public, the List in accordance with the relevant Laws.

6.3 Term of Directors

The term of directors appointed in accordance with Article 6.2 shall commence from the date of registration of the Merger and shall be as set forth in the articles of incorporation of the New Bank.

6.4 Appointment of Chief Executive Officer

The chief executive officer of the New Bank shall be appointed based on the recommendation of the MSC and pursuant to the procedures set forth in the relevant Laws.

Article 7 Representations and Warranties

7.1 Representation and Warranties of KB

In connection with the Merger, KB hereby represents and warrants to H&CB as follows, as of the date hereof as well as the date of the Merger:

7.1.1 Each of KB, its Subsidiaries and its Affiliates is a corporation duly organized and validly existing under the laws of the jurisdiction of its organization, has all power and authority required to own, lease and use its properties and to conduct its business as it is now being conducted.

7.1.2 KB has all requisite corporate power and authority to prepare, execute, and deliver this Agreement and other supplementary documents and to perform its obligations hereunder and thereunder.

7.1.3 The execution of this Agreement has been duly authorized by all necessary corporate action on the part of KB. The copies of the resolutions of the board of directors of KB with respect to this Agreement, attached hereto as Schedule 7.1.3, are true and correct, and such resolutions have not been withdrawn or amended. This Agreement constitutes a valid and binding obligation of KB, enforceable against KB in accordance with its terms.

7.1.4 Schedule 7.1.4 lists the Subsidiaries and Affiliates of KB, and such Subsidiaries and Affiliates have all power and authority required to conduct their businesses as they are now being conducted. Except as set forth in Schedule 7.1.4, none of KB, its Subsidiaries or its Affiliates is subject to or is likely to become subject to bankruptcy, reorganization, composition, workout proceedings or actions.

7.1.5 Schedule 7.1.5 lists (i) the issued and outstanding capital stock, depository receipts, convertible bonds, bonds with warrants and exchangeable bonds of KB, (ii) stock options granted by KB to its directors, officers and employees (iii) options or contracts under which KB may be required to issue stock or deliver stock upon the exercise of conversion or exchange rights by third parties and (iv) treasury stock acquired by KB, and the information set forth in such Schedule is true and correct. The authorized capital stock of KB is 1,000,000,000 shares. All outstanding shares were duly authorized and validly issued and were fully paid. KB has no obligation to issue stock or deliver stock upon the exercise of conversion or exchange rights by third parties, except for the following:

(1) to issue shares of common stock on conversion of an aggregate principal amount of US$12,500,000 of subordinated convertible bonds held by the IFC in accordance with the Subordinated Convertible Notes Agreement dated June 22, 1998 between the IFC and KB (as successor to Korea Long Term Credit Bank);

(2) to issue shares of common stock on conversion of an aggregate principal amount of US$200,000,000 of subordinated convertible bonds issued in accordance with the Investment Agreement dated May 27, 1999 between KB and Goldman Sachs;

(3) to the extent such preferred shares are not repurchased by KB, to issue shares of common stock on conversion of preferred shares at a one to one ratio in accordance with the Subscription Agreement, dated December 28, 1998, between KDIC and KB; and

(4) to issue shares of common stock on exercise of stock options granted by KB to its directors, officers and employees as set forth in Schedule 7.1.5.

7.1.6 KB, to the best of its knowledge, has not violated (i) any Laws, orders or judgments or (ii) the terms of any contracts to which KB is a party, which violation may have a Material Adverse Effect. Except as set forth in Schedule 7.1.6, there are no Laws, orders, judgments, or contracts to which KB is a party, that obstruct the Merger.

7.1.7 KB's financial statements for the last three years attached hereto as Schedule 7.1.7 have been prepared in accordance with generally accepted accounting principles and supervisory regulations in Korea applicable to banks, and present fairly the financial position and results of operations of KB as of and for the relevant dates and periods. To the best of KB's knowledge, there are no contingent or off-balance sheet liabilities of KB, except as set forth in Schedule 7.1.7. Since the dates of such financial statements, there has not been, with respect to KB, any development that has had a Material Adverse Effect.

7.1.8 KB has good title to, or possesses appropriate legal right to use, its real property, automobiles, computers, office supplies and other personal property used by KB for business. To the best of KB's knowledge, the foregoing properties of KB are free and clear of any mortgage, *jeonsekwon,* lien, provisional attachment, provisional disposition, attachment or encumbrance of any kind, character or description whatsoever that may have a Material Adverse Effect on the Merger.

7.1.9 KB is in compliance with the asset quality classification criteria under the Banking Act and the supervisory regulations of Governmental Entities. In conducting its business and holding its assets, KB is in compliance with the Laws and the supervisory regulations of Governmental Entities in all material aspects and has not violated any Laws or supervisory regulations, which violation may have a Material Adverse Effect.

7.1.10 KB's Derivative Products, whether entered into or transacted for the account of KB or for the account of one of its customers, were entered into in the ordinary course of business, and in accordance with applicable Laws of Governmental Entities and applicable internal rules and guidelines of KB in all material respects. KB has complied, in all material respects, with its obligations under such Derivative Products and there are no breaches, violations or defaults or allegations or assertions of such by any party thereunder.

7.1.11 KB has the necessary rights to all intellectual property used in the conduct of its business including patents, trademarks, service marks, trade names and copyrights and, to the best of its knowledge, has not infringed the rights of others with respect to any intellectual property.

7.1.12 KB has duly prepared and filed all tax reports and has paid all Taxes, interests and penalties for all relevant periods. KB has not received any notice of adjustment or default with respect to Taxes from any Governmental Entity and, if received, KB has paid it or caused it to be withdrawn.

7.1.13 There are no existing or expected legal proceedings or claims against or affecting KB that could result in material Losses with respect to its assets or business or could have a Material Adverse Effect with respect to the Merger.

7.1.14 KB has been in compliance with environmental laws in all material aspects and is not subject to any claims, costs or liabilities associated with the protection or restoration of the environment and, to the best of its knowledge, there are no past or present events, conditions, circumstances, activities or legal proceedings that could give rise to such costs, liabilities or claims.

7.2 Representation and warranties of H&CB

In connection with the Merger, H&CB hereby represents and warrants to KB as follows, as of the date hereof as well as the date of the Merger:

7.2.1 Each of H&CB, its Subsidiaries and its Affiliates is a corporation duly organized and validly existing under the laws of the jurisdiction of its organization has all power and authority required to own, lease and use its properties and to conduct its business as it is now being conducted.

7.2.2 H&CB has all requisite corporate power and authority to prepare, execute, and deliver this Agreement and other supplementary documents and to perform its obligations hereunder and thereunder.

7.2.3 The execution of this Agreement has been duly authorized by all necessary corporate action on the part of H&CB. The copies of the resolutions of the board of directors of

H&CB with respect to this Agreement, attached hereto as Schedule 7.2.3, are true and correct, and such resolutions have not been withdrawn or amended. This Agreement constitutes a valid and binding obligation of H&CB, enforceable against H&CB in accordance with its terms.

7.2.4 Schedule 7.2.4 lists the Subsidiaries and Affiliates of H&CB, and such Affiliates and Subsidiaries have all power and authority required to conduct their businesses as they are now being conducted. Except as set forth in Schedule 7.2.4, none of H&CB, its Subsidiaries or its Affiliates is subject to or is likely to become subject to bankruptcy, reorganization, composition, workout proceedings or actions.

7.2.5 Schedule 7.2.5 lists (i) the issued and outstanding capital stock, depository receipts, convertible bonds, bonds with warrants and exchangeable bonds of H&CB, (ii) stock options granted by H&CB to its directors, officers and employees, (iii) options or contracts under which H&CB may be required to issue stock or deliver stock upon the exercise of conversion or exchange rights by third parties and (iv) treasury shares acquired by H&CB, and the information set forth in such Schedule is true and correct. The authorized capital stock of H&CB is 1,000,000,000 shares. All outstanding shares were duly authorized and validly issued and were fully paid. H&CB has no obligation to issue stock or deliver stock upon the exercise of conversion or exchange rights by third parties, except for the following:

(1) to the extent such preferred shares are not repurchased by H&CB, to issue shares of common stock on conversion of preferred shares at a one to one ratio in accordance with the Subscription Agreement, dated December 28, 1998, between H&CB and KDIC; and

(2) to issue shares of common stock on exercise of stock options granted by H&CB to its directors, officers and employees as set forth in Schedule 7.2.5.

7.2.6 H&CB, to the best of its knowledge, has not violated (i) any Laws, orders or judgments or (ii) the terms of any contracts to which H&CB is a party, which violation may have a Material Adverse Effect. Except as set forth in Schedule 7.2.6, there are no Laws, orders, judgments or contracts to which H&CB is a party, that obstruct the Merger.

7.2.7 H&CB's financial statements for the last three years attached hereto as Schedule 7.2.7 have been prepared in accordance with generally accepted accounting principles and supervisory regulations in Korea applicable to banks, and present fairly the financial position and results of operation of H&CB as of and for the relevant dates and periods. To the best of H&CB's knowledge, there are no contingent or off-balance sheet liabilities of H&CB, except as set forth in Schedule 7.2.7. Since the dates of such financial statements, there has not been, with respect to H&CB, any development that has had a Material Adverse Effect.

7.2.8 H&CB has good title to, or possesses appropriate legal rights to use, its real property, automobiles, computers, office supplies and other personal property used by H&CB for business. To the best of H&CB's knowledge, the foregoing properties of H&CB are free and clear of any mortgage, *jeonsekwon,* lien, provisional attachment, provisional disposition, attachment or encumbrance of any kind, character or description whatsoever that may have a Material Adverse Effect on this Merger.

7.2.9 H&CB is in compliance with the asset qualify classification criteria under the Banking Act and the supervisory regulations of Governmental Entities. In conducting its business and holding its assets, H&CB is in compliance with the laws and the supervisory regulations of Governmental Entities in all material aspects and has not violated any Laws or supervisory regulations, which violations may have a Material Adverse Effect.

7.2.10 H&CB's Derivative Products, whether entered into or transacted for the account of H&CB or for the account of one of its customers, were entered into in the ordinary course of business, and in accordance with applicable Laws of Governmental Entities and applicable internal rules and guidelines of H&CB in all material respects. H&CB has complied, in all material respects, with its obligations under such Derivative Products and there are no breaches, violations or defaults or allegations or assertions of such by any party thereunder.

7.2.11 H&CB has the necessary rights to all intellectual property used in the conduct of its business, including patents, trademarks, service marks, trade names and copyright, and, to the best of its knowledge, has not infringed the rights of others with respect to any intellectual property.

7.2.12 H&CB has duly prepared and filed all tax reports and has paid all Taxes, interests and penalties for all relevant periods. H&CB has not received any notice of adjustment or default with respect to Taxes from any Governmental Entity and, if received, H&CB has paid it or caused it to be withdrawn.

7.2.13 There are no existing or expected legal proceedings or claims against or affecting H&CB that could result in material Losses with respect to its assets or business or could have a Material Adverse Effect with respect to the Merger.

7.2.14 H&CB has been in compliance with environmental laws in all material aspects and is not subject to any claims, costs, or liabilities associated with the protection or restoration of the environment and, to the best of its knowledge, there are no past or present events, conditions, circumstances, activities or legal proceedings that could give rise to such costs, liabilities or claims.

7.2.15 The National Housing Fund entrusted to H&CB by the Ministry of Construction and Transportation has been placed and maintained in the National Housing Fund accounts, separate from its banking accounts, and has been properly operated in accordance with applicable Laws. To the best of H&CB's knowledge, there are no events or circumstances relating to the management and operation of the National Housing Fund by H&CB that could have a Material Adverse Effect on the Merger or the New Bank.

Article 8 Covenants

8.1 Covenants of KB

During the period from the date hereof to the date of the Merger, KB hereby covenants to H&CB to undertake the following:

8.1.1 KB shall use its best efforts to cause the Merger to be consummated within the dates described in Articles 2.2 and 2.5, including the completion of all internal procedures required to consummate the Merger and all documentary filings and negotiations necessary to obtain consents or approvals from any domestic or foreign Governmental Entity with jurisdiction over the Merger, or from any shareholders, creditors or other interested persons. KB shall cooperate with H&CB by preparing and providing documents necessary for the stock or depository receipts of the New Bank to satisfy the listing requirements of, and to continue to be traded on, the Korea Stock Exchange and the New York Stock Exchange.

8.1.2 KB shall use its best efforts to obtain support from Governmental Entities including with respect to the revision of Laws and policies for the efficient proceeding of the Merger.

8.1.3 KB shall conduct its business in the ordinary course of business consistent with past practice, and shall use and preserve the assets held by it as of the date of this Agreement in good condition. KB shall not engage in any sale or purchase of assets or any incurrence of debt that may have a Material Adverse Effect, without the prior written consent of H&CB.

8.1.4 KB shall not declare or pay any new dividend. Except as set forth in Article 7.1.5, KB shall not (i) issue stocks, depository receipts, convertible bonds, bonds with warrants or exchangeable bonds, (ii) grant stock options to its directors, officers or employees or (iii) grant options or enter into contracts under which KB may be required to issue stock or deliver stock upon the exercise of conversion or exchange rights by third parties. KB shall not take any action that would result in a reduction in the number of its outstanding shares or a change in its capital, other than the cancellation of preferred shares as set forth in Article 4.3.1.

8.1.5 To the extent that such actions do not interfere with KB's ordinary course of business, KB shall, to the extent reasonable, provide to H&CB materials and information requested by H&CB and shall respond to H&CB's inquiries faithfully. KB shall have its Representatives cooperate fully with H&CB in relation to the provision of such materials and information.

8.1.6 KB shall immediately notify H&CB in writing of any condition or occurrence that may have a Material Adverse Effect on the Merger, or that results in any of KB's representations and warranties in this Agreement no longer being true, or that prevents the satisfaction of any condition precedent to the Merger.

8.1.7 Except for the cases contemplated in Article 12.3, KB shall consult with H&CB in advance in connection with the preparation of any press release or the making of any public disclosure related to the Merger. Except where such public disclosure is required under applicable Laws or court orders, KB shall not make any public disclosure related to the Merger without such consultation with H&CB.

8.1.8 KB shall use its best efforts to consummate this Merger, including by consulting with Goldman Sachs with respect to the amendment of the Investment Agreement dated May 27, 1999 between Goldman Sachs and KB such that the Investment Agreement does not have a Material Adverse Effect on the Merger.

8.2 Covenants of H&CB

During the period from the date hereof to the date of the Merger, H&CB hereby covenants to KB to undertake the following:

8.2.1 H&CB shall use its best efforts to cause the Merger to be consummated within the dates described in Articles 2.2 and 2.5, including the completion of all internal procedures required to consummate the Merger and all documentary filings and negotiations necessary to obtain consents or approvals from any domestic or foreign Governmental Entity with jurisdiction over the Merger, or from any shareholders, creditors or other interested persons. H&CB shall cooperate with KB by preparing and providing documents necessary for the stock or depository receipts of the New Bank to satisfy the listing requirements of, and to continue to be traded on, the Korea Stock Exchange and the New York Stock Exchange.

8.2.2 H&CB shall use its best efforts to obtain support from Governmental Entities including with respect to the revision of Laws and policies for the efficient proceeding of the Merger.

8.2.3 H&CB shall conduct its business in the ordinary course consistent with past practice and shall use and preserve the assets held by it as of the date of this Agreement in good condition. H&CB shall not engage in any sale or purchase of assets or any incurrence of debt that may have a Material Adverse Effect, without the prior written consent of KB.

8.2.4 H&CB shall not declare or pay any new dividend. Except as set forth in Article 7.2.5, H&CB shall not (i) issue stocks, depository receipts, convertible bonds, bonds with warrants or exchangeable bonds, (ii) grant stock options to its directors, officers or employees or (iii) grant options or enter into contracts, under which H&CB may be required to issue stock or deliver stock upon the exercise of conversion or exchange rights by third parties. H&CB shall not take any action that would result in a reduction in the number of its outstanding shares or a change in its capital.

8.2.5 To the extent that such action do not interfere with the ordinary course of H&CB's business, H&CB shall, to the extent reasonable, provide to KB materials and information requested by KB and shall respond to KB's inquiries faithfully. H&CB shall have its Representatives cooperate fully with KB in relation to the provision of such materials and information.

8.2.6 H&CB shall immediately notify KB in writing of any condition or occurrence that may have a Material Adverse Effect on the Merger, or that results in any of H&CB's representations and warranties in this Agreement no longer being true, or that prevents the satisfaction of any condition precedent to the Merger.

8.2.7 Except for the cases contemplated in Article 12.3, H&CB shall consult with KB in advance in connection with the preparation of any press release or the making of any public disclosure related to the Merger. Except where such public disclosure is required under applicable Laws or court orders, H&CB shall not make any public disclosure related to the Merger without such consultation with KB.

8.2.8 H&CB shall use its best efforts to consummate this Merger, including by consulting with ING Insurance International B.V. ("ING") with respect to the amendment of the Investment Agreement dated July 15, 1999 between ING and H&CB such that the Investment Agreement does not a have Material Adverse Effect on the Merger.

Article 9 Conditions Precedent to the Merger

9.1 Conditions Precedent to KB's Obligation

The obligation of KB hereunder to effect the Merger shall be subject to the satisfaction prior to or on the date of the Merger of the following conditions.

9.1.1. All approvals, permits or consents of any Governmental Entity, and all requirements under relevant Laws, which are necessary for the execution and delivery of this Agreement and the consummation of the transactions contemplated in this Agreement shall have been obtained or been satisfied.

9.1.2. The representations and warranties of H&CB set forth in this Agreement shall be true and correct as of the date hereof as well as the date of the Merger in all material respects.

9.1.3. H&CB shall have performed in all material respects all covenants and other obligations required to be performed by it under this Agreement.

9.1.4. The Registration Statement filed with the Securities and Exchange Commission of the United States of America shall have been declared effective, and following the Merger, the stock or depository receipts of the New Bank shall satisfy the listing requirements of, and be eligible for trading on, the Korea Stock Exchange and the New York Stock Exchange.

9.2 Conditions Precedent to H&CB's Obligation

The obligation of H&CB hereunder to effect the Merger shall be subject to the satisfaction prior to or on the date of the Merger of the following conditions.

9.2.1. All approvals, permits or consents of any Governmental Entity, and all requirements under relevant Laws, which are necessary for the execution and delivery of this Agreement and the consummation of the transactions contemplated in this Agreement shall have been obtained or satisfied.

9.2.2 The representations and warranties of KB set forth in this Agreement shall be true and correct as of the date hereof as well as the date of the Merger in all material respects.

9.2.3 KB shall have performed in all material respects all covenants and obligations required to be performed by it under this Agreement.

9.2.4 The Registration Statement filed with the Securities and Exchange Commission of the United States of America shall have been declared effective, and following the Merger, the stock or depository receipts of the New Bank shall satisfy the listing requirements of, and be eligible for trading on, the Korea Stock Exchange and the New York Stock Exchange.

Article 10 MSC

10.1 The MSC shall consist of the following six members: (i) one chairman appointed by mutual consent of the chief executive officers of the parties; (ii) one outside director and one group chief of head office of KB; (iii) one outside director and one executive vice president of H&CB; and (iv) one secretary appointed by the chairman of the MSC through consultation with the chief executive officers of the parties. In the case of any vacancy in the MSC, the replacement shall be selected by agreement of the parties.

10.2 Except as otherwise prescribed in Laws or provided in this Agreement, the MSC shall review and coordinate the major issues relating to the Merger. The parties shall respect the results of the review and coordination by the MSC and shall implement such results. The MSC regulations are attached hereto as Schedule 10.2.

10.3 A Merger Planning Team shall be established under the MSC for efficient operation of the MSC. The Merger Planning Team may seek support from attorneys, accountants or other advisors for the performance of its work.

10.4 The MSC shall exist from January 4, 2001 to the date of the Merger, provided that such period may be reduced or extended by mutual agreement of the parties.

10.5 All actions by the MSC prior to the date hereof shall be deemed to have been taken in accordance with this Agreement.

10.6 In the event that any shareholder, creditor, labor union or other related person of either party commences any suit or other legal action against MSC, its members or its Representatives ("Indemnified Parties") in relation to the activities of the MSC, the parties shall indemnify and hold harmless the Indemnified Parties and defend such legal action at the expense of the parties, to the extent the Indemnified Parties have not acted with malice or gross negligence.

Article 11 Termination

11.1 Causes of Termination

This Agreement may be terminated at any time prior to the date of the Merger if:

11.1.1 The parties mutually agree in writing to terminate this Agreement;

11.1.2 Either party notifies the other party in writing of the termination of this Agreement, after any of the following events occurs:

(1) In the event that the consummation of the Merger pursuant to this Agreement becomes impossible or unlawful because any approval or consent of any Governmental Entity necessary for the Merger is not granted or due to a change in Laws; or

(2) Notwithstanding the provisions of Article 2.2, in the event that the conditions precedent set forth in Articles 9.1.4 and 9.2.4 are not satisfied by December 31, 2001. However, the party that has violated this Agreement or caused the delay in the Merger (which shall not include a failure to adopt a resolution approving the Merger at a shareholders' meeting) shall not have the right to terminate this Agreement in accordance with this Article.

11.1.3 If a Material Adverse Effect results from a breach by H&CB of any of its representations, warranties or covenants under this Agreement, and H&CB fails to cure such breach within 30 days from the date H&CB receives a written notice of the breach from KB, KB may terminate this Agreement by giving written notice to H&CB.

11.1.4 If a Material Adverse Effect results from a breach by KB of its representations, warranties or covenants under this Agreement, and KB fails to cure such breach within 30 days from the date KB receives a written notice of the breach from H&CB, H&CB may terminate this Agreement by giving written notice to KB.

11.2 Effect of Termination

11.2.1 Within seven days from the date of termination of this Agreement, either party shall, at the request of the other party, return to such other party or destroy the materials and information obtained from such other party.

11.2.2 Any termination of this Agreement shall not affect a party's right to claim damages and other rights and remedies against the other party arising from a default or breach by such other party under this Agreement.

11.2.3 Notwithstanding any termination of this Agreement, the provisions of Articles 11.2.3, 12.4, 12.5, 12.11 and 12.12 shall survive. The provisions of Articles 12.2 and 12.3 shall remain in effect for two years after the termination of this Agreement.

Article 12 Miscellaneous

12.1 Termination of Representations and Warranties

The representations and warranties of each party under this Agreement shall terminate upon the effectiveness of the Merger.

12.2 Indemnification

Each party agrees to indemnify and hold harmless the other party and each of its Representatives (collectively, the "Indemnified Parties") from and against any and all Losses incurred by any of the Indemnified Parties as a result of, or arising out of, the breach of any representation, warranty, agreement or covenant of the indemnifying party in this Agreement.

12.3 Confidentiality

A party desiring to disclose the contents of this Agreement or any materials or information provided by the other party in accordance with Articles 8.1.5 or 8.2.5 shall obtain the prior written approval of the other party. However, this Article shall not apply to any disclosure pursuant to applicable Laws or any court order.

12.4 Fees and Expenses

Each party will be responsible for the payment of all expenses incurred by it in connection with the execution and performance of this Agreement and the transactions contemplated by this Agreement. All of the expenses incurred in connection with the activities and operation of the MSC and the fees and expenses of advisors under Article 10.3 shall be borne equally by each party. However, if this agreement is terminated by reasons attributable to a particular party, such party shall bear all such expenses relating to the activities and operation of the MSC and all such fees and expenses of advisors.

12.5 Notices

All notices, demands, requests and other communications hereunder shall be delivered personally, sent by registered mail or delivered by facsimile to the following address:

(a) If to KB, to:

9-1, 2-ga, Namdaemoon-ro, Choong-gu, Seoul, Korea
Fax: (02)-317-2114
Telephone: (02)-776-5637
Attention: Mr. Sang-Hoon Kim, Chairman and CEO

(b) To H&CB, to:
36-3, Yoido-dong, Youngdeungpo-gu, Seoul, Korea
Fax: (02)-769-7114
Telephone: (02)-769-8279
Attention: Mr. Jung Tae Kim, Chairman, President and CEO

Either party may change its address for notices by giving prior written notice to the other party.

12.6 Amendment

Any provision of this Agreement may be amended or modified by an agreement in writing between the parties.

12.7 Waiver

The failure to exercise, delay in exercise of, or partial exercise of any right conferred upon any of the parties hereto shall not operate to bar the exercise thereof on any other occasion.

12.8 Entire Agreement

This Agreement constitutes the entire agreement between both parties as to the subject matter hereof, and any oral or written, express or implied promise, condition or duties except as provided herein shall not exist.

12.9 Severability

If any provision of this Agreement becomes unlawful, invalid or unenforceable in any respect, such unlawfulness, invalidity or unenforceability shall in no way affect the lawfulness, validity or enforceability of any other provision in this Agreement.

12.10 Assignment

Neither party shall assign, transfer or otherwise dispose any of its rights, interests or obligations hereunder without the prior written consent of the other party. Subject to the foregoing, this Agreement shall bind and inure to the benefit of the parties hereto and their successors.

12.11 Governing law

This Agreement shall be governed by and interpreted in accordance with the laws of the Republic of Korea.

12.12 Disputes

Any dispute, controversy or claim arising out of, relating to or in connection with the execution, performance, interpretation and breach of this Agreement shall be subject to the non-exclusive jurisdiction of the Seoul District Court as the competent court.

IN WITNESSES WHEREOF, this Agreement has been executed on behalf of the parties to this Agreement by their respective Representatives.

Kookmin Bank	H&CB
/s/ SANG-HOON KIM	/s/ JUNG TAE KIM
Sang-Hoon Kim Chairman & CEO	Jung Tae Kim Chairman, President & CEO

[Annex II]

NOMINEES FOR THE DIRECTORS AND INCORPORATORS OF NEW KOOKMIN

Nominees for the Directors

Executive Directors

Name	Age	Current Position
Jung Tae Kim	53	Chairman, President and Chief Executive Officer, H&CB
Sang-Hoon Kim	59	Chairman, President and Chief Executive Officer, Kookmin Bank
Chong-Min Lee[(1)]	60	Audit Committee Standing Member and Director, Kookmin Bank
Choul Ju Lee[(1)]	61	Auditor and Executive Director, H&CB
Yoo-Hwan Kim	57	Executive Vice President and Chief Financial and Accounting Officer, Kookmin Bank
Jan Op de Beeck	48	Director and Executive Vice President, H&CB
Duk-Hyun Kim	56	Executive Vice President, Kookmin Bank
Young Il Kim	47	Executive Vice President, H&CB

(1) Nominated to serve also as a standing member of the Audit Committee of the Board of Directors.

Non-Executive Directors

Name	Age	Current Position
Seung Hun Hahn[(1)]	66	Non-Executive Director, Kookmin Bank
Bong Ho Paick	66	Non-Executive Director, Kookmin Bank
Young Suk Kim	65	Non-Executive Director, Kookmin Bank
Se Ung Lee	61	Non-Executive Director, Kookmin Bank
Chang Ki Min[(1)]	61	Non-Executive Director, Kookmin Bank
In Kie Kim	60	Non-Executive Director, Kookmin Bank
Hyung Chin Chang	55	Non-Executive Director, Kookmin Bank
Ik Rae Kim	50	Non-Executive Director, Kookmin Bank
Ji Hong Kim	45	Non-Executive Director, Kookmin Bank
Henry Cornell	45	Non-Executive Director, Kookmin Bank
Sun Jin Kim[(1)]	58	Non-Executive Director, H&CB
Kuk Ju Kwon	56	Non-Executive Director, H&CB
Kyung Hee Yoon[(1)]	54	Non-Executive Director, H&CB
Woon Youl Choi	51	Non-Executive Director, H&CB
Ju Hyun Yoon	47	Non-Executive Director, H&CB
Won Bae Yoon	54	Non-Executive Director, H&CB
Jae Kyu Lee[(1)]	49	Non-Executive Director, H&CB
Chul Soo Ahn	39	Non-Executive Director, H&CB
Moon Soul Chung	63	Non-Executive Director, H&CB
Sung Hee Jwa	55	Non-Executive Director, H&CB
Joon Park[(1)]	46	Non-Executive Director, H&CB
Bruce G. Willison	52	Non-Executive Director, H&CB

(1) Nominated to serve also as a non-standing member of the Audit Committee of the Board of Directors.

Nominees for the Incorporators

Name	Age	Current Position
Jung Tae Kim	53	Chairman, President and Chief Executive Officer, H&CB
Yoo-Hwan Kim	57	Executive Vice President and Chief Financial and Accounting Officer, Kookmin Bank
Young Il Kim	47	Executive Vice President, H&CB
Ji Hong Kim	45	Non-Executive Director, Kookmin Bank
Woon Youl Choi	51	Non-Executive Director, H&CB
Buhmsoo Choi	46	Secretary, Merger Steering Committee

[Annex III]

PROPOSED REGULATIONS OF NEW KOOKMIN RELATING TO SEVERANCE PAY FOR DIRECTORS

Article 1 (Purpose)

The purpose of these Regulations is to set forth the matters regarding the payment of severance pay to directors.

Article 2 (Causes of Payment)

Severance pay shall be paid as a result of the following instances of retirement:

1) retirement by expiration of term of office;

2) retirement at a director's request;

3) retirement due to a director's death; or

4) retirement due to dismissal, recommended dismissal or disciplinary dismissal.

Article 3 (Severance Pay)

1. Severance pay for a retired director shall be calculated by multiplying his/her fixed monthly salary at the time of retirement by the sum of the following standard payment rate per number of years of his/her service period.

	One-year payment rate
President	1
Vice President, Auditor	1

2. Severance pay for a Korean director, who retires from his/her office during service in any foreign branch, shall be calculated by applying his/her Korean fixed monthly salary.

3. In the case of retirement of a director who was re-appointed, severance pay shall be calculated by multiplying his/her fixed monthly salary at the time of retirement by the sum of the standard payment rate above per number of years of his/her entire service period.

Article 4 (Calculation of Service Period)

A service period less than one year shall be calculated as follows:

1. Calculation shall be made in monthly increments; provided that the period less than a month shall be regarded as one month.

2. Notwithstanding Paragraph 1 above, in case of retirement due to death, the service period less than one year shall be regarded as one year.

Article 5 (Exceptions in Payment of Severance Pay)

1. Notwithstanding Article 3, Paragraph 1, in case of retirement due to injury, disease or death related to his/her service, the following amount may be paid in addition to his/her severance pay:

   1) In the case of retirement due to injury or disease related to his/her service, an amount equivalent to fixed monthly salaries of three months.

   2) In the case of retirement due to death related to his/her service, an amount equivalent to fixed monthly salaries of ten months.

2. In the case of retirement due to death unrelated to his/her service, the amount equivalent to three months' salary may be paid in addition to his/her severance pay.

3. If a director has been punished with imprisonment without labor or more severe punishment due to his/her unlawful act by willful or gross negligence in relation to his/her service, or if a director retires due to dismissal, disciplinary dismissal or recommended dismissal from the chief of supervisory authority in relation to his/her service, only one half of his/her severance pay shall be paid.
4. In the case of retirement of a director who is under investigation or on trial for the unlawful act amounting to the punishments referred to in Paragraph 3 in relation to his/her service, the payment of one half of his/her severance pay shall be delayed until the close of investigation or a final determination by the court.
5. In the case of retirement of a director who has rendered distinguished service to the Bank during his/her service period, the amount approved by resolution of the general meeting of shareholders may be paid in addition to his/her severance pay pursuant to Article 3.

Article 6 (Severance Pay of the Deceased)

In the case of retirement due to death, severance pay shall be paid to the surviving family pursuant to the provisions regarding compensation for the surviving family under the Labor Standard Act.

Article 7 (Detailed Procedures)

Matters required for enforcement of these Regulations shall be separately determined by the President.

Addendum

Article 1 (Enforcement Date)

These Regulations shall be effective from , 2001.

Article 2 (Interim Measure)

The calculation of severance pay for the service period prior to the enforcement date of these Regulations shall be made pursuant to the prior regulations.

[Annex IV]

KOOKMIN BANK STOCK OPTION GRANTS TO BE RATIFIED

Name of Grantee	Position at Kookmin Bank[1]	Number of Shares in Respect of Which Options Were Granted
Sang-Hoon Kim	President and Chief Executive Officer	70,000
Chong-Min Lee	Standing Member of the Audit Committee & Director	25,000
Bock-Woan Kim	Executive Vice President	20,000
Yoo-Hwan Kim	Executive Vice President	20,000
Duk-Hyun Kim	Executive Vice President	20,000
Sei-Jong Oh	Chairman of the Board of Directors	5,000
In Kie Kim	Non-Executive Director	5,000
Hyung Chin Chang	Non-Executive Director	5,000
Ji Hong Kim	Non-Executive Director	5,000
Bong Ho Paick	Non-Executive Director	5,000
Ik Rae Kim	Non-Executive Director	5,000

(1) Position as of March 18, 2000, the option grant date.

Kookmin Bank
Non-Consolidated Semi-Annual Balance Sheets
(Unaudited)

	In Millions of Korean Won		In Thousands of U.S. Dollars (Note 3)	
As of June 30, 2001 and 2000	**2001**	**2000**	**2001**	**2000**
ASSETS:				
Cash and due from banks (Note 4)	₩ 4,053,538	₩ 6,160,500	US$ 3,116,428	US$ 4,736,296
Trading securities (Note 5)	2,679,171	2,615,190	2,059,791	2,010,602
Investment securities (Note 6)	21,247,980	17,152,701	16,335,804	13,187,285
Loans (Note 7)	54,187,725	43,707,032	41,660,433	33,602,699
Fixed assets (Note 2 and 9)	1,276,578	1,270,452	981,455	976,745
Other assets (Note 11)	4,505,735	3,671,057	3,464,085	2,822,370
Total assets	₩87,950,727	₩74,576,932	US$67,617,996	US$57,335,997
LIABILITIES AND SHAREHOLDERS' EQUITY:				
Liabilities:				
Deposits (Note 12)	₩60,610,403	₩52,818,243	US$46,598,295	US$40,607,552
Borrowings (Note 13)	9,725,154	6,264,879	7,476,862	4,816,544
Debentures (Note 14)	6,124,775	5,730,639	4,708,830	4,405,812
Other liabilities (Notes 16)	6,517,091	5,870,350	5,010,449	4,513,223
Total liabilities	82,977,423	70,684,111	63,794,436	54,343,131
Commitments and Contingencies (Note 17)				
Common stock, par value; ₩5,000, authorized; 1,000 million shares, issued and outstanding: 301,599,923 shares (Notes 1 and 18)	1,508,000	1,498,067	1,159,375	1,151,739
Preferred stock, par value; ₩5,000, non-cumulative, non-participating issued and outstanding: 32,000,000 shares (Notes 1 and 18)	160,000	200,000	123,011	153,763
Capital surplus (Note 19)	1,608,151	1,600,983	1,236,374	1,230,863
Retained earnings (Note 21)	1,536,215	552,952	1,181,068	425,119
Capital adjustment (Note 22)	160,938	40,819	123,732	31,382
Total shareholders' equity	4,973,304	3,892,821	3,823,560	2,992,866
Total liabilities and shareholders' equity	₩87,950,727	₩74,576,932	US$67,617,996	US$57,335,997

The accompanying notes are an integral part of these statements.

Kookmin Bank
Non-Consolidated Semi-Annual Income Statements
for the six-month periods ended June 30, 2001 and 2000
(Unaudited)

	In Millions of Korean Won		In Thousands of U.S. Dollars (Note 3)	
	2001	**2000**	**2001**	**2000**
Interest income:				
Interest on due from banks	₩ 88,732	₩ 161,356	US$ 68,219	US$ 124,054
Interest on securities	791,027	789,927	608,155	607,309
Interest on loans	2,401,121	2,050,845	1,846,022	1,576,724
Other interest income	60,601	39,413	46,590	30,302
	3,341,481	3,041,541	2,568,986	2,338,389
Interest expenses:				
Interest on deposits	1,679,542	1,389,061	1,291,260	1,067,933
Interest on borrowings	236,049	245,643	181,479	188,855
Interest on debentures	264,811	350,284	203,592	269,304
Other interest expenses	30,247	16,611	23,254	12,770
	2,210,649	2,001,599	1,699,585	1,538,862
Net interest income	1,130,832	1,039,942	869,401	799,527
Provision for loan losses (Note 7)	217,346	276,659	167,099	212,700
Net interest income after provision for loan losses	913,486	763,283	702,302	586,827
Non-interest income				
Fees & commission income	194,201	147,714	149,305	113,565
Dividends on trading securities	309	1,640	237	1,261
Dividends on investment securities	3,744	43,653	2,879	33,561
Gain on foreign currency transactions	143,504	80,114	110,328	61,593
Gain on derivatives (Note 10)	1,538,597	749,496	1,182,900	576,225
Others (Note 23)	237,574	159,661	182,651	122,751
	2,117,929	1,182,278	1,628,300	908,956
Non-interest expenses				
Fees & commission expenses	37,649	26,845	28,945	20,639
General and administrative expenses (Note 24)	528,659	487,308	406,442	374,651
Loss on foreign currency transactions	57,610	56,180	44,291	43,192
Loss on derivatives (Note 10)	1,573,841	742,632	1,209,996	570,948
Others (Note 23)	147,827	281,475	113,652	216,402
	2,345,586	1,594,440	1,803,326	1,225,832
Operating income	685,829	351,121	527,276	269,951
Non-operating income(expenses), net (Note 25)	271,267	(21,714)	208,554	(16,694)
Net income before income tax expenses	957,096	329,407	735,830	253,257
Income tax expenses (Note 26)	294,645	100,687	226,527	77,410
Net income	₩ 662,451	₩ 228,720	US$ 509,303	US$ 175,847
Earnings per share (in Korean Won and US$)				
Earnings per common share (Note 27)	₩ 2,195	₩ 764	US$ 1.69	US$ 0.59
Diluted earnings per common share (Note 27)	₩ 1,926	₩ 660	US$ 1.48	US$ 0.51

The accompanying notes are an integral part of these statements.

1. The Bank:

Kookmin Bank ("the Bank") was established in 1963 under the *Citizens National Bank Act* to provide and administer funds for financing the general public and small businesses. Pursuant to the repeal of the *Citizens National Bank Act* effective January 5, 1995, the Bank has conducted its operations in accordance with the provision of the *General Banking Act*.

The Bank merged with Korea Long Term Credit Bank ("KLB") on December 31, 1998 and with Daegu, Busan, Jeonnam Kookmin Mutual Savings & Finance Co., Ltd.s on August 22, 1999. Also, under the decision of the Financial Supervisory Commission in accordance with the Act concerning the Structural Improvement of the Financial Industry, the Bank purchased certain assets, including the loans classified as normal or precautionary, and assumed most of the liabilities of Daedong Bank ("the P&A") as of June 29, 1998.

The Bank entered into a business combination contract on April 23, 2001 with H&CB ("the Contract") to be consummated on October 31, 2001 (See Note 31).

The Bank is engaged in the banking and trust business according to the provisions of the *General Banking Act* and the *Trust Business Act* and operates through 575 domestic branches and 4 overseas networks as of June 30, 2001.

The Bank has its shares listed on the Korean Stock Exchange since September 1994. As of June 30, 2001, as a result of several additional issuance of shares, the Bank's paid-in capital amounts to ₩1,668,000 million (See Note 18) including ₩160,000 million of preferred stock. Under the *General Banking Act*, if one single entity, other than the government or a foreign investor, owns more than 4% of total outstanding voting shares, the entity's voting rights are limited to those of 4% shareholders.

2. Summary of Significant Accounting Policies:

The significant accounting policies followed by the Bank in the preparation of its non-consolidated semi-annual financial statements are summarized below.

Certain adjustments necessary for the preparation of the semi-annual financial statements are not reflected in the books of the Bank but reflected on the accompanying non-consolidated semi-annual financial statements.

Basis of Financial Statement Presentation—

The official accounting records of the Bank are maintained in Korean Won in accordance with generally accepted accounting principles of the Republic of Korea and accounting standards of the banking industry ("financial accounting standards") and the relevant laws and regulations. Such basis of accounting and presentation is not in conformity with International Accounting Standards, which, if applied, would give rise to material adjustments to the financial statements.

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

In accordance with accounting standards for preparing semi-annual financial statements, statements of appropriation of retained earnings and cash flows are not prepared.

In accordance with the financial accounting standards, the consolidation method for subsidiaries or other controlled companies has not been applied in the accompanying semi-annual financial statements.

The preparation of semi-annual financial statements in conformity with financial accounting standards 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.

Translation of Financial Statements of Overseas Branches—

Accounts and records of overseas branches are independently maintained in foreign currencies of the countries located. In translating financial statements of overseas branches, the Bank applied the appropriate exchange rate at the balance sheet date.

Translation of Foreign Currency—

Assets and liabilities denominated in foreign currencies are translated into Korean Won at the exchange rates prevailing at the balance sheet date. The resulting exchange gains or losses are reflected in other operating income or expenses.

The exchange rate used to translate foreign currency denominated assets and liabilities at June 30, 2001 and 2000 are based on ₩1,300.7 : US$1 and ₩1,114.8 : US$1, respectively.

Recognition of Interest Income—

Interest income on loans and investments is recognized on an accrual basis, while interest income on overdue or dishonored loans, except for those secured or guaranteed by financial institutions, is recognized on a cash basis in accordance with the accounting standards of the banking industry. As of June 30, 2001 and 2000, accrued but not recognized interest income approximated ₩464,324 million and ₩622,538 million, respectively.

Allowances for Loan Losses—

The Bank applies its internal credit rating system, Forward Looking Criteria ("FLC"), to corporate loan balances exceeding a certain size, in order to classify the borrowers' credit risk and to determine allowances for loan losses. Credit risk classification under FLC is based on a scaled valuation of financial and non-financial risks with additional consideration of loan type, collateral and/or guarantees.

The Bank does not apply FLC to its consumer loans and small-sized corporate loans. Alternatively, the bank classifies such loans by considering current financial status including delinquent number of days, bankruptcies, collateral value and repayability.

Allowances are determined by applying at minimum the following rates to the outstanding balances of each credit risk classification and loan classification.

Credit risk classifications	Loan classifications	Allowances rates
AAA–B	Normal	0.5%
CCC	Precautionary	2%
CC	Sub-standard	20%
C	Doubtful	50%
D	Estimated loss	100%

Securities—

Marketable securities held for short-term capital gain purposes, which exclude stocks issued by associates and debt securities held to maturity, are classified as trading securities. Other securities that are not classified as trading securities are classified as investment securities.

Securities are initially recorded at cost with incidental expenses added to compute the acquisition cost in applying moving average or specific identification method. The subsequent valuation methods used for the securities are summarized as follows:

	Valuation Methods	Recognition of Unrealized Gains and Losses
Trading securities	Fair value	Net income
Investment securities		
Available-for-sale securities	Fair value	Capital adjustments
Held-to-maturity securities and non-marketable equity securities	Cost	Net income for impairment loss
Investment in associates	Equity method	Net income, retained earnings, or capital adjustments per source of the gain or loss

In cases where the fair value of the investment securities are significantly below the book value and the impairment is determined to be other than temporary, the Bank adjusts the investment securities to fair value and recognizes the related impairment losses as a part of current period's non-operating expenses.

Bonds with Repurchase/Resale Agreement—

Securities bought under resale agreement are recorded in loans as bonds purchased with resale agreement and securities sold under repurchase agreement are recorded in borrowings as bonds sold with repurchase agreement.

Present Value Discounts—

Troubled debt restructuring loans, which are modified as to outstanding principal, interest rate, and/or maturity under programs such as work out, court receivership, court mediation, or debt restructuring agreements of parties concerned, are carried at present value in cases where the difference between the book value and the present value of the modified loan is significant. When estimating the present value of the loans, the Bank applies the interest rate as of the inception of the loans except for the interest rate of variable rate loans and extended maturity loans, which are adjusted to reflect the interest rate of the restructuring date. The present value discounts are recorded by reclassifying allowances for loan losses and if additional allowances need to be provided for, the additional allowances are provided and recognized as provision for loan losses of the current period. These present value discounts are amortized using the effective interest method and are recognized as interest income. Allowances for loan losses on the restructured loans are provided for based on the loan balances net of present value discounts.

Additionally, the Bank recorded ₩31,852 million and ₩38,670 million of present value discounts as of June 30, 2001 and 2000, respectively, on long-term deposits placed with Bukook Mutual Savings & Finance Co., Ltd. (See Note 4), a subsidiary of the Bank before its sale in December 1999. Also, the receivables from disposal of foreclosed assets that are redeemed in long-term installments are recorded in the balance sheet net of the related present value discounts.

Property and equipment are recorded at cost, except for upward revaluation of certain assets in accordance with Korean Asset Revaluation Law. Routine maintenance and repairs are recognized as expenses as incurred. Expenditures that enhance the value or extend the useful life of the assets involved are capitalized as additions to property and equipment.

Depreciation is computed using the declining-balance method, except for leasehold improvements, buildings, and structures that are depreciated using the straight-line method. Depreciation is calculated based on the estimated average useful lives of the assets and is presented as accumulated depreciation, which is a contra account of property and equipment in the financial statements.

The estimated useful lives of the property and equipment are as follows:

Buildings and structures	40 years
Leasehold improvements	1–5 years
Machinery	4 years
Equipment and vehicles	4 years

Intangible assets are amortized over a 5–50 year period using the straight-line method and are presented in the financial statements net of accumulated depreciation.

Foreclosed assets acquired through, or in lieu of, loan foreclosure are stated at cost and are not depreciated. Unrealized losses, where the final bidding price at a public auction is below the book value, are recorded as valuation allowances, which is a contra account of foreclosed assets in the financial statements.

Stock Issuance Costs and Debenture Issuance Costs—

Stock issuance costs are deducted from paid-in capital in excess of par value. Debenture issuance costs are recorded as discounts on debentures and amortized, over the maturity of the debentures, using the effective interest method.

Accrued Retirement Benefits—

Employees and directors with more than one year of service as of June 30, 2001 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 payment at the time of termination. Additionally, the Bank records the contributed amounts to its pension funds, which grants the retrieval rights to its employees, and the National Pension Fund as contra accounts of accrued retirement benefits.

Guarantees and Acceptances—

By applying credit risk classification used for loans to the guarantees and acceptances, the Bank records allowances for losses on outstanding guarantees and acceptances according to their classification as sub-standard, doubtful, or estimated loss (allowances rates are 20%, 50%, 100%, respectively).

Deferred Income Taxes—

In accordance with financial accounting standards, the Bank records the future tax effects of temporary differences between the financial and tax bases of assets and liabilities as deferred tax assets or liabilities. The cumulative effect of accounting changes and prior year error corrections adjust the beginning balance of retained earnings and thus result in temporary differences.

The Bank records the rights and obligations arising from derivative contracts at fair values on the balance sheet as assets and liabilities and recognizes the related unrealized gains or losses in the income statement.

However, the effective portions of the unrealized gains or losses, which arise from effective cash flow hedges are recorded in capital adjustments. As of June 30, 2001, the Bank does not have any cash flow hedge derivatives.

Stock Options—

The Bank calculates the fair value of stock options as of the grant date and allocates the resulting total cost over the period to exercise date. The costs allocated to the current period are charged to operating expenses (See Note 20).

Gains and Losses on Trust Management—

The Bank's trust accounts ("the Trust Accounts") recognize as an expense the trust commissions paid to the banking accounts, equivalent of total trust revenue less total trust expenses and trustee benefits (including the guaranteed principle and minimum rate of return). The trust commissions for money in trusts consist of base fees of 0.2%–2.0% (depending on trust fund types) and special fees of maximum 4.0% applied to the invested capital. The Bank recognizes these trust commissions as gain on trust management in other operating income.

Under the Trust Business Act, reserves for future losses are set up in the trust accounts for losses related to those trust funds with guarantee of the principal or of a certain minimum rate of return. The reserves are used to provide for the losses on such trust funds and, if the losses are incurred in excess of the reserves for future losses, the excess losses are compensated by the Bank (banking accounts : loss on trust management in other operating expenses, trust accounts : compensation from banking accounts). During the six-month period ended June 30, 2001, the Bank did not record any loss on trust management and during the six-month period ended June 30, 2000, the Bank recorded ₩173,718 million of loss on trust management due to compensation to the trust accounts.

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. All Won amounts are expressed in U.S. dollars at the rate of ₩1,300.7 : US$1, the prevailing rate on June 30, 2001. This presentation is not required by or in accordance with Korean or the United States' generally accepted accounting principles, and should not be construed as a representation that the Won amounts shown could be converted to or settled in U.S. dollars at this or any other rate.

The 2000 U.S. dollar amounts, which were previously expressed at the rate of ₩1,114.8 : US$1, the rate prevailing on June 30, 2000, have been restated to reflect the exchange rate in effect on June 30, 2001.

4. Cash and Due from Banks:

Cash and due from banks at June 30, 2001 and 2000 are summarized as follows:

		Annual Interest(%)	Millions of Won	
			2001	**2000**
Cash on hand				
Cash in Won		—	₩1,400,843	₩1,463,376
Cash in foreign currency		—	83,646	66,598
			1,484,489	1,529,974
Due from banks in Won currency				
The Bank of Korea	Checking accounts	—	400,501	56,037
Banks	Certificates of deposits	5.7 – 8.29	392,859	1,313,667
	Current accounts and others	—	1,720	357
Other financial institutions	Cash management accounts	1.0 – 6.5	432,275	1,510,037
	Group retirement deposits	6.5	168,300	396,000
	Unit trusts	3.14 – 9.89	36,970	39,016
	Deposits at insurance co.	5.31 – 5.74	168,800	—
Others	Futures margin accounts	3.0	29,860	8,336
	Others	—	453	565
			1,631,738	3,324,015
Present value discounts(*)			(31,852)	(38,670)
			1,599,886	3,285,345
Due from banks in foreign currency				
The Bank of Korea	Other deposits	—	24,362	41,547
Domestic banks	Time deposits	3.95 – 6.06	771,315	1,180,371
	Other deposits	—	49,824	4,800
Foreign banks	Time deposits	3.62 – 6.35	113,772	55,373
	Other deposits	—	1,268	25,399
Others	Time deposits	Libor + 2.6 – 2.7	—	33,419
	Other deposits	2.5 – 2.85	8,622	4,272
			969,163	1,345,181
			₩4,053,538	₩6,160,500

(*) Present value discounts are recorded in relation to the ₩140,000 million of time deposits (1% interest, longer than 5-year maturity) placed with Hansol Mutual Savings & Finance Co., Ltd. on the sale of Bukook Mutual Savings & Finance Co., Ltd., a subsidiary of the Bank, during 1999.

Included in cash and due from banks as of June 30, 2001 and 2000 are the following restricted deposits:

	Millions of Won		
	2001	2000	Restrictions
Checking accounts in the Bank of Korea	₩400,501	₩ 56,037	General Banking Act
Cash management accounts	140,000	140,000	Withdrawal at maturity
Group retirement deposits	168,300	396,000	Group retirement insurance
Other deposits in the Bank of Korea	24,362	41,547	General Banking Act
	₩733,163	₩633,584	

The maturities of the due from banks as of June 30, 2001 are summarized as follows (in millions of Won):

Years Ending June 30,	Due from Banks in Won	Due from Banks in Foreign Currency	Total
2002	₩1,164,638	₩969,163	₩2,133,801
2003	305,600	—	305,600
Thereafter	161,500	—	161,500
	₩1,631,738	₩969,163	₩2,600,901

5. Trading Securities:

Trading securities as of June 30, 2001 and 2000 comprise the following (in millions of Won):

Type	Annual Interest(%)	Face Value	Acquisition Cost	Amortized Cost	Balance Sheet Amount 2001	Balance Sheet Amount 2000
Trading securities in Won						
Listed equity securities	—	₩ —	₩ 17,921	₩ 17,921	₩ 17,544	₩ 139,813
Government and municipal bonds						
—Treasury bonds	5.53 – 9.02	630,800	652,531	660,410	663,936	1,213,660
—Public housing bonds	6.02 – 8.55	40,000	36,955	38,318	38,582	181,771
—Currency stabilization bonds	6.80 – 8.14	70,000	75,520	75,861	77,706	70,246
		740,800	765,006	774,589	780,224	1,465,677
Finance debentures						
—Monetary stabilization bond	5.25 – 6.60	730,000	844,111	842,593	844,499	353,185
—Other finance debentures	5.40 – 5.98	250,000	276,439	276,348	276,603	192,659
		980,000	1,120,550	1,118,941	1,121,102	545,844
Corporate bonds						
—Government guaranteed bonds	5.80 – 9.50	440,400	459,701	459,426	462,298	111,099
—Other corporate bonds	5.75 – 9.50	250,000	250,387	250,638	250,944	247,905
		690,400	710,088	710,064	713,242	359,004
Beneficial certificates	—	9,113	9,069	10,832	11,832	85,914
Trading securities in foreign currency	0 – Libor + 1.15	42,753	35,103	35,090	35,227	18,938
		₩2,463,066	₩2,657,737	₩2,667,437	₩2,679,171	₩2,615,190

Trading debt securities in Won are recorded at fair value using the market yield of bonds provided by the Korea Securities Dealers Association.

The maturities of the trading debt securities as of June 30, 2001 are summarized as follows (in millions of Won):

Year ending June 30,	Government and Municipal Bonds	Finance Debentures	Corporate Bonds	Beneficial Certificates	Foreign Currency	Total
2002	₩ 80,721	₩ 443,139	₩ 85,232	₩11,832	₩16,548	₩ 637,472
2003	461,152	646,301	90,445	—	18,679	1,216,577
2004	110,276	10,028	440,368	—	—	560,672
2005	117,269	21,634	—	—	—	138,903
Thereafter	10,806	—	97,197	—	—	108,003
	₩780,224	₩1,121,102	₩713,242	₩11,832	₩35,227	₩2,661,627

Trading securities risk concentrations as of June 30, 2001 are as follows (in millions of Won):

	Securities in Won		Securities in Foreign Currency	
	Amount	**%**	**Amount**	**%**
By Geography				
—Korea	₩2,643,944	100.00	₩12,684	36.01
—Argentina	—	—	22,543	63.99
	₩2,643,944	100.00	₩35,227	100.00
By Industry				
—Government	₩1,232,290	46.61	₩18,394	52.22
—Financial institutions	1,080,091	40.85	3,884	11.03
—Others	331,563	12.54	12,949	36.75
	₩2,643,944	100.00	₩35,227	100.00
By Type				
—Fixed rate	₩1,761,941	66.64	₩17,243	48.95
—Floating rate	436,325	16.50	17,984	51.05
—Equity securities	17,544	0.66	—	—
—Others	428,134	16.20	—	—
	₩2,643,944	100.00	₩35,227	100.00

6. Investment Securities:

Investment securities at June 30, 2001 and 2000 are as follows (in millions of Won):

1) Equity securities and investment in special funds

Type	Acquisition Cost	Balance Sheet Amount	
		2001	**2000**
Equity Securities			
—Marketable equity securities	₩ 305,454	₩ 260,360	₩ 109,820
—Non-marketable equity securities	309,880	261,442	177,529
—Domestic subsidiaries	514,832	960,526	733,631
—Overseas subsidiaries	96,586	66,839	55,719
—Foreign equity securities	26,933	26,966	23,993
	1,253,685	1,576,133	1,100,692
Investment in special funds			
—Stock market stabilization fund	11,437	18,602	11,309
—Investment union fund	14,508	14,508	14,505
	25,945	33,110	25,814
	₩1,279,630	₩1,609,243	₩1,126,506

2) Available-for-sale debt investment securities

Type	Annual Interest (%)	Face Value	Acquisition Cost	Amortized Cost	Balance Sheet Amount(*) 2001	Balance Sheet Amount(*) 2000
Government and municipal bonds						
—Treasury bonds	5.08-15.00	₩ 885,200	₩ 891,918	₩ 892,165	₩ 922,284	₩1,039,361
—Public housing bonds	5.00-15.00	302,007	251,644	279,344	292,018	359,068
—Grain supply bonds	7.40-11.70	100,000	99,975	99,988	102,435	111,984
—Foreign exchange stabilization bonds	6.05-12.00	149,914	153,572	153,227	158,470	221,275
—Regional development bonds	6.00-14.30	3,611	3,246	3,436	3,560	19,548
—Other municipal bonds	7.20-11.80	147,614	140,327	147,318	148,170	190,504
		1,588,346	1,540,682	1,575,478	1,626,937	1,941,740
Finance debentures						
—Monetary stabilization bond	5.87-8.51	1,087,200	1,056,124	1,054,371	1,061,339	1,349,818
—Other finance debentures	5.95-12.15	789,944	777,523	782,409	794,522	746,425
		1,877,144	1,833,647	1,836,780	1,855,861	2,096,243
Corporate bonds						
—Government guaranteed bonds	6.45-13.76	1,460,089	1,572,391	1,527,008	1,579,375	2,219,305
—Other corporate bonds	5.91-19.70	2,082,914	2,065,151	2,049,641	2,077,569	1,068,446
		3,543,003	3,637,542	3,576,649	3,656,944	3,287,751
Beneficial certificates						
—Fixed return beneficial certificates	10.20	20,000	20,000	20,000	20,346	502,769
—Performance beneficial certificates	—	1,647,121	1,647,113	1,758,274	1,754,662	261,549
		1,667,121	1,667,113	1,778,274	1,775,008	764,318
Debt securities in foreign currency	0.13-28.0	1,099,105	993,645	868,996	860,186	573,264
		₩9,774,719	₩9,672,629	₩9,636,177	₩9,774,936	₩8,663,316

(*) Available for sale debt securities in Won are recorded at fair value using the market yield of bonds provided by the Korea Securities Dealers Association.

3) Held-to-maturity debt investment securities

Type	Annual Interest (%)	Face Value	Acquisition Cost	Amortized Cost	Balance Sheet Amount 2001	Balance Sheet Amount 2000
Government and municipal bonds						
—Treasury bonds	7.00-15.70	₩ 739,098	₩ 741,818	₩ 743,210	₩ 743,210	₩ 580,284
—Public housing bonds	5.00-20.00	172,833	117,402	156,588	156,588	185,783
—Grain supply bonds	—	—	—	—	—	30,414
—Foreign exchange stabilization bonds	8.11-19.50	539,668	548,696	549,061	549,061	152,143
—Regional development bonds	6.00-18.00	15,842	10,169	14,445	14,445	16,104
—Other municipal bonds	9.28-16.30	16,135	10,452	12,761	12,761	13,712
		1,483,576	1,428,537	1,476,065	1,476,065	978,440
Finance debentures						
—Monetary stabilization bond	5.45-9.01	2,568,250	2,497,339	2,497,867	2,497,867	2,047,486
—Other finance debentures	5.50-16.00	347,985	342,469	346,084	346,084	350,134
		2,916,235	2,839,808	2,843,951	2,843,951	2,397,620
Corporate bonds						
—Government guaranteed bonds	1.00-13.76	4,021,629	4,034,688	4,028,454	4,028,454	2,911,405
—Other corporate bonds	6.44-14.02	1,440,028	1,434,328	1,434,095	1,434,095	860,366
		5,461,657	5,469,016	5,462,549	5,462,549	3,771,771
Debt securities in foreign currency	0.25-5.00	85,079	56,538	81,236	81,236	215,048
		₩9,946,547	₩9,793,899	₩9,863,801	₩9,863,801	₩7,362,879

As of June 30, 2001 and 2000, ₩3,197,804 million and ₩85,384 million, respectively, of monetary stabilization bonds sold under repurchase agreement are included in the investment securities (See Note 13).

Equity securities held as of June 30, 2001 and 2000 are as follows (in millions of Won):

Issuer	Number of Shares	Percentage (%)	Acquisition Cost	Fair Value	Balance Sheet Amount 2001	Balance Sheet Amount 2000
Marketable equity securities (KSE)						
—Kia Motors Corp.	3,616,656	9.62	₩ 39,331	₩ 39,422	₩ 39,422	₩ 31,479
—Hankang Restructuring Fund	5,420,000	4.28	27,100	18,157	18,157	21,572
—Daewoo Securities Co.	3,040,000	1.80	53,627	28,302	28,302	18,716
—Korea Zinc	535,783	2.84	13,395	10,528	10,528	8,020
—Korea Development Leasing Co.	2,511,440	9.84	7,911	3,051	3,051	4,834
—Inchon Iron & Steel Co., Ltd.	1,059,646	0.86	5,079	3,873	3,873	3,709
—Hanmi Capital Co., Ltd.	1,930,200	5.24	2,336	1,737	1,737	1,834
—Kohap Corp.	620,000	1.45	521	617	617	1,302
—Yungjin Pharm. Co., Ltd.	541,689	5.15	3,131	1,571	1,571	—
—Maxon Electronics Ltd. and others	664,000	—	140,141	144,412	144,412	9,319
			292,572	251,670	251,670	100,785

Issuer	Number of Shares	Percentage (%)	Acquisition Cost	Fair Value	Balance Sheet Amount 2001	Balance Sheet Amount 2000
Marketable equity securities (KOSDAQ)						
—Miju Steel Mfg. Co., Ltd.	56,800	6.69	1,000	770	770	1,617
—Shinbo Leasing Co.	457,162	5.39	919	1,006	1,006	773
—Chohung Capital Co., Ltd.	2,864,600	9.75	8,135	5,471	5,471	4,096
—Ssangyong Eng. and Cons. Co.	1,565,000	1.14	548	1,064	1,064	1,158
—Hansol Mutual S&F Co., Ltd.	94,737	0.96	2,280	379	379	756
—Others	—	—	—	—	—	635
			12,882	8,690	8,690	9,035
Non-marketable equity securities						
—Investments in mutual funds(*)	20,580,000	8.13	102,900	101,922	102,900	102,900
—Mortgage Liquidation Co.	3,000,000	14.27	15,000	14,570	15,000	15,000
—Korea Highway Co.	573,448	0.12	6,248	12,104	6,248	6,248
—Korea Asset Management Co.	910,000	3.79	4,550	5,886	4,550	4,550
—Korea Housing Guarantee Co., Ltd.	12,109,600	2.09	60,548	18,887	12,110	9,150
—Mirae Asset Securities Co.	1,000,000	4.43	5,000	5,291	5,000	5,000
—Kyobo Investment Trust Management	420,000	7.00	2,100	2,558	2,100	2,100
—Korea Vilene Co., Ltd. and others	22,706,873	—	113,534	87,342	113,534	32,581
			309,880	248,560	261,442	177,529
Foreign equity securities						
—Asia Credit Services (PTE) Ltd.	1,000,000	6.67	13,007	11,448	13,007	11,148
—Nanjing Kumho Tire Co., Ltd.	—	6.00	2,767	1,599	2,767	2,371
—Widong Shipping & Airfreight Co., Ltd.	—	5.50	429	3,244	429	368
—Pan Asia Paper (Thailand) Co., Ltd.	1,275,000	2.94	3,372	1,878	3,372	3,333
—AFI Co., Ltd. and others	4,139,369	—	7,358	6,010	7,391	6,773
			26,933	24,179	26,966	23,993
			₩642,267	₩533,099	₩548,768	₩311,342

(*) Investments in mutual funds comprise investments in 3 mutual funds established to support corporate reorganizations.

Equity securities in subsidiaries held as of June 30, 2001 and 2000 are as follows (in millions of Won):

Issuer	Percentage (%)	Acquisition Cost	Book Value	Unrealized Gains and Losses(*)			Balance Sheet Amount	
				NI	R/E	C/A	2001	2000
Domestic subsidiaries								
Kookmin Venture Capital Co., Ltd.	94.11	₩ 44,275	₩ 50,695	₩ (167)	₩ (52)	₩3,813	₩ 54,289	₩ 80,093
Kookmin Credit Card Co., Ltd.	74.27	272,274	595,750	171,072	281	1,284	768,387	510,647
KB Venture Capital Co., Ltd.	100.00	43,099	64,070	5,675	(214)	3,086	72,617	82,079
Kookmin Leasing Co., Ltd.	89.61	84,103	—	—	—	—	—	—
KB Investment Trust Mgt. Co., Ltd.	87.00	31,049	30,822	1,541	(751)	—	31,612	29,834
Kookmin Data System Co., Ltd.	99.98	7,998	10,366	850	(13)	—	11,203	9,818
Kookmin Futures Co., Ltd.	99.98	19,996	21,275	914	(479)	50	21,760	20,505
KLB Securities Co., Ltd. (**)	36.41	10,316	—	—	—	—	—	—
KLB Economic Research Institute (**)	69.98	1,722	658	—	—	—	658	655
		514,832	773,636	179,885	(1,228)	8,233	960,526	733,631
Overseas subsidiaries								
KB International Ltd. (London)	100.00	47,121	42,333	2,477	—	—	44,809	38,144
KB Luxembourg S.A.	100.00	24,501	—	1,397	—	—	1,397	3,657
Kookmin SIN (Merchant Bank) (**)	100.00	10,155	2,258	—	—	—	2,259	1,936
Kookmin Finance Asia Ltd. (HK)	100.00	14,809	15,332	3,042	—	—	18,374	11,982
		96,586	59,923	6,916	—	—	66,839	55,719
		₩611,418	₩833,559	₩186,801	₩(1,228)	₩8,233	₩1,027,365	₩789,350

(*) NI : Net Income, R/E : Retained Earnings, C/A : Capital Adjustments
(**) In liquidation procedures

Unrealized gains and losses on investment securities recorded in capital adjustments as of June 30, 2001 comprise the following (in millions of Won):

	Amortized Cost	Unrealized Gains/Losses	Balance Sheet Amount
Investment equity securities	₩ 1,246,380	₩ 61,396	₩ 1,314,691
Investment debt securities			
—Government and municipal bonds	1,575,478	51,459	1,626,937
—Finance debentures	1,836,780	19,081	1,855,861
—Corporate bonds	3,576,649	80,295	3,656,944
—Beneficial certificates	1,778,274	(3,266)	1,775,008
—Debt securities in foreign currency	868,996	(8,810)	860,186
	9,636,177	138,759	9,774,936
	₩10,882,557	₩200,155	₩11,089,627

Investment securities risk concentrations as of June 30, 2001 are as follows (in millions of Won):

	Securities in Won		Securities in Foreign Currency	
	Amount	%	Amount	%
By Geography				
Korea	₩20,212,753	100.00	₩ 611,352	59.05
Thailand	—	—	24,770	2.39
Malaysia	—	—	69,763	6.74
Indonesia	—	—	41,444	4.00
Philippines	—	—	98,359	9.50
India	—	—	25,776	2.49
South America	—	—	19,062	1.84
USA	—	—	15,857	1.53
Japan	—	—	13,091	1.26
Other	—	—	115,753	11.20
	₩20,212,753	100.00	₩1,035,227	100.00
By Industry				
Governmental institutions	₩ 8,319,711	41.16	₩ 135,019	13.04
Financial institutions	4,699,812	23.25	285,499	27.58
Others	7,193,230	35.59	614,709	59.38
	₩20,212,753	100.00	₩1,035,227	100.00
By Type				
Fixed rate	₩ 9,052,476	44.79	₩ 343,640	33.19
Floating rate	2,662,895	13.17	322,026	31.11
Subordinated	174,300	0.86	99,668	9.63
Convertible	533,600	2.64	206,210	19.92
Equity securities	1,482,328	7.33	26,966	2.60
Others	6,307,154	31.21	36,717	3.55
	₩20,212,753	100.00	₩1,035,227	100.00

The maturities of the investment debt securities as of June 30, 2001 are summarized as follows (in millions of Won):

Year ending June 30,	Government and Municipal Bonds	Finance Debentures	Corporate Bonds	Beneficial Certificates	Securities in Foreign Currency	Total
2002	₩ 663,219	₩3,759,106	₩1,114,414	₩ 675,394	₩260,674	₩ 6,472,807
2003	460,503	483,034	1,482,891	1,099,614	190,769	3,716,811
2004	981,793	317,658	4,561,086	—	138,181	5,998,718
2005	598,359	90,672	678,696	—	127,862	1,495,589
Thereafter	399,128	49,342	1,282,406	—	223,936	1,954,812
	₩3,103,002	₩4,699,812	₩9,119,493	₩1,775,008	₩941,422	₩19,638,737

Currency concentrations of foreign trading and investment securities as of June 30, 2001 are as follows (in millions of Won):

	Foreign Trading Securities		Foreign Investment Securities	
	Amount	%	Amount	%
USD	₩29,541	83.86	₩ 916,039	88.49
JPY	—	—	47,177	4.56
SFR	—	—	3,016	0.29
BDT	—	—	1,671	0.16
DEM	—	—	10,890	1.05
GBP	—	—	42,333	4.09
THB	—	—	4,089	0.39
PHP	—	—	512	0.05
MYR	—	—	7,544	0.73
IDR	—	—	1,956	0.19
LIR	5,686	16.14	—	0.00
	₩35,227	100.00	₩1,035,227	100.00

As of June 30, 2001, the following securities are pledged at various institutions (in million of Won):

Institution	Book Value	Pledge Value	Related Liability/Transactions
Investment securities in Won			
Bank of Korea	₩2,597,881	₩1,456,400	BOK borrowings
Bank of Korea	738,300	226,700	BOK settlements
Bank of Korea	1,176,293	900,000	Sale of RP
Korea Asset Management Company	389,800	103,467	Sale of non-performing loans
Industrial Bank of Korea	3,088	1,900	Foreign currency transactions
Kookmin Futures and others	325,361	89,000	Derivatives transactions
Kookmin Bank	3,986,356	3,624,800	Sale of RP
Korea Securities Finance Corporation	9,966	10,000	Borrowing
	₩9,227,045	₩6,412,267	

7. Loans:

Loans outstanding as of June 30, 2001 and 2000 are summarized as follows:

Account	Detailed Account	Annual Interest(%)	Millions of Won	
			2001	2000
Loans in Won				
Corporate loans				
—Operation loans	—General operation loans	9.25-15.79	₩18,965,650	₩16,000,254
	—Notes discounted	6.37-15.79	1,704,944	1,752,899
	—Overdraft accounts	9.50-11.50	306,033	333,184
	—Trading notes	6.87-15.79	614,694	443,826
	—Other operation loans	9.25-15.79	1,698,304	696,262
			23,289,625	19,226,425
—Facility loans	—General facility loans	9.25-15.79	3,260,313	3,079,271
	—Special purpose loans	9.25-15.54	387,353	358,281
	—Other facility loans	9.25-15.79	862,771	897,479
			4,510,437	4,335,031
			27,800,062	23,561,456
Consumer loans	—General consumer loans	9.50-14.79	15,883,775	12,425,092
	—Consumer housing loans	9.50-14.79	2,135,331	1,230,011
	—Consumer benefit loans	9.50-14.79	28,050	74,702
	—Other consumer loans	9.50-14.79	167,151	165,183
			18,214,307	13,894,988
Public loans	—Public operation loans	9.50-15.79	672,179	183,847
	—Public facility loans	9.50-15.79	37,919	55,604
			710,098	239,451
Other loans	—Employee savings loans	9.50-14.79	212,070	196,173
	—Employee benefit loans	9.50-14.79	2,111	7,703
	—Inter-bank loans	9.00	44,234	59,027
			258,415	262,903
			46,982,882	37,958,798
Loans in foreign currency	—Domestic funding loans	Libor+3.35-8.64	1,669,818	1,934,538
	—Overseas funding loans	Libor+0.42-6.0	957,561	1,026,630
	—Government funding loans	Libor+1.6	11,837	19,434
	—Domestic usance bills	6.68-7.87	6,380	4,940
			2,645,596	2,985,542
Bills bought in Won		10.75-13.75	63,046	41,567
Bills bought in foreign currency		6.68-7.87	949,584	755,469
Payments on guarantees		19.00	231,362	333,527
Credit card accounts		10.50	41,863	498,907
Bonds purchased with resale agreement ("RP")		4.88-6.20	1,774,400	—
Call loans		5.10-20.0	1,038,805	1,479,054
Privately placed debentures		9.25-15.79	2,066,256	1,605,866
Loans for restructuring		—	44,408	—
			55,838,202	45,658,730
Allowances for loan losses			(1,525,256)	(1,713,100)
Present value discounts			(125,221)	(238,598)
			₩54,187,725	₩43,707,032

As of June 30, 2001, credit risk classifications on loans and other receivables outstanding, net of present value discounts, is as follows:

	Normal	Precautionary	Substandard	Doubtful	Estimated Loss	Total	Allowances
Loans(*)							
Loans in Won	₩42,706,177	₩2,404,578	₩1,283,112	₩349,466	₩116,183	₩46,859,516	₩1,064,680
Loans in foreign currency	1,576,455	462,975	498,582	62,098	24,242	2,624,352	170,483
Bills bought	812,452	84,247	4,238	107,861	3,660	1,012,458	64,185
Payments on guarantees	8,071	8,843	41,364	139,551	31,808	229,637	110,074
Credit card accounts	41,863	—	—	—	—	41,863	209
Privately placed loans	1,544,783	257,380	137,997	100,119	3,029	2,043,308	84,775
Loans for restructuring	—	—	16,715	27,693	—	44,408	27,133
	46,689,801	3,218,023	1,982,008	786,788	178,922	52,855,542	1,521,539
Other receivables	—	89	10,060	410	1,498	12,057	3,717
	₩46,689,801	₩3,218,112	₩1,992,068	₩787,198	₩180,420	₩52,867,599	₩1,525,256

(*) Exclusive of RP, call loans, and inter-bank loans

As of June 30, 2001, 2000 and 1999 the ratios of allowances for loan losses to total loans are 2.9%, 3.8%, and 3.2%, respectively.

Movements of allowances for loan losses for the six-month periods ended June 30, 2001 and 2000 are as follows:

	Millions of Won	
	2001	2000
Beginning balance	₩1,826,700	₩1,880,100
Written-off	(446,028)	(257,213)
Troubled debt restructuring	(46,871)	(133,980)
Debts forgiven	(29,539)	(26,712)
Sale of loans	(42,097)	—
Repurchase of loans previously sold	3,175	3,851
Collection of written-off loans	27,761	20,402
Translation and other adjustments	14,809	(50,007)
Ending balance before additional allowances	1,307,910	1,436,441
Additional allowances for the period	217,346	276,659
Ending balance	₩1,525,256	₩1,713,100

As of June 30, 2001, loans undergone troubled debt restructuring are summarized as follows (in millions of Won):

	Balances before Settlements	Settlements by issuance or grants of			Balances after Settlements	Present Value Discounts	Restructured Book Value
		Unsettled	Equity	CBs			
Work out	₩1,195,256	₩44,408	₩103,555	₩130,800	₩ 916,493	₩ 87,891	₩ 828,602
Court receivership	180,895	—	10,176	—	170,719	28,840	141,879
Court mediation	263,073	—	—	—	263,073	8,490	254,583
	₩1,639,224	₩44,408	₩113,731	₩130,800	₩1,350,285	₩125,221	₩1,225,064

The loans, or portions thereof, that are agreed to settlements by issuance or grants of equity are separately classified as loans for restructuring as of the agreement date. The loans for restructuring are stated at the lower of principal amount or the fair value of the to-be-converted equity interest with related unrealized gains/losses recognized as provision for loan losses.

Movements of present value discounts, resulting from the troubled debt restructuring, for the six-month period ended June 30, 2001 related to the restructured loans are as follows:

	Beginning	Increase	Decrease	Ending
Work out	₩139,610	₩ 4,348	₩56,067	₩ 87,891
Court receivership	18,274	13,378	2,812	28,840
Court mediation	10,394	—	1,904	8,490
	₩168,278	₩17,726	₩60,783	₩125,221

Loans as of June 30, 2001 are outstanding to entities classified as follows (in millions of Won):

	Domestic Banks	Foreign Banks	Other Financial Institutions	Others	Total
Loans in Won	₩ 44,234	₩ —	₩1,074,627	₩45,864,021	₩46,982,882
Loans in foreign currency	278,748	148,280	470,050	1,748,518	2,645,596
Bills bought in Won	—	—	3,441	59,605	63,046
Bills bought in foreign currency	—	—	—	949,584	949,584
Payments on guarantees	—	—	—	231,362	231,362
Credit card accounts	—	—	41,863	—	41,863
RP	1,674,400	—	100,000	—	1,774,400
Call loans	831,501	193,154	—	14,150	1,038,805
Privately placed debentures	—	—	89,698	1,976,558	2,066,256
Loans for restructuring	—	—	—	44,408	44,408
	₩2,828,883	₩341,434	₩1,779,679	₩50,888,206	₩55,838,202

The maturities of loans as of June 30, 2001 are as follows (in millions of Won):

Year Ending June 30,	2002	2003	2004	2005	thereafter	Total
Loans in Won	₩30,168,635	₩4,712,267	₩6,067,027	₩1,920,452	₩4,114,501	₩46,982,882
Loans in foreign currency	659,834	306,770	471,082	177,842	1,030,068	2,645,596
Bills bought in Won	63,046	—	—	—	—	63,046
Bills bought in foreign currency	949,584	—	—	—	—	949,584
Payments on guarantees	222,206	—	8,524	632	—	231,362
Credit card accounts	—	—	—	—	41,863	41,863
RP	1,774,400	—	—	—	—	1,774,400
Call loans	1,038,805	—	—	—	—	1,038,805
Privately placed debentures	597,822	539,027	541,739	105,098	282,570	2,066,256
Loans for restructuring	—	—	—	—	44,408	44,408
	₩35,474,332	₩5,558,064	₩7,088,372	₩2,204,024	₩5,513,410	₩55,838,202

Loan risk concentrations by industry as of June 30, 2001 are as follows:

	Loans in Won	Loans in Foreign Currency	Other Loans	Total	Percentage(%)
Governmental institutions	₩ 278,104	₩ 34,685	₩ —	₩ 312,789	0.6
Financial institutions	1,118,861	907,972	2,948,207	4,975,040	8.9
Manufacturing companies	11,694,326	963,484	2,088,062	14,745,872	26.4
Service companies	2,447,571	480,004	18,068	2,945,643	5.3
Individuals	18,428,487	34,632	—	18,463,119	33.0
Others	13,015,533	224,819	1,155,387	14,395,739	25.8
	₩46,982,882	₩2,645,596	₩6,209,724	₩55,838,202	100.0

Loan risk concentrations by country as of June 30, 2001 and 2000 are as follows (in millions of Won):

	2001		2000	
	Amount	Percentage(%)	Amount	Percentage(%)
Korea	₩55,151,043	98.8	₩45,259,597	99.2
Southeast Asia	127,451	0.2	165,266	0.2
Russia	128,769	0.2	122,628	0.3
Japan	58,972	0.1	1,514	0.0
China	14,740	0.0	23,972	0.0
South America	32,165	0.1	32,414	0.2
Others	325,062	0.6	53,339	0.1
	₩55,838,202	100.0	₩45,658,730	100.0

8. Guarantees and acceptances:

Guarantees and acceptances outstanding as of June 30, 2001 and 2000 are summarized as follows:

	Millions of Won	
	2001	**2000**
Guarantees and acceptance in Won		
— Guarantees on debentures	₩ 5,499	₩ 21,703
— Guarantees on loan collateral	33,311	50,916
— Guarantees on commercial bills	25	1,006
— Others	128,630	118,194
	167,465	191,819
Guarantees and acceptance in foreign currency		
— Acceptances of letters of credit	2,144,808	1,382,679
— Acceptances of letters of guarantee	72,981	69,674
— Others	624,089	913,678
	2,841,878	2,366,031
	₩3,009,343	₩2,557,850

The credit risk classification and allowances for fixed guarantees and acceptances outstanding as of June 30, 2001 and 2000 are as follows:

	Millions of Won	
	2001	**2000**
Normal	₩2,831,636	₩2,416,976
Precautionary	133,352	22,630
Substandard	17,091	111,230
Doubtful	26,143	6,051
Estimated Loss	1,121	963
	3,009,343	2,557,850
Allowances	(24,012)	(30,861)
	₩2,985,331	₩2,526,989

By applying credit risk classification used for loans to the guarantees and acceptances, the Bank records allowances for losses on guarantees and acceptances outstanding according to their classification as sub-standard, doubtful, or estimated loss (allowances rates are 20%, 50%, 100%, respectively).

The risk concentrations of guarantees and acceptances outstanding, as of June 30, 2001 and 2000, are as follows (in millions of Won):

	2001		2000	
By Geography	**Amount**	**Percentage**	**Amount**	**Percentage**
Korea	₩2,911,848	96.8	₩2,306,662	90.2
Southeast Asia	12,936	0.4	14,232	0.5
Other	84,559	2.8	236,956	9.3
	₩3,009,343	100.0	₩2,557,850	100.0

	2001		2000	
By Industry	**Amount**	**Percentage**	**Amount**	**Percentage**
Governmental institutions	₩ 1,493	0.0	₩ 16,722	0.7
Financial institutions	309,382	10.3	96,475	3.8
Manufacturing companies	1,889,499	62.8	1,579,419	61.7
Services companies	66,324	2.2	25,032	1.0
Others	742,645	24.7	840,202	32.8
	₩3,009,343	100.0	₩2,557,850	100.0

Credit related derivatives included in the other foreign currency guarantees are as follows (in thousands of US Dollars):

		Guaranteeing Asset	Guarantee Amounts	Net Asset Value%
TRS	Morgan Guarantee Trust	Pacific Growth Fund Stock	USD 52,000	112.73%
TRS	Morgan Guarantee Trust	Daehan Global Bond II notes	USD 56,000	133.93%
CDS	Industrial Bank of Korea	—	USD 15,000	(*)
CDS	Chohung Bank	—	USD 35,000	(*)
CDS	Korea EXIM Bank	—	USD 15,000	(*)
			USD 173,000	

(*) classified as normal by applying FLC

9. Fixed Assets:

Property and equipment at June 30, 2001 and 2000 comprise the following (in millions of Won):

	Acquisition Cost	Accumulated Depreciation	Net Carrying Value 2001	Net Carrying Value 2000
Land	₩ 736,090	₩	₩ 736,090	₩ 744,183
Buildings and structures	510,075	83,051	427,024	434,497
Leasehold improvements	29,471	25,270	4,201	3,470
Equipment and vehicles	486,918	391,935	94,983	67,671
Constructions in progress	5,441	—	5,441	6,104
	₩1,767,995	₩500,256	₩1,267,739	₩1,255,925

Intangible assets and foreclosed assets as of June 30, 2001 and 2000 comprise the following (in millions of Won):

	Intangible Assets		Foreclosed Assets	
	2001	2000	2001	2000
Acquisition cost	₩5,872	₩6,562	₩5,697	₩11,185
Valuation allowances	—	—	(2,730)	(3,220)
Net Carrying value	₩5,872	₩6,562	₩2,967	₩ 7,965

In accordance with the General Banking Act, the Bank may only own business-purpose real property within its own equity capital amount. At June 30, 2001 and 2000, the total quoted market value of the land, determined by the tax authorities for property tax assessment, amounts to ₩605,697 million and ₩617,920 million, respectively.

In accordance with the Bank's regulations, all Bank's fixed assets, other than those personal properties valued under ₩1,000 thousand (main office: ₩5,000 thousand), are covered by insurance policies of ₩527,251 million (book value ₩1,032,438 million) and ₩511,616 million (book value ₩988,004 million) as of June 30, 2001 and 2000, respectively. All vehicles are covered by legal and general insurance policies.

Intangible assets include trademark rights, communication related utility rights, lease premiums, and software copyrights.

10. Derivatives:

Derivative contracts as of June 30, 2001 and 2000 comprise the following (in millions of Won):

	Notional Amounts					
	2001			2000		
	Trading	Hedge	Total	Trading	Hedge	Total
Currency related						
—Forward	₩ 9,166,249	₩ —	₩ 9,166,249	₩ 6,364,874	₩ —	₩ 6,364,874
—Future	827,245	—	827,245	764,029	—	764,029
—Currency swap	1,144,267	41,591	1,185,858	980,521	35,312	1,015,833
	11,137,761	41,591	11,179,352	8,109,424	35,312	8,144,736
Interest related						
—Swap	5,210,706	634,776	5,845,482	3,315,505	376,335	3,691,840
—Future	197,088	—	197,088	105,906	—	105,906
	5,407,794	634,776	6,042,570	3,421,411	376,335	3,797,746
Other	1,951	—	1,951	1,672	—	1,672
	₩16,547,506	₩676,367	₩17,223,873	₩11,532,507	₩411,647	₩11,944,154

Derivative valuation as of June 30, 2001 comprise the following (in millions of Won):

	Valuation Gains/Losses (P/L)			Fair Value (B/S)	
	Trading	Hedge	Total	Asset	Liability
Currency related					
—Forward	₩(4,566)	₩ —	₩ (4,566)	₩124,228	₩115,655
—Currency swap	(937)	2,001	1,064	48,973	42,101
Interest related					
—Swap	(3,357)	(3,834)	(7,191)	48,622	74,286
Other	—	—	—	231	—
	₩(8,860)	₩(1,833)	₩(10,693)	₩222,054	₩232,042

The trading and hedge classifications above are strictly based on accounting methods applied and the Bank's actual derivatives transactions are mostly hedged. In accordance with the addendum to the revised generally accepted accounting principles, effective January 1, 2000, the Bank reclassified most of its currency swaps and interest rate swaps, which were previously classified as hedge derivatives, as trading derivatives and recorded them at fair value.

As of June 30, 2001, the Bank has credit related derivatives of US$ 52,000 thousand purchased for Pacific Growth Fund shares held by Korea Bond Fund (thousands of US Dollars). The current net asset value of the Korea Bond Fund is 112.73%.

Derivatives related gains and losses for the years ended June 30, 2001 comprise the following (in millions of Won):

	Millions of Won	
	2001	**2000**
Derivatives valuations	₩ 112,389	₩ 101,696
Derivatives transactions	1,461,452	1,433,333
Fair value hedged asset valuations	—	3,568
	₩1,573,841	₩1,538,597

Fair value hedged asset valuation gains and losses are the changes in fair value of the hedged assets/liabilities resulting from the specific risk being hedged.

11. Other Assets:

Other assets at June 30, 2001 and 2000 comprise the following:

	Millions of Won	
	2001	**2000**
Guarantee deposits paid	₩ 621,461	₩ 629,726
Accounts receivable	1,899,792	1,141,831
Accrued income	876,460	1,091,282
Payments in advance	71,768	28,474
Deferred tax assets (Note 26)	—	46,856
Derivative instruments	222,054	48,147
Unsettled exchange assets	482,592	548,042
Prepaid expenses	25,947	96,400
Investments in funds for troubled debt reorganization	—	23,650
Other	305,661	16,649
	₩4,505,735	₩3,671,057

Investments in funds for troubled debt reorganization are amounts contributed to Korea Asset Management Company ("KAMCO") for the purchase of troubled debts that are to be settled in 2002. The related balances were written off during the prior period and recognized as impairment loss on investment debt securities.

12. Deposits:

Deposits at June 30, 2001 and 2000 comprise the following:

		Millions of Won	
	Annual Interest (%)	2001	2000
Deposits in Won			
Demand deposits			
—Current deposits	—	₩ 87,337	₩ 55,180
—Household deposits	1.0	342,121	324,200
—Temporary deposits	1.0	2,364,903	1,781,927
—Passbook deposits	—	2,043,218	2,282,186
—Public fund deposits	1.0	216,816	246,485
—Others	—	4	5
		5,054,399	4,689,983
Time deposits and savings deposits			
—Time deposits	4.0-6.4	26,601,917	24,205,074
—Installment savings deposits	6.0-7.3	627,380	666,385
—Savings deposits for money sum	8.5	223	470
—Housing savings deposits for employees	8.5	36	44
—General saving deposits	1.0-4.8	11,536,344	9,833,928
—Unrestricted corporate savings deposits	1.0-4.8	3,827,649	4,227,632
—Long term savings for employees	8.5-9.0	448,937	427,322
—Long term housing savings	7.6	44,077	24,282
—Long term savings for households	7.0-11.0	1,833,366	1,344,373
—Employee preferential savings deposits	7.5	879,555	364,033
—Mutual installment deposits	5.8-7.2	6,012,912	4,522,455
—Housing installment deposits	7.1	314,574	61,399
		52,126,970	45,677,397
		57,181,369	50,367,380
Deposits in foreign currency			
Demand deposits			
—Current deposits	—	26,349	15,426
—Temporary deposits	0.08-1.92	311,991	196,098
—Notice deposits	0-4.32	31,466	9,316
—Passbook deposits	—	4,299	3,440
		374,105	224,280
Time deposits and savings deposits			
—Time deposits	0-5.51	608,482	973,636
—Other	—	1,876	7,109
		610,358	980,745
		984,463	1,205,025
Certificates of deposit	5.0-5.65	2,444,571	1,245,838
		₩60,610,403	₩52,818,243

Deposits are placed with the following entities as of June 30, 2001 (in millions of Won):

	Banks	Financial Institutions	Others	Total
Deposits in Won				
—Demand deposits	₩431,813	₩ 137,047	₩ 4,485,539	₩ 5,054,399
—Time deposits and savings deposits	408,319	1,739,581	49,979,070	52,126,970
Deposits in foreign currency				
—Demand deposits	—	—	374,105	374,105
—Time deposits and savings deposits	—	—	610,358	610,358
Certificates of deposit	29,568	119,411	2,295,592	2,444,571
	₩869,700	₩1,996,039	₩57,744,664	₩60,610,403

The maturities of deposits as of June 30, 2001 are as follows (in millions of Won):

Year ending June 30,	Deposits in Won	Deposits in Foreign Currencies	Certificates of Deposit	Total
2002	₩51,046,988	₩959,611	₩2,444,571	₩54,451,170
2003	3,075,699	1,770	—	3,077,469
2004	1,936,861	113	—	1,936,974
2005	575,771	22,944	—	598,715
Thereafter	546,050	25	—	546,075
	₩57,181,369	₩984,463	₩2,444,571	₩60,610,403

13. Borrowings:

Borrowings as of June 30, 2001 and 2000 comprise the following:

	Annual Interest(%)	Millions of Won	
		2001	2000
Borrowings in Won			
Borrowings from the Bank of Korea			
—Security collateralized borrowings	3.00	₩ 797,998	₩ 406,499
—Borrowings from Nation Investment Fund	8.50	—	12
—Other	5.00	2,286	7,468
		800,284	413,979
Borrowings from the government			
—Borrowings from public finance	5.00-5.25	85,734	86,880
—Others	0-8.30	537,663	495,803
		623,397	582,683
Borrowings from banking institutions			
—Debenture funds for development of small to medium industries	8.55-9.55	131,022	333,634
—Other borrowings from domestic banks	5.0-5.50	202,172	183,539
		333,194	517,173
Borrowings from non-banking financial Institutions			
—Borrowings from the government	4.00	₩ 405	₩ 540
—Subordinated borrowings	7.0-11.84	195,000	425,000
—Other finance borrowings	2.00-Libor+3.0	350,004	160,926
		545,409	586,466
Other borrowings			
—Development funds for regional small to medium industries	1.4-8.0	412,738	382,741
—Promotion funds for small to medium industries	5.25-6.25	654,057	574,570
—Others	1.4-8.0	140,645	179,895
		1,207,440	1,137,206
		3,509,724	3,237,507

	Annual Interest(%)	Millions of Won	
		2001	2000
Borrowings in foreign currency			
[USD denominated]			
Borrowings from domestic banks			
—Domestic funding borrowings	4.1-Libor+1.4	563,415	764,150
—Overseas funding borrowings	4.22-Libor+0.90	8,462	7,291
		571,877	771,441
Borrowings from foreign banks			
—Domestic funding borrowings	Libor+0.75-5.77	454,256	360,505
—Overseas funding borrowings	4.20-Libor+1.50	450,765	628,379
		905,021	988,884
Borrowings from other financial institutions			
—Domestic funding borrowings	Libor+0.2-4.83	101,301	46,429
		1,578,199	1,806,754
[JPY denominated]			
Borrowings from domestic banks			
—Domestic funding borrowings	6.87	—	33,549
Borrowings from foreign banks			
—Overseas funding borrowings	0.73-Libor+0.10	—	25,428
Borrowings from other financial institutions			
—Domestic funding borrowings	1.08-2.00	62,599	140,715
—Overseas funding borrowings	Libor+0.28	22,066	54,219
		84,665	194,934
		84,665	253,911
		1,662,864	2,060,665
Bonds sold with repurchase agreement	3.0-19.5	3,197,804	85,384
Bills sold	5.0-5.75	741,569	19,099
Due to the Bank of Korea in foreign currencies	4.72-6.72	189,754	367,235
Call money			
—Won	4.8	195,000	280,000
—Foreign currency	0.30-5.23	228,439	214,989
		423,439	494,989
		₩9,725,154	₩6,264,879

The details of subordinated borrowings as of June 30, 2001 are as follows (in millions of Won):

	Date of Contract	Annual Interest	Amount	Maturity	Conditions
Samsung Life Insurance Co, Ltd.	96.12.31	8.50	₩130,000	2008.12.31	Annual interest
Hyundai Life Insurance Co, Ltd.	96.12.31	9.00	10,000	2006.12.31	Monthly interest
Hyundai Life Insurance Co, Ltd.	96.12.31	11.84	10,000	2006.12.31	Monthly interest in advance
Korea Life Insurance Co, Ltd.	96.12.31	10.00	5,000	2006.12.31	Annual interest
Hungguk Life Insurance Co, Ltd.	97.12.29	7.00	40,000	2007.12.31	Annual interest
			₩195,000		

The maturities of the borrowings as of June 30, 2001 are as follows (in millions of Won):

Year ending June 30,	Won	Foreign Currency	Others	Total
2002	₩1,283,991	₩ 767,458	₩4,549,144	₩6,600,593
2003	697,209	206,202	3,422	906,833
2004	511,980	223,843	—	735,823
2005	313,423	110,031	—	423,454
2006	196,549	110,031	—	306,580
Thereafter	506,572	245,299	—	751,871
	₩3,509,724	₩1,662,864	₩4,552,566	₩9,725,154

Borrowings from the Bank of Korea mature within one year. Borrowings from public finance and National Investment Funds and other borrowings from the government are payable in quarterly installment payments within 10 years with 7.5 years of grace period and within 15 years with 5 years of grace period, respectively.

14. Debentures:

Debentures as of June 30, 2001 and 2000 comprise the following:

	Annual Interest (%)	Millions of Won	
		2001	2000
Debentures in Won			
Subordinated debentures	7.68-16.00	₩1,876,231	₩998,702
Discounted debentures	5.35-15.18	1,563,130	946,155
Coupon debentures	5.46-17.69	175,127	217,169
Compound interest debentures	5.48-17.69	1,126,419	2,105,022
		4,740,907	4,267,048
Discounts on Won debentures		(37,890)	(37,674)
		4,703,017	4,229,374
Debentures in foreign currencies	3.0-Libor+1.6	1,428,390	1,516,128
Discounts on foreign currency debentures		(6,632)	(14,863)
		1,421,758	1,501,265
		₩6,124,775	₩5,730,639

As of June 30, 2001, debentures in Won comprise the following:

	Issue Date	Billions of Won	Annual Interest (%)	Maturity
Non-subordinated				
Sold over the counter	—	₩2,864.7	5.35–17.69	—
Subordinated				
Floating rate	1997.12.24	240.0	Floating	2003.3.31
	1997.12.24	80.0	Floating	2003.3.31
	1997.12.24	25.3	Floating	2003.3.31
	1998.12.29	100.0	Floating	2004.3.31
	1998.12.29	53.6	Floating	2004.3.31
	1998.12.29	34.7	Floating	2004.3.31
Fixed rate	1997.12.29	100.0	16	2004.1.5
	1998.6.18	60.0	15.66	2003.7.18
Sold over the counter	1998.1–1998.7	105.1	11.03–15.66	2003.1–2003.8
	2000.3.27	200.0	9.65	2005.3.27
	2000.9.27	300.0	8.99	2006.1.27
	2000.12.27	200.0	8.71	2006.1.27
	2001.6.27	160.0	7.68	2008.3.27
	2001.6.27	217.5	7.86	2009.3.27
		₩4,740.9		

As of June 30, 2001, debentures in foreign currency comprise the following:

	Issue Date	Millions of USD	Annual Interest(%)	Maturity	Listings
Non-subordinated					
Floating rate	1996.07.08	USD50.0	6M Libor+0.35	2001.07.08	Hong Kong
	1996.10.01	USD100.0	3M Libor+0.59	2001.10.01	Not listed
	1997.09.19	USD100.0	6M Libor+0.79	2002.09.19	London
	1997.10.30	USD66.7	6M Libor+1.2	2002.10.30	Not listed
	1999.10.22	USD50.0	6M Libor+1.6	2001.10.22	Not listed
	1999.11.15	USD20.0	6M Libor+1.6	2001.11.15	Not listed
	2000.03.09	USD200.0	6M Libor+1.0	2002.03.11	Not listed
	2000.03.22	USD20.0	6M Libor+1.0	2002.03.22	Not listed
	2000.06.02	USD10.0	6M Libor+1.3	2003.06.02	Not listed
	2000.08.10	USD16.5	6M Libor+0.75	2002.08.10	Not listed
	2000.08.10	USD12.5	6M Libor+0.95	2003.08.10	Not listed
Subordinated					
Floating rate	1996.11.21	USD50.0	6M Libor+0.85	2006.11.21	Luxembourg
	1996.12.30	USD190.0	6M Libor+0.60	2006.12.30	Luxembourg
Convertible bond ("CB")	1998.06.29	USD12.5	6M Libor Flat	2004.06.15	Not listed
	1999.06.14	USD200.0	3.0	2005.06.14	Not listed
		USD1,098.2			

The Bank is authorized by the banking supervisory regulation to issue debentures amounting up to 300% of its equity. However, debentures that are succeeded from the merger with KLB, on December 31, 1998, and the issuance of new debentures for the repayment of the debentures from KLB are excluded from the 300% of equity restrictions that would apply to other debenture issuances.

The non-subordinated debenture series issued on July 8, 1996 were issued under the US$ 700 million Euro Medium Term Note Program, and the series issued on September 19, 1997 and during 1999 and 2000 were issued under the US$1,500 million Global Medium Term Note Program. The US$1,500 million Global Medium Term Note Program is an update of the US$700 million Program with newly added clauses enabling issuance of subordinated notes and sales in the U.S.

Among the debentures in foreign currency, the subordinated debenture series issued on during 1996 have call redemption options that are exercisable on or after 5 years from the issuance dates.

US$10 million of the Bank's own debentures in foreign currency reacquired by the Bank are deducted from debenture series issued on December 30, 1996.

The conversion terms of the subordinated convertible bonds outstanding are as follows:

	Floating Rate Subordinated CB	Fixed Rate Subordinated CB
Face value	US $12.5 million	US$200 million
Issue price	US$12.5 million	US$200 million
Book value	₩16,258,750,000	₩260,140,000,000
Conversion price	₩8,822 per share	₩13,802 per share
Conversion stock	Common stock	Common stock
Convertible period	1998.9.30–2004.6.14	1999.7.14–2005.5.14
Conversion exchange rate	US$1:₩1,402	US$1:₩1,170.50
Method of redemption	Fully redeemed at maturity	Fully redeemed at maturity

International Finance Corporation, originally the holder of US$25 million floating rate subordinated convertible bonds, converted into common shares US$12.5 million of the total amount on February 9, 2001 and the remaining US$ 12.5 million on July 18, 2001 (See Note 18 and 34).

The maturities of debentures as of June 30, 2001 are as follows (in million of Won):

Year ending June 30,	Debentures in Won	Debentures in Foreign Currency	Total
2002	₩2,468,958	₩ 615,660	₩3,084,618
2003	580,273	202,701	782,974
2004	471,274	37,720	508,994
2005	240,189	260,140	500,329
2006	602,064	—	602,064
Thereafter	378,149	312,169	690,318
	₩4,740,907	₩1,428,390	₩6,169,297

15. Accrued Retirement Benefits:

The movements in accrued retirement benefits for the six-month period ended June 30, 2001 are as follows (in millions of Won):

	Beginning Balance	Amounts Provided	Amounts Paid Out	Amounts Substituted	Ending Balance
Retained retirement benefits	₩163,341	₩ 35,087	₩131,711	₩(80,290)	₩ 147,007
Contributed retirement benefits	396,000	—	46,172	80,290	269,538
Total accrued retirement benefits	559,341	35,087	177,883	—	416,545
Contribution to National Pension Fund	(24,950)	—	(6,922)	—	(18,028)
Contribution to pension funds	—	(147,410)	(46,172)	—	(101,238)
	₩534,391	₩(112,323)	₩124,789	₩ —	₩ 297,279

The Bank paid out a total of ₩177,883 million of retirement benefits including the early retirement benefit settlements during the period.

Contributed retirement benefits are approximately 64.71% of total accrued retirement benefits as of June 30, 2001. The contributed retirement benefits comprise balances with Samsung Life Insurance Co., Ltd. and

Hungguk Life Insurance Co., Ltd. in group retirement deposits and with Korea Life Insurance Co., Ltd. and Kyobo Life Insurance Co., Ltd. in pension funds that grants the retrieval rights to the employees.

Additionally, the Bank has contracted to maintain a total of ₩168,300 million of group retirement deposit balances at Samsung Life Insurance Co., Ltd. and Hungguk Life Insurance Co., Ltd. (See Note 4) in relations to the ₩170,000 million of subordinated borrowing from these companies (See Note 13).

16. Other Liabilities:

Other liabilities at June 30, 2001 and 2000 comprise the following:

	Millions of Won	
	2001	2000
Accrued retirement benefits (Note 15)	₩ 297,279	₩ 498,858
Allowances for loss on acceptances and guarantees (Note 8)	24,012	30,861
Due to trust accounts	598,420	525,990
Accounts payable	1,787,613	1,029,167
Accrued expenses	2,271,215	2,301,045
Unearned income	138,169	143,452
Tax withholdings	119,871	163,128
Guarantee deposits received	85,039	71,511
Deferred tax liability (Note 26)	5,503	—
Receipts in advance	33,819	26,667
Derivative liability (Note 10)	232,042	32,933
Unsettled exchange liabilities	370,182	505,165
Due to agencies	477,522	458,435
Unsettled foreign payables	10,264	9,283
Inter-bank pending payables	2,830	4,960
Subscription money received	10,268	17,383
Giro payments received	52,471	49,883
Others	572	1,629
	₩6,517,091	₩5,870,350

17. Commitments and Contingencies:

The Bank, in addition to the guarantees and acceptances that are of fixed amounts, has contingency guarantees and acceptances outstanding, that are guarantees and acceptances with floating amounts of related credit, amounting to ₩1,497,325 million and ₩1,310,015 million as of June 30, 2001 and 2000, respectively.

As of June 30, 2001, there are 75 pending legal actions against the Bank amounting to ₩268,901 million. The management believes that these actions are without merit and that the ultimate liability, if any, will not materially affect the Bank's financial position.

The Bank has credit line commitments with 22 asset securitization companies, including KAMCO Mirae-1 Liquidation Company. Under these commitments, the Bank provides money, in case of fund shortage, for the interest and principal repayment of these companies' bonds within the contracted term and amounts. As of June 30, 2001, the aggregate committed credit line amount totals ₩2,872,350 million and ₩41,395 million of these commitments is outstanding. The Bank has arranged various methods to provide for losses on these credit line commitments including payment guarantees, resale contracts, surety certificate guarantees, and cash retention.

During the six-months period ended June 30, 2001, the Bank established the Kookmin-4 ABS Specialty Co., Ltd. ("KAS") in accordance with the regulations for asset liquidation and have sold to KAS the Bank's troubled loans amounting to ₩150,149 million (related allowances for loan losses of ₩38,738 million), and recorded ₩15,794 million of loss on sale of troubled loans. Additionally, the settlement for loans sold to KAMCO is completed and ₩13,003 million of the settled loan (settlement price of ₩11,567 million) is under the repurchase agreement. The Bank recognized provision of ₩3,562 million for possible future losses on the repurchase agreement.

The Bank, under the Mutual Savings & Finance Company Act, is liable for the payment of the deposits of Orange Mutual Savings & Finance Co., Ltd. and Bukook Mutual Savings & Finance Co., Ltd., previously the Bank's subsidiaries sold during 1999, in case of their bankruptcy within 3 years of sale. The payment liability is limited to the deposit amounts as of the date of sale. As of June 30, 2001, the operations of Orange Mutual Savings & Finance Co., Ltd. is terminated and the customers' deposits were paid out by the KDIC under the Depositor Protection Act. No adjustments have been made in the accompanying non-consolidated semi-annual financial statements related to such uncertainties.

As of June 30, 2001 and 2000, the Bank holds the claim rights to ₩1,429,011 million and ₩918,126 million, respectively, of loans written off. The claim rights expire due to time lapse or additional collection after write-off.

In addition to the above mentioned items, the Bank has the following commitments and contingencies as of June 30, 2001 and 2000:

	Millions of Won	
	2001	**2000**
Government and municipal bonds sold over the counter	₩ 486	₩ 486
Loans sold with repurchase agreement	11,567	14,017
Bills endorsed	20,573	16,477

Due to economic instability mentioned below, certain customers of the Bank, including Hyundai Group companies (not including Hyundai Motors Group), are experiencing cash flow problems or are undergoing workout process. As of June 30, 2001, in relation to such companies (exclusive of Hyundai Group companies and Hyundai Motors Group), total loan and securities outstanding are ₩2,394,693 million (with ₩806,734 million of allowances for loan losses and ₩125,221 million of present value discounts) and ₩100,890 million, respectively. In relation to Hyundai Group companies, total loan (including guarantees) and securities outstanding are ₩1,009,838 million (with ₩97,009 million of allowances for loan losses) and ₩195,935 million, respectively. Should the economic circumstances related to these companies deteriorate further, the Bank could be required to make further adjustments to the carrying amounts of its loans and securities in amounts that could be material to the financial statements.

The Korean economy is currently experiencing additional difficulties, particularly in the areas of restructuring private enterprises and reforming the banking industry. The Korean government continues to apply pressure to Korean companies to restructure into more efficient and profitable firms. The banking industry is currently undergoing consolidations and significant uncertainty exists with regards to the availability of short-term financing during the coming year. The Bank may be either directly or indirectly affected by the situation described above.

The accompanying financial statements reflect management's current assessment of the impact to date of the economic situation on the financial position of the Bank. Actual results may differ materially from management's current assessment.

18. Capital Stock:

As of June 30, 2001, the Bank has 1,000,000,000 shares (par value: ₩5,000) authorized and 333,599,923 shares issued (301,599,923 common shares and 32,000,000 preferred shares). Goldman Sachs Capital Koryo, L.P. and the Korean government own 11.00% and 6.43%, respectively, of the total issued shares. Among the issued shares, 13,717,896 common shares (4.55%) were issued as Global Depositary Shares and are listed on the London Stock Exchange.

The preferred stocks were issued on December 28, 1998 exclusively to Korea Deposit Insurance Corporation ("KDIC") (dividend rate: 1%) and are non-participating and non-cumulative. The Bank is to purchase from KDIC 28,000,000 shares and 12,000,000 shares of the preferred stock within 3.25 years and 5.25 years, respectively, from the date of issuance. During January, 2000 and 2001, the Bank repurchased ₩40,000 million each of the preferred stocks, and these purchased shares were recorded as treasury stocks. The portion equivalent to the preferred shares purchased during the current period have undergone reduction in capital resulting in a decrease of number of issued preferred share by 8,000,000 shares and a decrease of capital by ₩40,000 million.

The bank is authorized to issue to non-shareholders convertible bonds and bonds with stock purchase warrants up to total par value amounts of ₩2,500 billion and ₩500 billion, respectively. At June 30, 2001, the Bank's subordinated foreign currency convertible bonds outstanding are ₩16,600 million (equivalent of US$ 12.5 million, 1,986,512 shares at June 30, 2001) issued by KLB before the merger and ₩265,600 million (equivalent of US$ 200 million, 16,961,310 shares at June 30, 2001) issued to Goldman Sachs Capital Koryo, L.P. during 1999 (See Note 14).

On February 9, 2001, International Financing Corporation converted US$ 12.5 million of the total US$ 25 million floating rate subordinated convertible bonds into 1,986,510 common shares at ₩8,822 per share. The Bank recorded ₩7,535 million in capital surplus for excess conversion price over par value of ₩7,592 million less ₩57 million of stock issuance costs (See Note 19). The remaining US$ 12.5 million of subordinated foreign currency convertible bonds outstanding to International Finance Corporation were fully converted into common shares subsequent to the balance sheet date (See Note 34).

19. Capital Surplus:

Capital surplus as of June 30, 2001 and 2000 comprise the following:

	Millions of Won	
	2001	**2000**
Paid-in capital in excess of par value	₩1,031,862	₩1,024,327
Gain on business combinations	397,669	397,669
Revaluation increment	177,229	177,229
Other	1,391	1,758
	₩1,608,151	₩1,600,983

The movements in capital surplus for the six-month period ended June 30, 2001, are as follows:

	Millions of Won			
	Beginning Balance	Increase	Decrease	Ending Balance
Paid-in capital in excess of par value	₩1,024,327	₩7,535	₩—	₩1,031,862
Gain on business combination	397,669	—	—	397,669
Revaluation increment	177,229	—	—	177,229
Other capital surplus	1,365	26	—	1,391
	₩1,600,590	₩7,561	₩—	₩1,608,151

The increase in paid-in capital in excess of par value and other capital surplus are due to the conversion of convertible bonds (See Note 18) and gain on sale of treasury stock, respectively. Gain on business combination is the net asset over the purchase cost that resulted from the merger with Korea Long Term Credit Bank on December 31, 1998.

20. Employee stock options:

On March 18, 2000 ("Grant 1") and March 15, 2001 ("Grant 2"), the Bank, under the approval of Board of Directors, granted stock options to its executives. The details of the stock options granted as of June 30, 2001 are as follows:

	Grant 1	Grant 2
Grant date	March 18, 2000	March 15, 2001
Shares granted	375,000 shares	363,000 shares
Shares expired to date	185,000 shares	1,000 shares
Shares outstanding	190,000 shares	362,000 shares
Exercise method	The Bank's choice of issuance or net settlement	
Exercise price	₩13,900	₩16,600
Exercise period	within 2 years from 3 years after the guarantee	within 5 years from 3 years after the guarantee

The Bank calculated the compensation costs using the fair value method and the calculation details are as follows:

	Grant 1	Grant 2	Note
Market price on grant date	₩12,700	₩14,900	
Risk-free interest rate	9.325%	6.124%	Note 1
Expected exercise period	4 years	5.5 years	Note 2
Expected share price volatility	71.14%	70.30%	Note 3
Expected dividend rate	2.25%	2.47%	Note 4
Adjusted expected expiration rate	13.49%	0.0%	Note 5
Compensation cost per share	₩9,300	₩9,479	
Total compensation cost	₩1,572 million	₩3,441 million	
Recognized compensation cost	640 million	290 million	

Note 1: Government bond yield rate per expected exercise period as of the grant date
Note 2: Average of mandatory service period and option expiration period
Note 3: Share price volatility based on share prices of previous one-year period as of the grant date
Note 4: Historical average dividend rate for past period equal to the expected exercise period
Note 5: Expected expiration rate for Grant 1 is adjusted to reflect the actual expiration rate for the previous one-year period and expected expiration rate for Grant 2 assumes no expiration of the options until the exercise date.

The Bank recognizes the stock option compensation expenses as salaries and wages by amortizing the total compensation costs over the expected exercise period. During the six-month period ended June 30, 2001, the Bank recorded an additional ₩416 million as employee stock options in capital adjustments.

The compensation costs to be recognized in the future are as follows (in millions of Won):

Year ending December 31,	Grant 1	Grant 2
2001	₩297	₩ 627
2002	524	1,146
2003	111	1,146
Thereafter	—	232
	₩932	₩3,151

21. Retained Earnings:

Retained earnings as of June 30, 2001 and 2000 comprise the following:

	Millions of Won	
	2001	2000
Legal reserves	₩ 339,640	₩267,640
Reserves for business rationalization	39,760	34,960
Special reserves	480,700	17,700
Other reserves	14,855	25,619
Unappropriated retained earnings	661,260	207,033
	₩1,536,215	₩552,952

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

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

Until 1994 fiscal year, in cases where the rate of distributable net income exceeds the interest rate for one year time deposits, the Bank appropriated more than 50% of such excess amounts as special reserves. From 1995 fiscal year, related regulations were deleted and the Bank does not have any requirement for such appropriations.

At June 30, 2001 and 2000, other reserves comprise the following:

	Millions of Won	
	2001	**2000**
Reserves for overseas investment losses	₩13,900	₩24,700
Other reserves	955	919
	₩14,855	₩25,619

Pursuant to the Tax Exemption and Reduction Control Law, the Bank appropriates reserves for technical development and for overseas investment losses. Other reserves are those appropriated for the operations of overseas branches and includes current period's foreign exchange rate effects of ₩53 million.

The adjustments to the beginning retained earnings of the period ended June 30, 2001 is due to ₩1,228 million of changes in investment in associates (See Note 6).

22. Capital Adjustments:

As of June 30, 2001 and 2000, capital adjustments comprise the following:

	Millions of Won	
	2001	**2000**
Treasury stocks	₩(40,147)	₩(49,275)
Unrealized gain on investment securities (Note 6)	200,155	90,094
Employee stock options (See Note 20)	930	—
	₩160,938	₩ 40,819

The movements in capital adjustments for the six-month period ended June 30, 2001, are as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Treasury stocks	₩(41,037)	₩(40,000)	₩(40,890)	₩(40,147)
Unrealized gain/loss on investment securities	123,341	114,632	37,818	200,155
Employee stock options	514	416	—	930
	₩ 82,818	₩ 75,048	₩ (3,072)	₩160,938

The treasury stocks comprise ₩147 million (8,422 shares) in the Bank's treasury stock management funds and ₩40,000 million from the repurchase of 8 million shares out of the total 40 million preferred shares issued to KDIC. These preferred shares were issued to KDIC for the preservation of the fall in BIS ratio, which resulted from the P&A contract of Daedong Bank (See Note 18). The preferred shares purchased during the current period have undergone reduction in capital resulting in a decrease of capital by ₩40,000 million.

23. Other Non-interest Income (Expenses):

Other non-interest income (expenses) for the six-month periods ended June 30, 2001 and 2000 comprise the following:

	Millions of Won	
	2001	2000
Other non-interest income		
—Realized gain on trading securities	₩ 90,099	₩ 50,653
—Unrealized gain on trading securities	11,765	650
—Gain on trust management	122,392	108,358
—Reversal of allowances for losses on acceptances and guarantees	13,318	—
	₩237,574	₩159,661
Other non-interest expenses		
—Realized loss on trading securities	₩ 82,461	₩ 60,320
—Unrealized loss on trading securities	30	75
—Contributions to special funds	38,372	31,050
—Provision for loan losses on guarantees and acceptances	—	2,431
—Loss on trust management	—	173,718
—Others	26,964	13,881
	₩147,827	₩281,475

24. General and Administrative Expenses:

General and administrative expenses for the six-month periods ended June 30, 2001 and 2000 comprise the following:

	Millions of Won	
	2001	**2000**
Salaries and wages	₩203,799	₩186,353
Retirement benefits (Note 15)	35,087	37,232
Other employee benefits	120,749	116,359
Rent expense	9,705	8,750
Depreciation expenses	43,975	35,801
Taxes	27,385	21,352
Advertising expenses	12,490	10,933
Ordinary development expenses	13,913	11,279
Fees and commissions	14,039	14,036
Other	47,517	45,213
	₩528,659	₩487,308

25. Non-Operating Income (Expenses):

Non-operating income (expenses) for the six-month periods ended June 30, 2001 and 2000 comprise the following:

	Millions of Won	
	2001	**2000**
Non-operating income		
—Gain on disposal of fixed assets	₩ 296	₩ 462
—Rent income	1,007	839
—Gain on investment in associates (Note 6)	186,801	97,443
—Realized gain on investment securities	65,137	33,176
—Reversal of impairment loss on investment securities	—	8,670
—Unrealized gain on investment in funds	62,741	—
—Gain on sale of troubled loans	—	591
—Other	24,795	26,318
	340,777	167,499
Non-operating expenses		
—Loss on disposal of fixed assets	1,500	967
—Realized loss on investment securities	19,129	6,440
—Impairment loss on equity investment securities	495	19,334
—Impairment loss on debt investment securities	1,477	42,233
—Loss on sale of troubled loans	15,050	12,737
—Retirement benefits	—	27,996
—Other	31,859	79,506
	69,510	189,213
	₩271,267	₩(21,714)

26. Income Tax Expense:

Income tax expense for the six-month periods ended June 30, 2001 and 2000 comprises the following:

	Millions of Won	
	2001	2000
—Income taxes payable	₩ 98,839	₩ 216,575
—Deferred income taxes from temporary differences	195,806	(115,888)
Income tax expense	₩ 294,645	₩ 100,687
—Deferred income tax asset (liability) at June 30	₩ (5,503)	₩ 46,856
—Deferred income tax asset (liability) at January 1	190,303	(69,032)
Changes in deferred income taxes	₩(195,806)	₩ 115,888

Adjustments of income before income taxes to taxable income for the six-month periods ended June 30, 2001 and 2000 comprise the following:

	Millions of Won	
	2001	2000
Adjustments to increase taxable income		
Permanent differences:		
—Additional income taxes	₩ 2,069	₩ 2,940
—Other	3,074	1,360
	5,143	4,300
Temporary differences (See below)	952,576	1,009,824
	₩ 957,719	₩1,014,124
Adjustments to decrease taxable income		
Permanent differences:		
—Dividend income	₩ 2,084	₩ 5,780
—Other	2,302	978
	4,386	6,758
Temporary differences (See below)	1,588,311	633,565
	₩1,592,697	₩ 640,323

The significant changes in temporary differences for the six-month periods ended June 30, 2001 comprise the following (in millions of Won):

	Beginning Balance	Increase	Decrease	Ending Balance	Deferred tax
Allowances for loan losses	₩ 502,649	₩ 395,340	₩ 502,649	₩ 395,340	₩ 121,765
Accrued interest	(542,107)	(432,956)	(542,107)	(432,956)	(133,351)
Unrealized loss on securities	58,241	(259,308)	17,956	(219,023)	(67,459)
Unrealized loss on derivatives	316,762	7,125	315,046	8,841	2,723
Present value discounts	204,275	17,726	64,928	157,073	48,378
Allowances for losses on acceptances and guarantees	37,330	—	13,317	24,013	7,396
Retirement benefits	26,593	7,442	—	34,035	10,483
Overseas investment losses	(13,950)	—	(8,567)	(5,383)	(1,658)
Excess depreciation	10,949	(534)	—	10,415	3,208
Stock option compensation expense	514	416	—	930	286
Other	16,612	3,132	10,896	8,848	2,726
	₩ 617,868	₩(261,617)	₩ 374,118	₩ (17,867)	₩ (5,503)

Due to tax adjustments, the Bank's effective tax rate for the six-month period ended June 30, 2001 and 2000 are 30.79% and 30.57%, respectively, while the applicable statutory income tax rate for the Bank is 30.8%.

27. Earnings Per Share:

Earnings per share ("EPS") for the six-month periods ended June 30, 2001 and 2000 are calculated as follows:

	Millions of Won	
	2001	2000
Net income after income taxes	₩ 662,451	₩ 228,720
Dividend on preferred stock (1%)	(595)	(796)
	661,856	227,924
Weighted average number of common shares outstanding (share)	301,530,699	298,508,721
Earning per share (in Won)	₩ 2,195	₩ 764

Diluted EPS for the six-month periods ended June 30, 2001 and 2000 are calculated as follows:

	Millions of Won	
	2001	2000
Net income after income taxes	₩ 662,451	₩ 228,720
Interest expenses on convertible bonds	3,422	2,911
	665,873	231,631
Weighted average number of common shares outstanding (share)	345,760,289	350,964,897
Diluted earning per share (in Won)	₩ 1,926	₩ 660

Weighted average number of common shares outstanding as of June 30, 2001 is calculated as follows:

	Number of Shares	Days Outstanding	Weighted Average Number of Shares
—Weighted average common stock	301,599,923	181	301,599,923
—Treasury common stock—beginning balance	(69,562)	180	(69,562)
—Treasury common stock—ending balance	61,140	1	338
Weighted average before dilution(1)			301,530,699
—Convertible bonds issued to IFC	1,986,512	181	1,986,512
—Convertible bonds issued to Goldman Sachs	16,961,310	181	16,961,310
—Treasury preferred stock—beginning balance	32,000,000	181	32,000,000
—Treasury preferred stock—ending balance	(8,000,000)	152	(6,718,232)
Diluting shares(2)			44,229,590
Diluted weighted average number(1)(2)			345,760,289

EPS and diluted EPS for the year ended December 31, 2000 were ₩2,403 and ₩2,061, respectively.

The calculation of diluted EPS assumes the conversion of convertible bonds and preferred shares at beginning of year. The employee stock options have no dilution effect and are thus not considered in the above calculation. The Bank did not recognize any extraordinary gains or losses and thus ordinary income per share equals EPS.

The interest expense used in the calculation of the diluted EPS is net of 30.8% of tax effects. The number of common shares assumed to be converted from convertible bonds is calculated by dividing the total convertible bond amounts by conversion price per share.

28. Assets and Liabilities Denominated in Foreign Currencies:

Significant assets and liabilities denominated in foreign currencies as of June 30, 2001 comprise the following:

	Total Balances		Major Denomination Currencies		
	Millions of Won	Thousands of US Dollars	Thousands of US Dollars	Thousands of EC Euro	Thousands of Japanese Yen
Assets					
Cash	₩ 83,646	US$ 64,309	US$ 31,615	EUR —	¥ 3,163,293
Due from banks	969,163	745,179	728,100	14,208	622,433
Securities	1,070,454	823,042	722,144	—	4,526,183
Loans	2,645,596	2,034,237	1,892,317	—	14,648,552
Bills bought	949,584	730,057	663,867	18,214	1,828,325
Call loans	271,562	208,789	204,000	—	400,192
Liabilities					
Deposits	984,463	757,073	649,731	6,230	6,663,721
Borrowings	1,662,864	1,278,529	1,165,194	—	12,320,076
Due to BOK	189,754	145,886	145,886	—	—
Call money	228,439	175,718	133,500	—	5,202,999
Debentures	1,428,390	1,098,170	1,098,170	—	—
Unsettled foreign payables	10,264	7,891	5,767	45	188,190

Foreign currencies other than US dollars are converted into US dollar amounts using the exchange rates provided by Korea Financial Telecommunications & Clearing Institute at the balance sheet date.

29. Related Party Transactions:

Significant transactions with related parties for the six-month period ended June 30, 2001 and 2000 are as follows (in millions of Won):

Account Balances			Transactions		
Account	2001	2000	Account	2001	2000
Kookmin Credit Card Co., Ltd.					
Loans	₩ 646	₩ 10,405	Interest on loans	₩ 54	₩ 713
Credit card accounts	41,863	498,907	Interest on credit card loans	13,341	29,725
Deposits	4,400	5,621	Interest on deposits	36	145
Guarantee deposits received	4,957	2,481	Fees and commission income	78,455	42,693
Rent deposits received	1,817	1,817			
Kookmin Leasing Co, Ltd					
Loans	139,540	136,724	Interest on loans	2,275	7,709
Deposits	25,534	42,660	Interest on deposits	2,744	4,001
Kookmin Venture Capital Co, Ltd					
Loans	100,870	124,000	Interest on loans	7,754	6,629
Deposits	6,149	20,587	Interest on deposits	746	607
Acceptances and guarantees	5,275	6,925			
Kookmin Futures Co, Ltd					
Due from banks	2,489	—	Interest on due from banks	76	—
Deposits	10,068	7,188	Interest on deposits	287	60
Guarantee deposits received	620	620			
Kookmin Data System Co, Ltd					
Deposits	668	891	Interest on deposits	5	15
Borrowings	700	—			
Guarantee deposits received	879	879			
KB Investment Trust Mgt Co, Ltd					
Deposits	20,896	11,062	Interest on deposits	344	505
Kookmin Venture Capital Co, Ltd					
Deposits	15,091	—	Interest on deposits	607	—
Borrowings	4,558	—			
KB Luxembourg SA					
Due from banks	174,980	124,229	Interest on due from banks	4,875	4,549
Loans	13,007	11,148	Interest on loans	381	356
Acceptances and guarantees	97,564	73,579			
Kookmin Finance Asia Ltd					
Due from banks	76,310	61,715	Interest on due from banks	1,910	564
Call loans	31,477	—	Interest on call loans	293	—
Borrowings	19,511	22,296	Interest on borrowings	335	587
Acceptances and guarantees	70,088	24,705			
KB International (London) Ltd					
Due from banks	123,391	82,035	Interest on due from banks	3,459	2,918
Loans	13,007	11,148	Interest on loans	389	343
Acceptances and guarantees	48,651	30,458			
KB Leasing & Finance (HK) Ltd					
Loans	49,963	45,428	Interest on loans	647	2,348

30. Operations of the Trust Accounts:

The key terms and conditions of the trust funds are as follows:

	Period	Dividends	Average Return(%)
Money Trusts			
—Unspecified money trust	over 1.5 years	Contracted	3.11
—Installment money trust	over 1.5 years	Performance(*)	6.27
—Household money trust	1.5 years	Performance(*)	6.32
—Development trust	2,3 years	Contracted	29.74
—Money in trust for old-age living pension	over 5 years	Performance(**)	6.75
—New Money in trust for old-age living pension	over 1 year	Performance(**)	5.80
—Corporate money in trust	1.5 years	Performance(*)	7.81
—National stock in trust	over 3 years	Performance	10.75
—Money in trust for individual pension	over 15 years	Performance(**)	7.36
—New Money in trust for individual pension	over 15 years	Performance(**)	5.52
—Household long-term money in trust	3-5 years	Performance	7.41
—Money in trust for employees	3-5 years	Performance	7.30
—New Money in trust for employees	3-5 years	Performance	6.51
—Special installment money in trust	over 1.5 year	Performance	6.92
—Retirement money trust	—	Performance(**)	8.24
—Specified money in trust	over 0.25 year	Performance	7.91
—Unit type money trust	1 year	Performance	12.69
—Real estates investment in trust	1-1.5 years	Performance	10.05
—Addition type money trust	1 year	Performance	6.19
—Separate taxation trust	5 years	Performance	7.26
—Pension trust	over 15 years	Performance	5.65
Property Trusts			
—Securities in trust	over 1 year	Performance	16.76
—Monetary receivables in trust	—	Performance	18.38

(*) Trust accounts contracted prior to April 30, 1996 are guaranteed of their principal amounts.

(**) Trust benefits are distributed based on the trust performance with the principal are guaranteed.

Assets and liabilities of the trust accounts as of June 30, 2001 are classified as principal or dividends guarantee trusts, partial guarantee trusts, performance trusts, and property trusts as follows (in millions of Won) :

	Principle or Dividend Guarantee	Partial Guarantee	Performance	Property	Total
Securities	₩3,027,466	₩724,968	₩ 9,244,487	₩ 15,837	₩13,012,758
Loans	196,103	145,999	443,565	—	785,667
Money trust	—	—	—	2,121,144	2,121,144
Due from banking accounts	68,681	22,590	208,982	—	300,253
Allowances for loan losses	(139,000)	(35,368)	(127,509)	—	(301,877)
Other assets	160,869	14,778	551,500	46,150	773,297
Total assets	₩3,314,119	₩872,967	₩10,321,025	₩2,183,131	₩16,691,242
Trusts	₩2,908,391	₩803,528	₩10,005,875	₩2,136,981	₩15,854,775
Present value discounts	26,481	8	3,467	—	29,956
Reserves for future losses	11,422	2,787	—	—	14,209
Other liabilities	367,825	66,644	311,683	46,150	792,302
Total liabilities	₩3,314,119	₩872,967	₩10,321,025	₩2,183,131	₩16,691,242

The results of operation of the trust accounts, from the Bank's management accounting point of view, for the six-month period ended June 30, 2001 are as follows (in millions of Won):

Trust Account Related Income		Trust Account Related Expenses	
Fees on money trusts	₩117,161	Salaries	₩ 17,821
Fees on property trusts	530	Office expenses	9,049
Fees on security investment trusts	4,701	Education expense	657
Fees on collateralized debenture trusts	6,756	Other expenses	276
Fees on asset liquidation	2,241	Compensation to trust accounts	—
Early withdrawal penalties	46	Gains on trust accounts	103,632
	₩131,435		₩131,435

31. Business Combination with H&CB:

On December 22, 2000, the Bank entered into a Memorandum of Understanding related to a contemplated business combination with H&CB. On April 23, 2001, the Bank entered into a business combination ("the Combination") contract ("the Contract") with H&CB and the major terms of the Contract are as follows:

The Contract

According to the Contract, the combination is to be consummated as of October 31, 2001. The Contract may be cancelled at any time prior to the consummation date by mutual agreement, material breach of representation or warranty, or the failure of registration statement filing with the Securities and Exchange Commission in the United States of America. The Combination is to take the form of legal consolidation in which a new company is formed to effect the Combination. The shareholders of the Bank and H&CB will receive shares in the new company in exchange for their shares in the Bank and H&CB, based on a pre-determined ratio. After the Combination, former shareholders of the Bank and H&CB will own 61.3% and

38.7%, respectively, of the new company, if outstanding convertible bonds of both banks are fully converted into common stock before the completion of the merger.

H&CB Summary
H&CB was founded in 1967 under Korea Housing and Commercial Bank Act. H&CB is engaged in the banking business according to the provisions of the General Banking Act and operates through 552 domestic branches and 3 overseas networks as of December 31, 2000.

H&CB's shares are listed on the Korean Stock Exchange and resulting from several additional share issuances, H&CB's capital as of December 31, 2000 is ₩841,813 million. As a result of additional share issuances since 1996 and issuance of overseas depository receipts, the Korean government and foreign investors in aggregate hold 14.50% and 66.44%, respectively, of common shares outstanding. Also, as of October 3, 2000, H&CB has its American Depository Receipts of its common shares listed on New York Stock Exchange with the approval of the United States' Securities and Exchange Commission and New York Stock Exchange under relevant U.S. accounting standards.

The Financials of the Bank and H&CB

The condensed financial statements of the Bank and H&CB as of December 31, 2000 are as follows (in millions of Won):

Balance Sheet	The Bank	H&CB	Total
— Cash and Due from Banks	₩ 6,618,750	₩ 2,058,245	₩ 8,676,995
— Trading Securities	2,457,754	2,429,285	4,887,039
— Investment Securities	16,893,551	8,111,956	25,005,507
— Loans	50,570,411	45,030,068	95,600,479
— Fixed Assets	1,277,588	886,136	2,163,724
— Other Assets	3,703,519	1,920,920	5,624,439
Total Assets	₩81,521,573	₩60,436,610	₩141,958,183
— Deposits	₩56,522,145	₩46,890,329	₩103,412,474
— Borrowings	7,066,273	3,130,509	10,196,782
— Debentures	6,674,942	3,194,239	9,869,181
— Other Liabilities	7,001,692	4,678,145	11,679,837
Total Liabilities	77,265,052	57,893,222	135,158,274
— Capital	1,698,067	841,813	2,539,880
— Capital Surplus	1,600,590	777,397	2,377,987
— Retained Earnings	875,045	983,022	1,858,067
— Capital Adjustments	82,819	(58,844)	23,975
Total Shareholders' Equity	4,256,521	2,543,388	6,799,909
Total Liabilities and Shareholders' equity	₩81,521,573	₩60,436,610	₩141,958,183

Income Statement	The Bank	H&CB	Total
Operating Income	₩ 8,851,893	₩ 6,000,607	₩ 14,852,500
Operating Expenses	(7,958,266)	(5,251,890)	(13,210,156)
Net Operating Income	893,627	748,717	1,642,344
Non-operating Income	442,880	195,053	637,933
Non-operating Expenses	(297,111)	(190,851)	(487,962)
Ordinary Income	1,039,396	752,919	1,792,315
Income Taxes	(319,696)	(229,090)	(548,786)
Net Income	₩ 719,700	₩ 523,829	₩ 1,243,529

32. Restructuring of Subsidiaries:

In relation to Kookmin Leasing Co., Ltd., a subsidiary of the Bank, the Bank holds, as of June 30, 2001, ₩84,103 million of investment securities and ₩139,540 million of loans. Related to these amounts, ₩84,103 million of loss from investment in associates and ₩64,188 million of allowances for loan losses were recognized in the previous periods' financial statements. On March 30, 2001, Kookmin Leasing Co., Ltd. entered into a contract for debt restructuring with the Bank as the major shareholder and CHB as the major creditor. Under the contract, Kookmin Leasing Co., Ltd. is to undergo capital reduction on the Bank's current equity interest while additional equity interest is to be issued for ₩182,000 million (including ₩69,504 million from trust accounts) of outstanding loan balances. Actual recovery and actual losses from the above loans to Kookmin Leasing Co., Ltd. may differ from the Bank's allowances amounts. No adjustments have been made in the accompanying semi-annual financial statements related to such uncertainties. The Bank's loans outstanding to Kookmin Leasing & Finance (H.K.) Ltd., a subsidiary of Kookmin Leasing Co., Ltd., amount to ₩49,963 million (related allowances for loan losses ₩22,983 million).

33. Reclassification of Accounts:

Certain accounts of prior financial statements are reclassified for comparative purposes. These reclassifications have no effect on the net asset value and the net income of the Bank as of the balance sheet date.

34. Subsequent Events:

On July 18, 2001, subsequent to the balance sheet date, International Financing Corporation converted all of its remaining floating rate subordinated convertible bonds of US$12.5 million into common shares at ₩8,822 per share.

H&CB
Non-Consolidated Semi-Annual Balance Sheets
as of June 30, 2001 and 2000
(Unaudited)

	In Millions of Korean Won		In Thousands of U.S. Dollars (Note 3)	
	2001	**2000**	**2001**	**2000**
ASSETS				
Cash and due from banks (Note 4)	₩ 2,831,986	₩ 2,901,358	US$ 2,177,278	US$ 2,230,613
Trading securities (Note 5)	3,645,738	2,314,518	2,802,905	1,779,440
Investment securities (Note 5)	7,742,103	8,524,915	5,952,259	6,554,098
Loans (Note 6)	48,165,875	38,489,725	37,030,733	29,591,547
net allowance for loan losses of ₩954,444 million in 2001 and ₩1,185,330 million in 2000 and present value discounts of ₩23,768 million in 2001 and ₩84,787 million in 2000				
Fixed assets, net (Note 7)	867,719	861,262	667,117	662,153
Other assets (Note 8)	3,095,561	2,323,264	2,379,919	1,786,164
Total assets	₩66,348,982	₩55,415,042	US$51,010,211	US$42,604,015
LIABILITIES AND SHAREHOLDERS' EQUITY				
Liabilities:				
Deposits (Note 9)	₩49,128,197	₩42,248,030	US$37,770,583	US$32,480,995
Borrowings (Note 10)	3,884,860	2,664,391	2,986,746	2,048,429
Debentures (Note 11)	4,184,334	2,596,587	3,216,986	1,996,300
Other liabilities (Note 12)	6,003,216	5,551,548	4,615,373	4,268,123
Total liabilities	63,200,607	53,060,556	48,589,688	40,793,847
Commitments and contingencies (Notes 13 and 14)				
Shareholders' equity:				
Common stock (Notes 1 and 15)	599,844	545,313	461,171	419,245
Preferred stock (Notes 1 and 16)	296,500	296,500	227,954	227,954
Capital surplus (Note 17)	777,126	777,238	597,468	597,554
Retained earnings (Note 18)	1,554,692	901,367	1,195,273	692,986
Capital adjustments (Note 19)	(79,787)	(165,932)	(61,343)	(127,571)
Total shareholders' equity	3,148,375	2,354,486	2,420,523	1,810,168
Total liabilities and shareholders' equity	₩66,348,982	₩55,415,042	US$51,010,211	US$42,604,015

The accompanying notes are an integral part of these non-consolidated semi-annual financial statements.

H&CB
Non-Consolidated Semi-Annual Income Statements
for the six-month periods ended June 30, 2001 and 2000
(Unaudited)

	In Millions of Korean Won		In Thousands of U.S. Dollars (Note 3)	
	2001	**2000**	**2001**	**2000**
Interest income:				
Interest on due from banks	₩ 27,248	₩ 32,053	US$ 20,949	US$ 24,643
Interest on trading securities	1,577	90,281	1,212	69,410
Interest on investment securities	266,425	408,313	204,832	313,918
Interest on loans	2,227,132	1,761,787	1,712,256	1,354,491
Other interest income	17,202	6,377	13,225	4,903
	2,539,584	2,298,811	1,952,474	1,767,365
Interest expense:				
Interest on deposits	1,505,244	1,323,892	1,157,257	1,017,830
Interest on borrowings	106,241	110,230	81,680	84,747
Interest on debentures	146,453	124,766	112,596	95,922
Other interest expenses	17,491	12,111	13,447	9,311
	1,775,429	1,570,999	1,364,980	1,207,810
Net interest income	764,155	727,812	587,494	559,555
Provision for loan losses	123,290	110,052	94,787	84,610
Net interest income after provision for loan losses	640,865	617,760	492,707	474,945
Non-interest revenue:				
Fees and commissions on credit cards	374,268	170,663	287,744	131,209
Other fees and commissions	179,654	144,855	138,121	111,367
Dividends on trading securities	835	1,113	642	856
Dividends on investment securities	937	8,855	720	6,808
Other (Note 21)	384,833	208,330	295,866	160,168
	940,527	533,816	723,093	410,408
Non-interest expense:				
Fees and commissions	69,544	35,957	53,467	27,644
General and administrative expenses (Note 22)	470,159	402,992	361,466	309,827
Other (Note 21)	163,860	198,392	125,978	152,527
	703,563	637,341	540,911	489,998
Operating income	877,829	514,235	674,889	395,355
Non-operating gains (losses), net (Note 23)	(46,652)	27,754	(35,868)	21,337
Income before income tax expenses	831,177	541,989	639,021	416,692
Income tax expenses (Note 24)	259,477	166,787	199,489	128,228
Net income	₩ 571,700	₩ 375,202	US$ 439,532	US$ 288,464
Earnings per share and ordinary income per share (Note 25) (in Korean Won and U.S. Dollars)				
Basic ordinary income and basic earnings per share	₩ 4,762	₩ 3,436	US$ 3.66	US$ 2.64
Diluted ordinary income and diluted earnings per share	4,147	2,789	3.19	2.14

The accompanying notes are an integral part of these non-consolidated semi-annual financial statements.

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 546 local branches and three overseas branches as of June 30, 2001. The Bank is engaged in the commercial banking business under the Bank Act and in the 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. At June 30, 2001, the Bank has 1,000,000,000 authorized common stocks with par value of ₩5,000 per share, of which 119,968,809 shares are issued, outstanding and fully paid. 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, 2001.

On July 22, 1997, the Bank issued US$300 million of Global Depository 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. On October 3, 2000, the Bank listed American Depository Receipts on New York Stock Exchange. The Bank has accomplished the listing of American Depository Receipts by converting 12,410,000 shares of Global Depository Receipts listed on London Stock Exchange to 24,820,000 shares of American Depository Receipts on October 31, 2000.

At June 30, 2001, the Korean government and foreign investors owned 14.50% and 65.49%, 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 its financial statements are summarized below.

Basis of Non-Consolidated Financial Statement Presentation—

The Bank's financial statements were prepared in accordance with the financial accounting standards generally accepted in the Republic of Korea and the accounting standards generally accepted for banking institutions, as modified by the accounting and reporting guidelines prescribed by the banking regulatory authorities.

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

The accompanying financial statements have been extracted from the Bank's Korean language 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 financial statements have been translated from Korean into English, and have been formatted in a manner different from the presentation under Korean financial statement practices. Accordingly, the accompanying 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 preparation of financial statements in conformity with financial accounting standards generally accepted in the Republic of Korea and the accounting standards generally accepted for banking institutions requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Due to the inherent uncertainty involved in making estimates, actual results could differ from those estimates.

Recognition of Interest Income—

The Bank recognizes interest income on loans and debt securities on an accrual basis. However, as of June 30, 2001, interest income on delinquent and dishonored loans and debt securities, other than those subject to security deposits and guaranteed by financial institutions, is recognized on a cash basis. Accordingly, under the cash basis, unaccrued interest income amounted to ₩259,529 million and ₩335,471 million as of June 30, 2001 and 2000, respectively.

Foreign Currency Translation—

Assets and liabilities denominated in foreign currencies are translated into Korean Won at exchange rates (₩1,300.70/US$1) announced by Korea Financial Telecommunications and Clearings Institute at the balance sheet date. Resulting exchange gains or losses are reflected in operations as other non-interest revenue or expense.

Allowance for Loan Losses—

The Bank classifies the quality of its credits as normal, special mention, substandard, doubtful and estimated loss.

Estimated loan losses were determined by applying the following percentages to each credit quality classification.

Normal	0.5%
Special mention	2.0%
Substandard	20.0%
Doubtful	50.0%
Estimated loss	100.0%

And also, the Bank accrues an additional allowance for unsecured loans to companies whose total loans amount ₩10,000 million or more, or companies assessed internally as having high risk among companies being in the process of debt restructuring under workout plans or other similar programs.

Corporate loans other than small-size corporate loans are classified considering corporate credit risk, the delinquency period, dishonor history, default information and value of collateral.

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 rating 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
1–6	Normal
7–8	Special mention
9	Substandard
10	Doubtful
11	Estimated loss

The Bank classifies credit risk for small-size corporate loans and household loans based on the delinquency period and the value of collateral.

Trading Securities and Investment Securities—

Trading securities include those securities that are bought and held principally for the purpose of buying and selling to generate profits on short-term changes in their prices. However, trading securities include neither stocks issued by a corporation that is a related party nor debt securities purchased with the intention of holding to their maturity date. Investment securities include securities which are not classified as trading securities.

The acquisition costs of trading securities and investment securities are determined by adding incidental costs to the purchase price, and applying the moving average method for equity securities, and the specific identification method for debt securities.

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 in 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.

Fixed assets—

Fixed assets 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 fixed assets.

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 useful lives of the assets.

The estimated useful lives of fixed assets are as follows:

Buildings and structures	5–60 years
Leasehold improvements	5 years
Machinery, equipment and vehicles	5 years

The residual value of assets acquired prior to January 1, 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.

The Bank accounts for trademarks and other intangible assets by amortizing over 5 to 30 years using the straight-line method.

Foreclosed assets acquired in lieu of loan 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—

When contract terms such as principal amount, interest rate, and repayment terms are changed unfavorably for the Bank due to the commencement of workout plans or other similar programs, the related receivables are stated at present value using the interest rate prevailing at the initial transaction date. The difference between the nominal value and the present value is presented in the present value discount account, directly deducted from the nominal value and offset against the allowance for loan losses, if available, or recognized as bad debt expense in the period incurred. The present value discount account is amortized using the effective interest rate method.

When 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.

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.

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 June 30, 2001. Actual payments of severance benefits for the six-month periods ended June 30, 2001 and 2000 were ₩1,655 million and ₩54,312 million, respectively.

As of June 30, 2000, the Bank deposited 82.24% of accrued severance benefits in Daehan Life Insurance Co., Ltd. and Kyobo Life Insurance Co., Ltd. The deposits were made under a group severance insurance plan and the Bank itself could make direct withdrawal from the above insurance companies for the actual payment of severance benefits. Accordingly, the Bank accounted for the deposits as 'Due from Banks.' However, the Bank cancelled the above contract and made a new insurance contract as of June 30, 2001. The amount which the Bank deposited in the above- mentioned insurance companies is 74.26% of accrued severance benefits. Under the new insurance contract, employees have rights to receive the severance payment. The Bank accounted for the deposits as 'Due from insurer severance benefits' and recorded as a deduction from accrued severance benefits.

In accordance with the National Pension Act, a certain portion of accrued severance benefits was contributed to the National Pension Fund which shall be refunded to employees and directors from the National Pension Fund on their retirement.

Fund deposited in accordance with the severance insurance plan and National Pension Fund are presented as subtracting items from accrued severance benefits.

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 "Allowance for Loan Losses." The allowances are recorded as liabilities. The Bank provides additional allowance for guarantees and acceptances to companies with borrowings of ₩10,000 million or more in total or companies assessed internally as having high risk among companies being in the process of debt restructuring under workout or other similar programs.

Deferred Income Tax Assets and Liabilities—

Deferred income taxes are recognized for the tax consequences of temporary differences and carryforwards by applying enacted statutory tax rates, applicable to future years, to differences between the financial reporting and the tax bases of existing assets and liabilities. The Bank recorded deferred income taxes as deferred income tax assets or deferred income tax liabilities in other assets or liabilities.

Securities Purchased under Resale Agreements and Securities Sold under Repurchase Agreements—

Securities 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.

Translation of Foreign Currency Financial Statements of Foreign Entities—

Accounting records of the overseas branches are maintained in a foreign currency prevailing in its respective country. For presentation in the accompanying financial statements, the financial statements of the branches have been translated into Korean Won, using exchange rates published by Korea Financial Telecommunications and Clearings Institute as of June 30, 2001.

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 effective 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 operations.

National Housing Fund—

The Bank, as designated by the Korean Government under the Housing Construction Promotion Law, manages the sources and uses of funds of the National Housing Fund (the "NHF"). The NHF has a settlement account in the Bank, recorded as other liabilities. The Bank pays interest amounting to 1% of average balance of this account to the NHF.

Stock Options—

Compensation cost for stock options, which is computed by an option-pricing model, is amortized over the service period for options granted in 2000 and thereafter. 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 grant 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 rates of return trust accounts and recognizes such compensations as other expenses.

Reclassification of Comparative Amounts—

The comparative non-consolidated semi-annual financial statements have been reclassified to conform with current period's presentation. As a result of this reclassification, previously reported total assets and liabilities as of June 30, 2000 were increased by ₩16,380 million.

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 ₩1,300.70:US$1, the rate in effect at June 30, 2001. The 2000 U.S. Dollar amounts, which were previously expressed at the rate of ₩1,114.80:US$1, the rate prevailing on June 30, 2000, have been restated to reflect the exchange rate in effect at June 30, 2001. 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, 2001 and 2000 are summarized as follows:

	Due from	Annual Interest Rate(%)	Millions of Won	
			2001	2000
Cash on hand				
Cash in Won	—	—	₩912,637	₩1,234,036
Cash in foreign currencies	—	—	48,354	33,497
			960,991	1,267,533
Due from Banks in Won				
Reserve deposits	The Bank of Korea	—	1,124,813	849,752
Deposits for severance payments	Korea Life Insurance Co. and other	—	—	263,500
Deposits in banks	Pusan Bank and other	0.00–9.00	24,752	23,671
Other	Hanareum Banking Corp.	4.96–5.50	97,757	93,623
	The Korea Stock Exchange and other	—	625	592
			1,247,947	1,231,138
Due from Banks in foreign currencies				
Reserve deposits	The Bank of Korea	—	10,163	7,122
Due from banks on demand	Korea Exchange Bank	—	29,499	2,695
	Bank of New York	—	7,479	3,739
	Bankers Trust Co. and other	—	42,608	64,643
Time deposits	Cho Hung Bank	4.00–6.28	123,567	—
	Hanuit Bank	4.00–6.19	91,439	11,148
	Korea First Bank	4.28–5.46	75,441	2,296
	Korea Exchange Bank	4.40–6.05	68,937	—
	H&CB Finance Ltd.	2.50–5.48	57,039	22,934
	Seoul Bank	0.50–6.20	42,951	—
	Koram Bank	3.92–3.95	19,511	—
	Other	0.50–6.20	42,921	61,248
Other	Morgan Guaranty Trust Co., and other	—	11,493	226,862
			623,048	402,687
			₩2,831,986	₩2,901,358

The maturity schedule of due from banks as of June 30, 2001 is as follows (Unit:Millions of Won):

	In 1 year	In 10 years	In 11 years and thereafter	Total
Due from banks in Won	₩1,247,042	₩—	₩905	₩1,247,947
Due from banks in foreign currencies	623,048	—	—	623,048
	₩1,870,090	₩—	₩905	₩1,870,995

Restricted deposits included in due from banks at June 30, 2001 and 2000 are as follows:

	Millions of Won	
	2001	**2000**
Due from Banks in Won:		
Reserve deposits in the Bank of Korea(*)	₩1,124,813	₩ 849,752
Deposits for severance payments(**)	—	263,500
Other deposits with the Korea Stock Exchange(***)	625	592
Due from Banks in foreign currencies:		
Reserve deposits in the Bank of Korea(*)	10,163	7,122
	₩1,135,601	₩1,120,966

(*) Reserve deposits in the Bank of Korea are required amount 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.

(***) Guarantee deposits for the breach of bond dealers' contract

5. Trading Securities and Investment Securities:

Trading securities at June 30, 2001 and 2000 comprise the following:

	Annual Interest Rate(%)	Millions of Won	
	At June 30, 2001	**2001**	**2000**
Equity securities	—	₩ 24,246	₩ 40,795
Government and public bonds	7.0–7.7	51,448	1,230,631
Finance debentures			
—Monetary Stabilization Bonds	5.8–6.5	30,070	932,257
—Other finance debentures	—	—	87,863
Corporate bonds	7.2	20,626	—
Beneficiary certificates(*)	—	3,519,344	20,246
Securities in foreign currencies	—	—	2,708
Other	—	4	18
		₩3,645,738	₩2,314,518

(*) Beneficiary certificates of ₩3,492,868 million are managed by Jooeun Investment Management Co., Ltd., a subsidiary of the Bank, as of June 30, 2001.

Investment securities at June 30, 2001 and 2000 are as follows:

	Annual Interest Rate(%)	Millions of Won	
	At June 30, 2001	2001	2000
Equity securities in Won			
—Subsidiaries	—	₩ 261,080	₩ 136,859
—Other	—	251,994	214,303
Equity investments	—	10,059	3,059
Government and public bonds	3.0–11.7	689,313	1,363,898
Finance debentures			
—Monetary Stabilization Bonds	5.8–8.8	128,405	1,594,967
—Other finance debentures	6.4–10.0	103,192	542,298
Corporate bonds			
—Bonds guaranteed by the Korean Government	1.0–15.0	2,174,194	2,393,252
—General corporate bonds	6.0–20.0	2,076,873	1,727,061
Beneficiary certificates(*)	—	1,711,112	382,392
Securities denominated in foreign currencies			
—Investment in H&CB Finance (H.K.)	—	52,991	37,959
—Debt securities	2.0–11.5	270,073	68,943
Commercial paper	4.0–10.8	12,817	59,924
		₩7,742,103	₩8,524,915

(*) Beneficiary certificates of ₩1,488,769 million are managed by Jooeun Investment Management Co., Ltd., a subsidiary of the Bank, as of June 30, 2001.

At June 30, 2001 and 2000, the amortized cost and estimated fair value of the Bank's investment debt securities are as follows (Unit: Millions of Won):

At June 30, 2001	Par value	Balance at January 1, 2001	Amortized cost	Fair value
Available for sale				
Government and public bonds	₩ 204,107	₩ 209,498	₩ 209,377	₩ 210,458
Finance debentures	154,006	154,961	155,235	155,154
Corporate bonds	2,560,433	2,637,047	2,636,659	2,646,146
Securities denominated in foreign currencies	192,422	158,276	159,248	158,165
	3,110,968	3,159,782	3,160,519	3,169,923
Held to maturity				
Government and public bonds	478,800	478,655	478,855	495,425
Finance debentures	76,000	76,411	76,443	77,660
Corporate bonds	1,624,839	1,607,119	1,604,921	1,636,451
Securities denominated in foreign currencies	111,210	111,963	111,908	109,538
Commercial paper	15,825	12,817	12,817	12,817
	2,306,674	2,286,965	2,284,944	2,331,891
	₩5,417,642	₩5,446,747	₩5,445,463	₩5,501,814

At June 30, 2000	Par value	Balance at January 1, 2000	Amortized cost	Fair value
Available for sale				
Government and public bonds	₩ 821,583	₩ 824,100	₩ 825,127	₩ 830,366
Finance debentures	2,044,083	1,989,082	1,991,384	2,014,739
Corporate bonds	2,627,136	2,595,898	2,591,328	2,651,670
Securities denominated 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
Finance debentures	122,400	122,262	122,526	123,010
Corporate bonds	1,471,007	1,471,849	1,468,643	1,453,198
Securities denominated in foreign currencies	43,756	40,371	40,371	41,835
Other	59,924	59,924	59,924	59,924
	2,230,887	2,227,934	2,224,996	2,213,497
	₩7,794,369	₩7,671,434	₩7,667,255	₩7,738,845

Investments in subsidiaries at June 30, 2001 are as follows (Unit: Millions of Won):

	Ownership (%)	Balance at January 1, 2001	Increase (Decrease)	Balance before adjustments	Current gains or losses	Capital adjustments	Book value(*)
Domestic subsidiaries							
Jooeun Investment Management	80.00	₩ 26,878	₩ —	₩ 26,878	₩ 6,408	₩ —	₩ 33,286
Jooeun Leasing	85.43	22,158	—	22,158	32,528	1,126	55,812
Jooeun Real Estate Trust	100.00	5,951	70,000	75,951	397	(1,008)	75,340
Jooeun Industrial	100.00	—	—	—	34,834	—	34,834
Jooeun Credit Information	50.00	4,236	(150)	4,086	432	—	4,518
Frontier Investments	100.00	16,620	3,000	19,620	(1,295)	—	18,325
ING Life	20.00	42,965	—	42,965	(4,000)	—	38,965
		118,808	72,850	191,658	69,304	118	261,080
Foreign subsidiary							
H&CB Finance (H.K.)	100.00	48,010	—	48,010	3,386	1,595	52,991
		₩166,818	₩72,850	₩239,668	₩72,690	₩1,713	₩314,071

(*) Book values are calculated by using the most recent financial information of subsidiaries.

Investments in non-subsidiaries at June 30, 2001 and 2000 comprise the following:

		Millions of Won			
	Ownership(%)	Book value		Market value or net asset value(*)	
	At June 30, 2001	2001	2000	2001	2000
Marketable equity securities					
SK Securities	5.59	₩ 22,185	₩ 75,878	₩ 32,974	₩ 36,910
Hyundai Engineering & Construction	0.55	11,926	—	11,926	—
Korea Electric Power	0.05	7,080	10,013	7,260	10,380
Hankang Restructuring Fund	1.97	6,737	15,375	8,375	9,950
Inchon Iron & Steel	1.18	5,740	10,103	5,245	5,023
Shin Won Corporation	8.67	5,111	5,120	12,367	4,452
Samsung Electronics	0.02	4,740	10,693	5,760	11,070
Daewoo Engineering & Construction	1.09	3,667	—	4,036	—
POSCO	0.05	3,596	5,520	4,888	4,730
SK Telecom	0.01	3,036	4,567	2,298	4,380
Saehan Industries	1.44	1,612	—	1,003	—
Chonggu	0.07	1,053	587	1,747	604
Kia Motors Corporation and other	—	4,050	22,923	4,845	21,727
		80,533	160,779	102,724	109,226
Valuation gains(loss)		22,191	(51,553)	—	—
		102,724	109,226	102,724	109,226
Other equity securities					
Korea Housing Guarantee	9.7	240,280	41,100	55,769	20,468
Seoul Debt-Restructuring Fund	3.75	22,500	22,500	22,051	24,110
KT Icom	1.04	18,676	—	18,676	—
Korea Mortgage Corporation	14.99	15,000	15,000	15,455	15,087
Arirang Restructuring Fund	3.75	12,500	12,500	10,905	26,428
Mukungwha restructuring Fund	3.75	12,500	12,500	12,371	15,964
BC Card	4.95	3,411	3,411	4,575	5,323
Hanwha Investment Trust Management	11.00	3,374	3,374	3,487	3,461
National Information & Credit Evaluation Inc.	8.66	1,775	1,775	2,852	2,152
Buyoung Finance and other	—	3,765	13,549	4,379	5,169
		333,781	125,709	150,520	118,162
Impairment Loss(**)		(184,511)	(20,632)	—	—
		149,270	105,077	150,520	118,162
		₩251,994	₩214,303	₩253,244	₩227,388

(*) Net asset values are calculated by using the most recent financial information of investees.

(**) The Bank holds equity securities issued by Korea Housing Guarantee Co.,Ltd and recorded ₩184,511 million of impairment loss for the above mentioned securities for the six-month period ended June 30, 2001.

Investment securities denominated in foreign currencies at June 30, 2001 and 2000 comprise the following:

	Thousands of U.S. Dollars(*)		Millions of Won	
Nationality of Issuers	**2001**	**2000**	**2001**	**2000**
Malaysia	US$ 7,549	US$ 8,250	₩ 9,820	₩ 9,197
Indonesia	3,150	4,500	4,097	5,017
India	3,983	5,500	5,181	6,131
China	165	180	215	201
Thailand	2,996	7,995	3,897	8,913
Korea(**)	230,230	61,545	299,522	77,109
Hong Kong	255	300	332	334
	US$248,328	US$88,270	₩323,064	₩106,902

(*) Amounts in foreign currencies other than U.S. Dollars are translated into U.S. Dollars at exchange rate as of June 30, 2001 and 2000, respectively.

(**) Investments in the Bank's subsidiary, H&CB Finance(H.K), are included.

The maturities of trading securities and investment securities except equity securities and equity investments at June 30, 2001 are as follows (Unit: Millions of Won):

Period ending June 30, 2001	Government and public bonds	Finance debentures	Corporate bonds	Beneficiary certificates	Securities in foreign currencies	Other(*)	Total
2002	₩257,939	₩192,818	₩ 708,012	₩3,743,435	₩ 69,213	₩12,821	₩ 4,984,238
2003	257,480	66,695	1,153,997	1,487,021	112,625	—	3,077,818
2004	118,006	2,154	1,631,595	—	31,077	—	1,782,832
2005	105,183	—	498,300	—	3,066	—	606,549
2006	471	—	249,789	—	37,000	—	287,260
2007-2011	1,682	—	30,000	—	17,092	—	48,774
	₩740,761	₩261,667	₩4,271,693	₩5,230,456	₩270,073	₩12,821	₩10,787,471

(*) Composed of commercial paper and other trading securities.

As of June 30, 2001, the Bank provided corporate bonds of ₩842,420 million as collateral for borrowings from the Bank of Korea, and also provided other investment debt securities of ₩1,832,278 million as a collateral in connection with securities sold under repurchase agreements. In addition, other investment debt securities of ₩1,202,620 million were provided as collateral mostly in relation to financial transactions through financial information operated by Korea Financial Telecommunications and Clearings Institute.

Investment securities that can be discounted at the Bank of Korea are ₩119,691 million (par value) as of June 30, 2001.

6. Loans:

Loans at June 30, 2001 and 2000 are as follows:

Loans in Won	**Annual Interest Rate (%) At June 30, 2001**	**Millions of Won 2001**	**2000**
Commercial and industrial			
—General loans	8.22-9.48	₩ 4,193,481	₩ 3,701,808
—Housing loans	11.7-12.92	518,062	797,720
—Other	6.65-14.03	2,042,222	1,804,398
		6,753,765	6,303,926
Households			
—General loans	5.75-13.10	14,012,284	8,920,972
—Housing loans	7.50-11.00	20,927,239	19,188,016
—Other	7.50-13.95	271,084	361,474
		35,210,607	28,470,462
Other	6.00-8.35	560,060	503,874
Total loans in Won		₩42,524,432	₩35,278,262
Loans in foreign currencies	6L+0.41-3L+5.16	1,062,403	1,101,027
Bills bought in Won	6.81-16.91	9,455	3,606
Bills bought in foreign currencies	5.75-15.75	343,694	458,970
Advances for customers	19.00	25,320	53,808
Credit cards	9.40-17.00	3,864,759	1,874,574
Securities purchased under resale agreements	4.88	200,000	28,367
Call loans	4.00-5.45	980,633	728,280
Other(*)	10.90-12.89	133,391	232,948
Total loans		₩49,144,087	₩39,759,842
Less: Allowance for loan losses		(954,444)	(1,185,330)
Present value discounts		(23,768)	(84,787)
Total loans, net		₩48,165,875	₩38,489,725

(*) Other loans consist of private corporate bonds, domestic import usance bills, and loans convertible into equity securities due to troubled debt restructuring.

Since most of loans bear floating interest rate, the effective interest rate may be different from the above interest rate.

The maturities of loans at June 30, 2001 are as follows (Unit:Millions of Won):

Type	In 1 year	In 2 year	In 3 year	In 4 year	In 5 year	In 6 year and thereafter	Total
Loans in Won	₩15,631,929	₩6,548,641	₩7,480,986	₩1,404,731	₩2,631,424	₩8,826,721	₩42,524,432
Loans in foreign currencies	560,943	161,892	123,829	72,190	38,840	104,709	1,062,403
Bills bought	353,149	—	—	—	—	—	353,149
Advances for customers	25,320	—	—	—	—	—	25,320
Credit cards	3,843,678	10,018	5,840	2,871	2,352	—	3,864,759
Other(*)	1,256,433	32,129	455	1,613	14,500	8,894	1,314,024
	₩21,671,452	₩6,752,680	₩7,611,110	₩1,481,405	₩2,687,116	₩8,940,324	₩49,144,087

(*) Other consists of securities purchased under resale agreements, call loans, and other

Loans to other financial institutions at June 30, 2001 and 2000 are as follows:

		Millions of Won	
	Type	2001	2000
Korea Deposit Insurance	Loans in Won	₩ 190,000	₩190,000
Korea Housing Guarantee	Loans in Won and private corporate bonds	—	450,400
The Trust Accounts	Call loans	611,884	328,454
Deutsche Bank and other	Call loans	368,749	399,826
Bank of Korea	Securities purchased under resale agreements	200,000	—
LG Capital	Loans in Won	117,804	—
Kookmin Credit Card	Loans in Won	100,000	100,000
Jooeun Leasing	Loans in Won and foreign currencies	166,199	99,604
Jooeun real estate trust	Loans in Won	41,070	74,856
H&CB Finance(HK)	Loans in foreign currencies	13,007	11,148
Hyundai Capital	Loans in Won	54,700	—
Samsung Capital	Loans in Won	50,000	50,000
KTB Network	Private corporate bonds	35,800	50,000
SK Securities	Private corporate bonds	40,000	50,000
Mirae Asset Venture Capital	Loans in Won	14,000	14,000
Others	Loans in Won and other	222,174	246,702
		₩2,225,387	₩2,064,990

At June 30, 2001 and 2000, the Bank's commercial and industrial loans in Won and loans in foreign currencies classified by industry, are as follows:

	Millions of Won					
	2001			2000		
Industries	**Commercial & industrial**	**Loans in foreign currencies**	**Total**	**Commercial & industrial**	**Loans in foreign currencies**	**Total**
Fishing	₩ 9,609	₩ 13,007	₩ 22,616	₩ 22,563	₩ —	₩ 22,563
Mining	25,281	—	25,281	23,970	—	23,970
Manufacturing	2,704,144	223,425	2,927,569	1,817,001	519,786	2,336,787
Construction	1,918,247	2,921	1,921,168	2,000,727	3,910	2,004,637
Wholesale & retail trade	895,941	50,515	946,456	860,603	88,350	948,953
Hotel, food & beverage	69,560	2,295	71,855	86,683	—	86,683
Transportation, storage, & communication	110,880	357,540	468,420	162,820	152,878	315,698
Finance & insurance	512,228	266,726	778,954	989,049	259,545	1,248,594
Real estate & Business services	360,813	109,007	469,820	198,170	48,495	246,665
Other	147,062	36,967	184,029	142,340	28,063	170,403
	₩6,753,765	₩1,062,403	₩7,816,168	₩6,303,926	₩1,101,027	₩7,404,953

At June 30, 2001 and 2000, loans in foreign currencies classified by nationality of borrowers are as follows:

	Millions of Won	
	2001	**2000**
Korea	₩ 984,961	₩ 940,324
Japan	17,834	75,804
Indonesia	50,060	50,132
Other	9,548	34,767
	₩1,062,403	₩1,101,027

Restructured loans due to commencement of workout plans or other similar restructuring agreements at June 30, 2001 are as follows (Unit: Millions of Won):

Type	Interest Rate (%)	Year to maturity	Restructured loans in total	Convertible into equity securities	Change in contract condition	Present value	Present value discounts
Workout plans	0.1–12	0.5–3.5	₩156,563	₩ —	₩156,563	₩146,475	₩10,088
Court receivership	0–9.75	1–14	44,243	8,030	36,213	27,346	8,867
Court Mediation							
—Jooeun Leasing Co.	6.3–9.3	3.5	98,468	—	98,468	96,960	1,508
—Other	0–9.75	6.5–10	13,436	—	13,436	10,131	3,305
			₩312,710	₩8,030	₩304,680	₩280,912	₩23,768

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.

During the periods ended June 30, 2001 and 2000, the allowance for loan losses changed as follows:

	Millions of Won	
	2001	2000
Balance at January 1,	₩1,044,696	₩1,476,461
Increase due to:		
Provision for loan losses	140,335	109,043
Recoveries	17,368	13,188
Transfer from present value discounts	44,002	31,786
Repurchase of loans	16,308	3,375
Change in exchange rates	5,290	—
Decrease due to:		
Write-offs	(299,635)	(168,238)
Allowance relating to loans sold to SPC	—	(145,979)
Netting to present value discounts from restructuring loans	(8,074)	(98,892)
Redemption and principal reduction of restructuring loans	(5,846)	—
Change in exchange rates	—	(9,720)
Substitute for allowance for accounts receivable	—	(25,694)
Balance at June 30,	₩ 954,444	₩1,185,330

The allowance for possible loan losses at June 30, 2001 and 2000 are provided as follows:

	Millions of Won	
	2001	**2000**
Allowance for:		
Loans in Won	₩678,024	₩712,796
Loans in foreign currencies	112,096	168,023
Bills bought in Won	49	23
Bills bought in foreign currencies	18,489	97,337
Advances for customers	14,317	28,589
Credit card accounts	121,242	36,262
Bond purchased on resale agreement	—	22,345
Call Loans	—	52,324
Other	10,227	67,631
	₩954,444	₩1,185,330

The reserve ratios to total loans as of June 30, 2001,2000 and 1999 are 1.94%, 3.03%, 4.71%, respectively.

Credit quality classification as of June 30, 2001 and 2000 is as follows (Unit: Millions of Won):

	At June 30, 2001					
	Normal	**Special mention**	**Substandard**	**Doubtful**	**Estimated loss**	**Total**
Loans in Won(1)	₩39,352,806	₩1,933,119	₩ 915,485	₩207,766	₩ 93,432	₩42,502,608
Loans in foreign currencies(2)	711,024	94,933	245,307	5,616	3,601	1,060,481
Bills bought	314,111	7,637	672	30,209	520	353,149
Advances for customers	—	55	2,613	18,273	4,379	25,320
Credit cards(3)	3,623,418	105,498	81	69,483	66,257	3,864,737
Other	1,301,000	152	2,713	10,159	—	1,314,024
	₩45,302,359	₩2,141,394	₩1,166,871	₩341,506	₩168,189	₩49,120,319

(1) Loan amounts after deduction of present value discounts of ₩21,824 million

(2) Loan amounts after deduction of present value discounts of ₩1,922 million

(3) Loan amounts after deduction of present value discounts of ₩22 million

	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(3)	170,807	143,699	4,874	96,690	—	416,070
Advance for customer(4)	251	1,758	11,138	28,983	9,648	51,778
Credit card accounts(5)	1,809,944	27,272	314	20,832	16,188	1,874,550
Call loans	668,388	—	14,838	—	45,054	728,280
Other	100,026	42,688	35,579	66,462	16,560	261,315
Total in 2000	₩35,032,268	₩2,948,579	₩910,083	₩590,248	₩193,877	₩39,675,055

(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 ₩46,506 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

7. Fixed assets:

Fixed assets at June 30, 2001 and 2000 comprise the following (Unit: Millions of Won):

	At June 30, 2001		
	Acquisition cost	Accumulated depreciation	Net book value
Tangible assets			
Land	₩ 395,336	₩ —	₩395,336
Buildings and structures	432,702	121,640	311,062
Leasehold improvements	46,094	24,567	21,527
Machinery, equipment and vehicles	441,416	304,277	137,139
Construction in progress	26	—	26
	₩1,315,574	₩450,484	865,090
Intangible assets			153
Foreclosed assets			2,476
			₩867,719

	At June 30, 2000		
	Acquisition cost	Accumulated depreciation	Net book value
Tangible assets			
Land	₩ 395,027	₩ —	₩395,027
Buildings and structures	422,378	109,509	312,869
Leasehold improvements	37,562	16,993	20,569
Machinery, equipment and vehicles	356,977	241,775	115,202
Construction in progress	2,158	—	2,158
	₩1,214,102	₩368,277	845,825
Intangible assets			169
Foreclosed assets			15,268
			₩861,262

In accordance with the Asset Revaluation Law, the Bank revalued a substantial portion of its tangible assets 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 ₩6,547 million, was credited to capital surplus (Note 17).

The Bank's tangible assets and foreclosed assets, 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, 2001 and 2000 are as follows (Unit:Millions of Won):

	Book value		Government-posted price	
	2001	2000	2001	2000
Land included in tangible assets	₩395,336	₩395,027	₩372,484	₩373,110
Land included in foreclosed assets	1,897	13,380	1,359	12,031
	₩397,233	₩408,407	₩373,843	₩385,141

8. Other assets:

Other assets at June 30, 2001 and 2000 are as follows :

	Millions of Won	
	2001	2000
Leasehold deposits	₩ 518,409	₩ 562,145
Accounts receivable	1,615,117	417,316
Accrued interest income	435,551	437,539
Prepaid expenses	64,159	2,559
Deferred income tax assets	70,921	116,692
Unsettled domestic exchange transaction	338,816	701,884
Derivative financial instruments	25,108	59,893
Suspenses receivable	21,602	26,060
Supplies	4,121	4,675
Accounts receivable on disposal of assets	5,011	11,285
Accounts receivable due to cash sent to other banks	4,124	3,019
Guarantee money with court	2,126	1,931
Contribution to non-performing assets management fund(*)	—	8,680
Other	5,170	4,869
	3,110,235	2,358,547
Less: Allowance for losses	(13,806)	(34,374)
Present value discounts	(868)	(909)
	₩3,095,561	₩2,323,264

(*) Total amount of contribution to non-performing assets management fund was charged off in the second half of 2000.

Allowances for losses from other assets at June 30, 2001 and 2000 are provided as follows :

	Millions of Won	
	2001	2000
Allowances for:		
Accounts receivable(*)	₩ 5,135	₩17,486
Suspenses receivable	8,671	16,888
	₩13,806	₩34,374

(*) Accounts receivable transferred from bad bills bought in foreign currencies at June 30, 2001 and 2000 were ₩6,442 million and ₩30,291 million, respectively.

Present value discounts for other assets at June 30, 2001 and 2000 are as follows:

	Millions of Won	
	2001	2000
Present value discounts for:		
Accounts receivable	₩778	₩853
Accounts receivable on disposal of assets	90	56
	₩868	₩909

9. Deposits:

Deposits as of June 30, 2001 and 2000 are summarized as follows:

		Annual Interest Rate (%)	Millions of Won	
		At June 30, 2001	2001	2000
Deposits in Won:				
Demand deposits	Checking deposits	—	₩ 127,719	₩ 142,232
	Passbook deposits	1.0	2,438,413	1,727,359
	Temporary deposits	0.0–2.0	992,301	1,084,976
	Public deposits	0.0–2.0	150,794	148,060
	Other	0.0–3.0	25,059	24,640
			3,734,286	3,127,267
Time & savings deposits	Time deposits	3.0–7.5	26,256,929	21,127,785
	Installment savings deposits	5.5–7.9	1,744,817	4,687,293
	Long-term savings for household	11.0	2,457,868	1,847,725
	Savings deposits	2.0–4.8	5,848,941	5,159,051
	Company free deposits	2.0–4.8	1,366,783	1,139,097
	Other	7.0–7.2	1,173,375	636,679
			38,848,713	34,597,630
Mutual installment deposits	Mutual installment deposits	5.5–6.8	1,672,080	632,643
	Housing installment savings deposits	6.3–6.7	3,736,675	3,705,623
			5,408,755	4,338,266
			47,991,754	42,063,163
Deposits in foreign currencies:				
Demand deposits		1.67–1.74	109,929	43,671
Time & savings deposits		3.25–3.95	286,879	104,946
			396,808	148,617
Certificate of deposits		4.3–5.5	739,635	36,250
			₩49,128,197	₩42,248,030

Deposits due to financial institutes as of June 30, 2001 and 2000 are as follows:

		Millions of Won	
	Due to	**2001**	**2000**
Demand deposits	Banks	₩ 6,250	₩ 109,238
	Insurance companies or pension funds	51,622	119,956
	Other financial agents	107,904	384,801
	Credit facilities	14,299	18,683
		180,075	632,678
Time & savings deposits	Banks	306,617	25,840
	Insurance companies or pension funds	508,881	106,198
	Other financial agents	1,286,981	1,463,570
	Credit facilities	47,913	17,965
		2,150,392	1,613,573
		₩2,330,467	₩2,246,251

The maturities of deposits at June 30, 2001 are as follows (Unit: Millions of Won):

Period ending June 30,	**Deposits in Won**	**Deposits in foreign currencies**	**Certificate of deposits**	**Total**
2002	₩34,653,389	₩336,029	₩739,635	₩35,729,053
2003	3,598,954	365	—	3,599,319
2004	2,605,493	245	—	2,605,738
2005	6,616,802	60,169	—	6,676,971
2006	271,457	—	—	271,457
2007 and thereafter	245,659	—	—	245,659
	₩47,991,754	₩396,808	₩739,635	₩49,128,197

10. Borrowings:

Borrowings at June 30, 2001 and 2000 are as follows:

	Annual Interest Rate(%)	Millions of Won	
	At June 30, 2001	2001	2000
Borrowings in Won:			
The Bank of Korea	3.0–5.0	₩ 278,579	₩ 1,481
Korean Government	4.9–7.9	332,285	342,764
National Housing Fund	8.00	9,790	9,970
Subordinated borrowings(*)	7.5–7.69	250,000	250,000
Industrial Bank of Korea	9.30	63,984	158,002
Other	4.2–9.7	103,955	125,431
		1,038,593	887,648
Borrowings in foreign currencies:			
Short-term borrowings	4.10–6.33	183,888	474,561
Long-term borrowings	4.85–5.95	440,913	81,938
Overseas branches' borrowings	0.01–9.5	339,661	307,709
Overdraft	—	31,721	34,801
		996,183	899,009
Securities sold under repurchase agreements	3.9–5.8	1,452,329	650,676
Bills sold	5.79–7.49	17,240	3,029
Due to the Bank of Korea in foreign currencies	3.86–5.38	17,155	51,706
Call money:			
Call money in Won	4.70	209,900	172,100
Call money in foreign currencies	3.81–4.06	78,432	223
Inter-bank reconciliation funds	—	75,028	—
		363,360	172,323
		₩3,884,860	₩2,664,391

(*) Subordinated borrowings at June 30, 2001 and 2000 are as follows:

		Annual Interest Rate(%)	Millions of Won	
	Maturity	At June 30, 2001	2001	2000
Korea Life Insurance Co.	10 years	7.69	₩150,000	₩150,000
Kyobo Life Insurance Co.	10 years	7.50	100,000	100,000
			₩250,000	₩250,000

The maturities of borrowings at June 30, 2001 and 2000 are as follows (Unit: Millions of Won):

Period ending June 30,	Borrowings in Won	Borrowings in foreign currencies	Other	Total
2002	₩ 357,016	₩853,702	₩1,850,084	₩3,060,802
2003	71,345	132,048		203,393
2004	73,957			73,957
2005	44,264			44,264
2006	37,412			37,412
2007 and thereafter	454,599	10,433		465,032
	₩1,038,593	₩996,183	₩1,850,084	₩3,884,860

As of June 30, 2001, the Bank provided corporate bonds of ₩842,420 million as collateral for borrowings from the Bank of Korea, and provided other investment debt securities of ₩1,832,278 million as a collateral in connection with securities sold under repurchase agreements.

11. Debentures

Debentures at June 30, 2001 and 2000 are as follows:

	Annual Interest Rate (%)	Millions of Won	
	At June 30, 2001	2001	2000
Debentures in Won:			
H&CB finance debentures	5.12 – 15.30	₩3,844,126	₩1,351,075
Housing debentures	6.28 – 16.28	81,704	824,590
		3,925,830	2,175,665
Discount on debentures		(73,462)	(41,419)
		3,852,368	2,134,246
Debentures in foreign currencies:			
Debentures	5.0 – 5.75	333,421	359,174
Off-shore debentures	—	—	105,906
		333,421	465,080
Discount on debentures		(1,455)	(2,739)
		331,966	462,341
		₩4,184,334	₩2,596,587

Subordinated debentures at June 30, 2001 and 2000 are as follows:

Creditor	Type	Repayment	Annual Interest Rate (%) At June 30, 2001	Millions of Won 2001	2000
Public Fund	H&CB finance debentures	Lump sum	7.40 – 8.40	₩ 348,200	₩348,200
	Housing debentures			79,000	79,000
Credit Guarantee Fund	H&CB finance debentures	After 5 year grace period and annual	15.02	174,900	174,900
Hyundai Investment Trust & Securities	Lump sum	15.30	40,000	40,000	
Other(*)		7.60 – 9.65	866,026	253,975	
				₩1,508,126	₩896,075

(*) Other consists of debentures, with maturity of six to ten years, which are issued to unspecified persons or companies.

The maturities of debentures at June 30, 2000 are as follows (Unit: Millions of Won):

Period ending June 30,	Debentures in Won	Debentures in foreign currencies	Total
2002	₩1,656,404	₩ —	₩1,656,404
2003	409,220	333,421	742,641
2004	846,210	—	846,210
2005	29,070	—	29,070
2006	531,975	—	531,975
2007 and thereafter	452,951	—	452,951
	₩3,925,830	₩333,421	₩4,259,251

12. Other liabilities

Other liabilities at June 30, 2001 and 2000 are composed of the following:

	Millions of Won	
	2001	**2000**
Accrued expenses	₩2,720,977	₩2,913,370
Due to the trust accounts	341,473	412,009
Unsettled domestic exchange transaction	546,529	954,917
Accounts payable	1,630,682	395,156
Accrued severance benefits(*)	75,294	303,006
Withholding taxes	47,000	50,646
National Housing Fund	56,577	61,474
Suspenses payable	32,875	27,905
Unearned revenue	37,973	32,613
Income tax payable	189,666	60,830
Reconciliation of valuation for derivatives	13,172	2,125
Guarantee deposits received	34,792	32,505
Allowance for guarantee losses (Note 13)	20,178	28,522
Giro accounts	27,756	24,187
Other allowance		
KAMCO(**)	6,585	—
Unsettled foreign exchange transaction	2,838	6,563
Other	218,849	245,720
	₩6,003,216	₩5,551,548

(*) Accrued severance benefits at June 30, 2001 and 2000 are as follows:

	Millions of Won	
	2001	**2000**
Balance at January 1,	₩ 316,429	₩339,791
Provisions	40,405	34,935
Severance payments	(1,655)	(54,312)
	355,179	320,414
Less: Cumulative deposits in		
National Pension Fund	(16,118)	(17,408)
Due from insurer severance benefit	(263,767)	—
Balance at June 30,	₩ 75,294	₩303,006

(**) The Bank provides allowance of ₩6,585 million for losses from transferred loans to KAMCO, as of June 30, 2001 (Note 14).

13. Guarantees and Acceptances:

Guarantees and acceptances outstanding at June 30, 2001 and 2000 are summarized as follows:

	Millions of Won	
	2001	**2000**
Guarantees and acceptances in Won	₩ 66,350	₩ 50,182
Guarantees and acceptances in foreign currencies		
Acceptances for letters of credit	526,808	528,336
Letters of guarantee for importers	14,765	12,796
Contract on credit derivatives sold	4,552	3,902
Other(*)	229,134	89,554
	775,259	634,588
	₩841,609	₩684,770

(*) Other includes guarantees for borrowings, contract performance and tender.

Credit risk classifications of guarantees and acceptances outstanding at June 30, 2001 and 2000 are as follows (Unit: Millions of Won):

	At June 30, 2001					
	Normal	**Special mention**	**Substandard**	**Doubtful or below**	**Total**	**Allowances**
Guarantees and acceptances in Won	₩ 58,909	₩ 4,366	₩1,000	₩ 2,075	₩ 66,350	₩ 2,268
Guarantees and acceptances in foreign currencies Acceptances for letters of credit	514,708	6,351	797	4,952	526,808	2,723
Letters of guarantee for importers	14,286	347	—	132	14,765	69
Contract on credit derivatives sold	4,552	—	—	—	4,552	—
Other	175,869	364	—	52,901	229,134	15,118
Total in 2001	₩768,324	₩11,428	₩1,797	₩60,060	₩841,609	₩20,178
Total in 2000	₩636,956	₩ 9,463	₩2,723	₩35,628	₩684,770	₩28,522

For the six-month periods ended June 30,2001 and 2000, the allowances for possible losses from the outstanding guarantees and acceptances changed as follows:

	Millions of Won	
	2001	**2000**
Balance at January 1,	₩24,140	₩29,757
Reversal of allowance	(4,677)	(623)
Changes in foreign exchange rates	715	(612)
	₩20,178	₩28,522

The guarantees and acceptances outstanding classified by industry as of June 30, 2001 and 2000 are as follows:

	Millions of Won	
	2001	**2000**
Manufacturing	₩627,637	₩481,404
Construction	17,417	18,410
Wholesale & retail trade	118,240	89,991
Finance and insurance	54	12,339
Real estate and business service	27,798	13,122
Utilities	—	22,404
Other	50,463	47,100
	₩841,609	₩684,770

14. Commitments and Contingencies:

(1) Except guarantees and acceptances described in Note 13, the amounts of the Bank's guarantees and acceptances not considered to assume liabilities of customers and endorsed bills, provided in the normal course of business, at June 30, 2001 and 2000 are as follows:

	Millions of Won	
	2001	**2000**
Guarantees and acceptances not considered to assume liabilities of customers(*)	₩395,507	₩331,686
Endorsed bills	4,944	2,397

(*) Including letters of credit issued but not yet being drawn

(2) Summary of derivative financial instrument information at June 30, 2001 and 2000 are as follows (Unit:Millions of Won)

	Notional amount		Valuation gains or losses on trading		Valuation gains or losses on hedging	
2001	**Trading**	**Hedging**	**Gains**	**Losses**	**Gains**	**Losses**
Foreign currency related contracts						
—Forward	₩371,445	₩ —	₩1,718	₩ 2,230	₩ —	₩ —
—Swap	331,470	—		12,039	—	—
	702,915	—	1,718	14,269	—	—
Interest rate related contract						
—Swap	52,028	26,014	305	4,514	—	856
	₩754,943	₩26,014	₩2,023	₩18,783	₩ —	₩856

	Notional amount		Valuation gains or losses on trading		Valuation gains or losses on hedging	
2000	**Trading**	**Hedging**	**Gains**	**Losses**	**Gains**	**Losses**
Foreign currency related contracts						
—Forward	₩384,613	₩ —	₩1,528	₩ 980	₩ —	₩ —
—Swap	303,169	—	6,654		—	—
	687,782	—	8,182	980	—	—
Interest rate related contract				—	—	—
—Swap	—	3,344	—	—	1,448	—
Stock price index related contracts						
—Forward	2,375	—	—	1,145	—	—
	₩690,157	₩3,344	₩8,182	₩2,125	₩1,448	₩ —

Gain on valuation of derivative financial instruments of ₩2,023 million and ₩9,630 million for 2001 and 2000 are included in gain from derivative transaction of other non-operating revenue. Loss on valuation of derivative financial instruments of ₩19,639 million and ₩2,125 million for 2001 and 2000 are included in loss from derivative transaction of other non-operating expense.

The summary of assets for fair value hedging which are recorded as foreign investment securities in financial statements is as follows.

Issuer	Bond	Face amount	Face interest rate (%)	Risk	Method for hedging
KDIC	EB	USD5,000,000	2.250	Interest rate	Asset Swap
KEPCO	Fixed-rate	5,000,000	6.375	Interest rate	IRS Swap
Samsung Electronics, America	Fixed-rate	5,000,000	9.750	Interest rate	IRS Swap
Samsung Electronics	CB	5,000,000	2.000	Interest rate	Asset Swap
		USD20,000,000			

(3) The Bank has entered into overdraft contracts and other loan commitments. Loan commitments and the unused commitments at June 30, 2001 and 2000 are summarized as follows:

	Millions of Won	
	2001	**2000**
Total commitments	₩8,297,142	₩6,740,872
Unused commitments	4,231,487	3,666,704

(4) Pursuant to asset securitization plans, the Bank transferred non-performing loans of ₩172,091 million, ₩193,656 million, and ₩210,801 million to Jooeun First Securitization Co., Ltd., Jooeun Third Securitization Co., Ltd., and Jooeun Fourth Securitization Co., Ltd. on December 10, 1999, March 15, 2000, and December 6, 2000, respectively. The Bank also transferred securities of ₩136,400 million to Jooeun Second Securitization Co., Ltd. on February 1, 2000. Since the transfer agreements stipulate a warranty for the above-mentioned assets, there could be additional future losses associated with such loans and securities. The Bank recognized gains of ₩306 million and losses of ₩8,846 million from repurchase of loans that were sold to above mentioned securitization companies for the six-month period ended June 30, 2001 (Note 12).

(5) The Bank grants credit related to asset management or fiduciary service to securitization companies other than the four companies mentioned above. As of June 30, 2001, the granted credit line and outstanding loans to such companies totaled ₩3,817,300 million and ₩28,048 million, respectively.

(6) The Bank recognized additional gains of ₩23 million and losses of ₩60 million in connection with prior year's non-performing loan sales to KAMCO for the six-month period ended June 30, 2001. In addition, the Bank provides an allowance of ₩6,585 million, included in other liabilities, for losses from transferred non-performing loan sales to KAMCO as June 30, 2001.

(7) As of June 30, 2001 and 2000, the Bank has an unexpired right to claim against borrowers or guarantors for loans, which already has been written off, of ₩860,590 million and 349,420 million, respectively.

(8) On January 13, 2000, the Bank and Jooeun Leasing Co., Ltd. ("Jooeun Lease"), a subsidiary of the Bank, entered into a memorandum of understanding (the "MOU") with other creditors of Jooeun Leasing, whereby the Bank and other creditors agreed on detailed terms of the debt restructuring plan for Jooeun Leasing. As of June 30, 2001, the Bank's total loans to Jooeun Leasing are ₩166,199 million. In accordance with the restructuring plan, the Bank will provide additional loans of ₩18,458 million by March 31, 2002.

(9) Beginning in 1997, Korea and other countries in the Asia Pacific region experienced a severe contraction in substantially all aspects of their economies. This situation is commonly referred to as the 1997 Asian financial crisis. In response to this situation, the Korean government and the private sector began implementing structural reforms to historical business practices.

The Korean economy is currently experiencing additional difficulties, particularly in the areas of restructuring private enterprises and reforming the banking industry. The Korean government continues to apply pressure to Korean companies to restructure into more efficient and profitable firms. The banking industry is currently undergoing consolidations and significant uncertainty exists with regard to the availability of short-term financing during the coming year. The Bank may be either directly or indirectly affected by the situation described above.

The accompanying financial statements reflect management's current assessment of the impact to date of the economic situation on the financial position of the Bank. Actual results may differ materially from management's current assessment.

Under these adverse economic conditions, certain financially troubled borrowers of the Bank are in the process of debt restructuring under workout plans or other similar programs. As of June 30, 2001, the Bank's loans, securities, and guarantees to those borrowers amount to ₩729,365 million before present value discounts of ₩24,546 million. In addition, the Bank has accrued ₩120,632 million and ₩17,178 million of allowance for loan and guarantee losses, respectively. The Bank's outstanding loans, securities, and guarantees to Hyundai Group companies and associated allowance for loan losses amount to ₩268,745 million and ₩44,971 million, respectively. Actual results of losses from the credit to the above companies under workout or other similar programs and Hyundai Group companies can differ from allowances for such loan and guarantee losses accrued by the Bank.

15. Common Stock 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 common stock 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.

Pursuant to the investment agreement, the Bank acquired 1,000,000 common shares of ING Life Co., Ltd., a life insurance subsidiary of ING in Korea, at a price of ₩41,384 million and disposed of 1,200,000 common shares of Jooeun Investment Management Co., Ltd., a subsidiary of the Bank, at a price of ₩26,172 million to ING on January 11, 2000. Those shares acquired and disposed represented approximately 20% of the total outstanding shares of each subsidiary. In addition, the Bank is allowed to acquire additional shares of the insurance subsidiary of ING in Korea and ING is allowed to acquire additional shares of the subsidiary of the Bank in the future. During the first half of 2001, the Bank issued 10,906,255 shares as stock dividends to shareholders and transferred ₩54,531 million of unissued stock dividends recorded in capital adjustments to common stock in shareholders' equity.

16. Preferred Stock:

On December 29, 1998, in connection with the purchase and assumption arrangement of Dongnam 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 Bank repurchased 17,790,000 and 23,720,000 preferred shares from KDIC on January 31 and February 1, 2000, respectively and recorded as ₩207,550 million of treasury stocks (Note 19). As a result, 17,790,000 preferred shares are not repurchased by the Bank as of June 30, 2001.

Among 59,300,000 preferred shares, 41,510,000 shares recorded as treasury stocks and the remaining 17,790,000 shares not purchased by the Bank mature on March 27, 2002 and March 27, 2004, respectively.

All of the treasury stocks are scheduled to convert into common stocks on March 28, 2002 and to be disposed within six months thereafter.

17. Capital Surplus:

Capital surplus as of June 30, 2001 and 2000 are as follows:

	Millions of Won	
	2001	**2000**
Share premium	₩565,409	₩565,532
Revaluation surplus (Note 7)	211,693	211,693
Other(*)	24	13
	₩777,126	₩777,238

(*) The Bank recorded ₩24 million and ₩13 million of gains on disposal of treasury stocks in relation to stock dividends as other capital surplus as of June 30, 2001, and 2000.

18. Retained Earnings:

Retained earnings as of June 30, 2001 and 2000 are as follows:

	Millions of Won	
	2001	**2000**
Legal reserve	₩ 266,529	₩214,156
Reserve for business rationalization	101	101
Voluntary reserves	707,957	329,945
Unappropriated retained earnings	580,105	357,165
	₩1,554,692	₩901,367

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 would not be 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 could be used to reduce accumulated deficit, if any, by appropriate resolution of the Bank's stockholders. In addition, the Bank's 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. As of June 30, 2001 and 2000, legal reserve for the reduction of accumulated deficit of the overseas branch amounts to ₩533 million and ₩25 million, respectively.

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.

The Bank's voluntary reserves consist of overseas investment loss reserve and other voluntary reserve. The Bank is appropriating reserve for overseas investment losses separately at the time of appropriating the retained earnings pursuant to the Special Tax Treatment Control Law. The Bank is 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 the payment of dividends until used for the specific purpose or reversed. Other voluntary reserve does not have any specific purpose and could be restored to unappropriated retained earnings through shareholders' resolution.

The revised financial accounting standards generally accepted in the Republic of Korea and the accounting standards generally accepted for banking institutions were applied retroactively. Unappropriated retained earnings as of June 30, 2001 and 2000, and the adjustments of the beginning balance of retained earnings for the six-month periods then ended are as follows:

	Millions of Won	
	2001	**2000**
Unappropriated retained earnings at January 1,	₩ 8,405	₩ 8,482
Adjustments:		
—Deferred income tax due to adjustments to retained earnings	—	14,304
—Loss on valuation of investment in equity securities	—	(20,343)
—Prior year adjustments	—	(19,558)
—Valuation of prior year's hedging derivatives	—	(922)
Retained earnings after adjustments	—	(18,037)
Net income	571,700	375,202
Unappropriated retained earnings at June 30,	₩580,105	₩357,165

Prior year adjustments for the six-month period ended June 30, 2000 are as follows:

	Millions of Won
Gain on prior year adjustments:	
Present value discounts	₩ 1,091
Other	1,818
	2,909
Loss on prior year adjustments:	
Valuation of subordinated bonds	(14,000)
Valuation of derivatives	(922)
Present value discounts	(5,353)
Other	(2,192)
	(22,467)
	₩(19,558)

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	(290,230)
Transfer from Reserves for Dividends	(719)
Undisposed accumulated deficit	₩ —

19. Capital Adjustments:

Capital adjustments as of June 30, 2001 and 2000 comprise the following:

	Millions of Won	
	2001	**2000**
Treasury stocks (Note 16)	₩(207,550)	₩(207,550)
Gain on valuation of investment securities	115,775	35,243
Stock options (Note 20)	11,988	6,375
	₩ (79,787)	₩(165,932)

20. Stock Options:

As of June 30, 2001, the Bank granted 964,007 stock options to 43 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. The exercise period is ever three years after 3 years from the grant date. As of June 30, 2001, stock options in effect are as follows:

Grantee	Initial No. of shares	No. of shares	Exercise price	Grant date
CEO	400,000	400,000(*)	₩ 5,000	October 31, 1998
Directors	280,000	220,108(**)	13,900	February 27, 1999
Directors and employees	267,000	232,899(**)	27,600	February 28, 2000
Directors and employees	111,000	111,000	25,100	March 24, 2001
		964,007		

(*) Including 100,000 additional stock options which will be granted to the CEO, if the three-month-weighted average stock price of the Bank before exercise date is higher than that of any other listed banks in Korea.

(**) Stock options granted on February 27, 1999 and February 28, 2000 expired due to the resignation of the directors as follows:

	No. of Stock Options Granted	
Grant Date	**February 27, 1999**	**February 28, 2000**
Initially Granted	280,000	267,000
Expired in 2000	(20,000)	(5,072)
No. of shares at January 1, 2001	260,000	261,928
Expired in 2001	(39,892)	(29,029)
No. of shares at June 30, 2001	220,108	232,899

Regarding above mentioned stock options, the compensation cost of ₩2,270 million was charged to current operations and capital adjustments for the period ended June 30, 2001. Remaining ₩3,720 million are to be charged to expenses and capital adjustments thereafter.

Following assumptions are used for the estimated compensation cost for the option granted in 2001 and 2000:

	2001	2000	Assumptions
Risk-free interest rate	6.341%	8.995%	Average yield of 3 year maturity government bond for a month before grant date of option
Expected exercise date	3 years	3 years	Exercisable date
Variance of expected stock price	53.62%	47.75%	Variance of stock price for 3 years previous to grant date of option
Expected dividend yield ratio	2.93%	3.87%	Average dividend yield ratio for 3 years previous to grant date of option (excluding 1998 for no dividend was paid for that period)

21. Other Non-Interest Revenue (Expense):

Other non-interest revenue (expense) for the six-month periods ended June 30, 2001 and 2000 comprises the following:

	Millions of Won	
	2001	**2000**
Other Non-Interest Revenue		
Gain on foreign currency transaction	₩ 72,437	₩ 62,205
Gain from derivative transaction	57,988	56,222
Gain on valuation of trading securities	124,355	23,969
Gain on disposal of trading securities	5,341	30,352
Trust fees	111,153	34,959
Reversal of allowance for guarantee losses	4,677	623
Other	8,882	—
	₩384,833	₩208,330
Other Non-Interest Expense		
Loss on foreign currency transaction	₩ 45,433	₩ 63,493
Loss on derivative transaction	73,815	30,870
Loss on valuation of trading securities	—	12,025
Loss on disposal of trading securities	40	37,192
Compensation to the trust accounts	—	42
Contribution(*)	20,686	16,761
Other	23,886	38,009
	₩163,860	₩198,392

(*) 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, 2001 and 2000 comprise the following:

	Millions of Won	
	2001	**2000**
Salaries and wages	₩206,418	₩178,797
Provision for severance benefits	40,405	34,937
Other employee benefits	47,361	46,994
Rent	3,412	2,580
Depreciation	48,554	42,597
Taxes and dues	17,087	16,114
	363,237	322,019
Business promotion	12,876	5,817
Entertainment	4,704	4,349
Amortization of intangible assets	8	8
Other	89,334	70,799
	₩470,159	₩402,992

23. Non-Operating Gains (Losses), Net:

Non-operating gains or losses for the years ended June 30, 2001 and 2000 comprise the following:

	Millions of Won	
	2001	**2000**
Non-operating gains:		
Gain on disposal of investment securities	₩ 6,050	₩27,891
Gain on disposal of loans	329	26,878
Reversal of loss on investment securities	3,196	2,376
Gain on valuation of investment securities using equity method	72,690	—
Other	89,062	22,013
	171,327	79,158
Non-operating losses:		
Loss on disposal of investment securities	1,160	395
Loss on disposal of loans	8,907	119
Loss on valuation of investment securities using equity method	—	10,008
Loss on impairment of equity securities	184,511	20,632
Loss on impairment of debt securities	3,000	10,969
Other	20,401	9,281
	217,979	51,404
Gains (Losses), Net	₩(46,652)	₩27,754

24. Income Tax Expenses:

The statuary income tax rate applicable to the Bank, including the resident tax surcharge, is approximately 30.8%, however, the effective tax rate is approximately 31.22% and 30.77% for the years ended June 30, 2001 and 2000, respectively.

Income tax expenses and effective tax rate for the six-month periods ended June 30, 2001 and 2000 are as follows:

	Millions of Won	
	2001	**2000**
Current period income taxes	₩191,272	₩148,980
Deferred income taxes	68,205	17,807
Income tax	₩259,477	₩166,787
Income before income tax expenses	₩831,177	₩541,989
Effective tax rate	31.22%	30.77%

Major tax adjustments between accounting income (expenses) and tax income (expenses) and their resulting tax effects for the six-month periods ended June 30, 2001 and 2000 are as follows:

	Millions of Won	
	2001	**2000**
Income before income tax expenses	₩831,177	₩541,989
Tax expenses using the statutory income tax rate	256,002	166,919
Tax adjustment due to temporary differences:		
Accrued income	13,378	(6,385)
Allowance for loan losses(*)	(57,475)	(32,851)
Loss on impaired securities	56,769	8,791
Valuation gains or losses on securities	(63,561)	2,737
Valuation gains or losses on derivatives	(2,541)	—
Other	(14,775)	9,901
	(68,205)	(17,807)
Tax adjustment due to permanent differences:		
Interest income on suspenses receivable and other	3,475	(132)
Current period income taxes	₩191,272	₩148,980

(*) Present value discounts are included.

Major accumulated temporary differences for the six-month periods ended June 30, 2001 comprise the following (Unit: Millions of Won):

	Beginning balance after adjustments	Increase	Decrease	Ending balance
Accrued income	₩(114,264)	₩ (74,567)	₩(118,001)	₩(70,830)
Allowance for loan losses(*)	390,556	164,958	351,564	203,950
Loss on impaired securities	156,271	195,657	11,342	340,586
Valuation gains or losses on securities	3,904	(125,200)	81,167	(202,463)
Valuation gains or losses on derivatives	34,752	7,296	15,544	26,504
Other	(19,511)	(10,930)	37,044	(67,485)
	₩ 451,708	₩ 157,214	₩ 378,660	₩230,262
Deferred income tax assets	₩ 139,126	₩ 48,422	₩ 116,627	₩ 70,921

(*) Present value discounts are included.

Adjustments of the beginning balance as of January 1, 2001 are as follows (Unit: Millions of Won):

	Before adjustments	Adjustments (*)	After adjustments
Accrued income	₩(114,232)	₩ (32)	₩(114,264)
Allowance for loan losses	399,092	(8,536)	390,556
Loss on impaired securities	156,271	—	156,271
Valuation gains or losses on securities	3,904	—	3,904
Valuation gains or losses on derivatives	34,751	—	34,752
Other	(10,539)	(8,972)	(19,511)
	₩ 469,247	₩(17,540)	₩ 451,708
	₩ 144,528	₩ (5,402)	₩ 139,126

(*) Temporary differences due to supplementary payment of income taxes applicable to prior year.

25. Earnings Per Share and Ordinary Income Per Share:

Earnings per share and ordinary income per share for the six-month periods ended June 30, 2001 and 2000 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 shares outstanding during the six-month periods ended June 30, 2001 and 2000, respectively.

	Won	
	2001	2000
Basic ordinary income per share		
Ordinary income after income tax	₩ 571,699,524,459	₩375,201,990,937
Dividends on preferred stock	(444,750,000)	(444,750,000)
	571,254,774,459	374,757,240,937
Weighted average number of common shares outstanding	119,968,809	109,062,554
	₩ 4,762	₩ 3,436
Basic earnings per share		
Net income after income tax	₩ 571,699,524,459	₩375,201,990,937
Dividends on preferred stock	(444,750,000)	(444,750,000)
	571,254,774,459	374,757,240,937
Weighted average number of common shares outstanding (shares)	119,968,809	109,062,554
	₩ 4,762	₩ 3,436

Weighted average number of common shares outstanding is calculated as follows:

For the six-month period ended June 30, 2001	No. of shares outstanding	Number of days	Accumulated No. of shares outstanding
December 31, 2000	109,062,554	181	19,740,322,274
Stock dividends	10,906,255	181(*)	1,974,032,155
	119,968,809		21,714,354,429

21,714,354,429 shares ÷ 181 Days = 119,968,809 shares

For the six-month period ended June 30, 2000	No. of shares outstanding	Number of days	Accumulated No. of shares outstanding
December 31, 1999	99,147,777	182	18,044,895,414
Stock dividends	9,914,777	182(*)	1,804,489,414
	109,062,554		19,849,384,828

19,849,384,828 shares ÷ 182 Days = 109,062,554 shares

(*) Assuming stock dividend is distributed at the beginning of the year.

Dividends on preferred stock are calculated as follows:

	Won	
	2001	**2000**
Weighted average number of preferred shares outstanding (shares)	17,790,000	17,790,000
Dividends per share	₩ 50	₩ 50
Dividends for the six-month period ended June 30,(*)	₩444,750,000	₩444,750,000

(*) Weighted average number of preferred shares outstanding × Dividends per share × 6÷12

(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. Outstanding 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 964,007 shares (Including 100,000 additional stock options which would be granted to the CEO, if three- month-weighted average stock price of the Bank before exercise date 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, 2001 and 2000 are as follows:

	Won	
	2001	**2000**
Diluted ordinary income per share		
Diluted ordinary income after income tax expenses	₩573,127,473,452	₩375,201,990,937
Weighted average number of common shares outstanding	119,968,809	109,062,554
Weighted average number of diluted shares	18,223,737	25,444,966
	₩ 4,147	₩ 2,789
Diluted earnings per share		
Diluted net income	₩573,127,473,452	₩375,201,990,937
Weighted average number of common shares outstanding (shares)	119,968,809	109,062,554
Weighted average number of diluted shares	18,223,737	25,444,966
	₩ 4,147	₩ 2,789

Weighted average number of diluted shares for the six-month periods ended June 30, 2001 and 2000 are calculated as follows:

	No. of Diluted Securities	
	2001	**2000**
Convertible preferred stock	17,790,000	24,990,714
Stock Options	433,737	454,252
	18,223,737	25,444,966

Convertible preferred shares are considered to be common share equivalent.

Six-month period ending	Period	No. of shares	No. of days	Accumulated No. of shares
June 30, 2001	January 1-June 30	17,790,000	181	3,219,990,000
June 30, 2000	January 1-January 30	59,300,000	31	1,838,300,000
	February 1	41,510,000	1	41,510,000
	February 2-June 30	17,790,000	150	2,668,500,000
			182	4,548,310,000

For the six-month period ended June 30, 2001: 3,219,990,000 shares ÷ 181 Days = 17,790,000 Shares

For the six-month period ended June 30, 2000: 4,548,310,000 shares ÷ 182 Days = 24,990,714 Shares

—Weighted average numbers of diluted shares for stock options are as follows:

For the six-month period ended June 30, 2001: $(400{,}000 - 400{,}000 \times 5{,}000 \div 26{,}650) + (220{,}000 - 220{,}000 \times 13{,}900 \div 26{,}650) + (111{,}000 - 111{,}000 \times 25{,}100 \div 26{,}650) \times 99^{(*)} \div 181 = 433{,}737$ Shares

(*) Since 111,000 shares of stock options were granted on March 24, 2001, 99 days are applied to calculate weighted average.

For the six-month period ended June 30, 2000: $(400{,}000 - 400{,}000 \times 5{,}000 \div 26{,}100) + (280{,}000 - 280{,}000 \times 13{,}900 \div 26{,}100) = 454{,}252$ Shares

Diluted ordinary income and net income for the six-month periods ended June 30, 2001 and 2000 are calculated as follows:

	2001	2000
Ordinary (net) income allocated to common shares	₩571,254,774,459	₩374,757,240,937
Dividends to convertible preferred shares	444,750,000	444,750,000
Compensation cost for stock options	1,427,948,993	—
	₩573,127,473,452	₩375,201,990,937

Potential common share information as of June 30, 2001 is as follows:

Type	Exercise period	Number of common shares to be issued	Exercise price
Stock options	November 1, 2001–October 31, 2004	400,000(*)	₩ 5,000
	February 28, 2002–February 27, 2005	220,108	₩13,900
	March 1, 2003–February 28, 2006	232,899	₩27,600
	March 25, 2004–March 24, 2007	111,000	₩25,100
Convertible preferred stock	March 28, 2004	17,790,000	To be converted to common stock

(*) Including 100,000 additional stock options which will be granted to the CEO, if three-month-weighted average stock price of the Bank before exercise date is higher than that of any other listed banks in Korea.

26. Assets and Liabilities Denominated in Foreign Currencies:

Significant assets and liabilities denominated in foreign currencies at June 30, 2001 and 2000 are as follows:

	Millions of Won		Thousands of US$ Equivalent(*)	
	2001	2000	2001	2000
Assets:				
Cash	₩ 48,354	₩ 33,497	US$ 37,175	US$ 30,047
Due from banks	623,048	402,687	479,013	361,219
Trading securities	—	2,708	—	2,429
Investment securities	323,064	106,902	248,328	95,893
Loans	1,062,403	1,101,027	816,794	987,645
Domestic import usance	—	26	—	23
Bills bought in foreign currency	343,694	458,970	264,244	411,706
Call loans	88,749	172,794	68,232	155,000
Accounts receivable	804,613	173,554	618,600	155,682
	₩3,293,925	₩2,452,165	US$2,532,386	US$2,199,644
Liabilities:				
Deposits	₩ 396,808	₩ 148,617	US$ 305,073	US$ 133,312
Borrowings	996,183	899,009	765,883	806,430
Due to the Bank of Korea in foreign currencies	17,155	51,706	13,189	46,381
Call money	78,432	223	60,300	200
Debentures	333,421	465,080	256,340	417,190
Unsettled foreign exchange transaction	2,838	6,563	2,182	5,887
Guarantee deposits received	6,602	6,872	5,076	6,164
Accounts payable	843,935	205,821	648,831	184,626
	₩2,675,374	₩1,783,891	US$2,056,874	US$1,600,190

(*) Foreign currencies other than US Dollar are shown as US Dollar equivalent at the exchange rate effective on June 30, 2001 and 2000, respectively.

27. Related Party Transactions:

Significant transactions with related parties for the six-month periods ended June 30, 2001 and 2000 and related account balances then ended are as follows (Unit: Millions of Won):

	Loans and other(*)		Deposits and other(**)	
	2001	2000	2001	2000
Jooeun Investment Management	₩ —	₩ —	₩ 16,895	₩ 43,308
Jooeun Leasing	166,601	99,604	5,988	5,910
Jooeun Real Estate Trust	41,020	74,856	433	206
Jooeun Industrial	182,633	101,103	4,047	2,437
Jooeun Credit Information	—	—	9,728	5,627
Frontier Investments	—	1,000	5,545	9,283
ING Life	—	—	3,036	3,007
H&CB Finance(H.K.)	71,236	34,082	—	—
Jooeun First Securitization	14,113	14,213	35,494	37,223
Jooeun Second Securitization	20,010	20,103	40,231	126,986
Jooeun Third Securitization	9,003	9,006	12,559	10,362
Jooeun Fourth Securitization	72,323	—	76,815	—
Korea Asset Investment	—	—	53	—
	₩576,939	₩353,967	₩210,824	₩244,349

(*) Consist of due from banks, investment securities, loans, accrued interest income, accrued fees and commission income, and accounts receivable.

(**) Consist of deposits, accrued interest expense, accrued fees and commission expense, and guarantee deposits received.

	Interest income on loans and other(*)		Interest expense on deposits and other(**)	
	2001	2000	2001	2000
Jooeun Investment Management	₩ —	₩ —	₩ 359	₩ 683
Jooeun Leasing	6,424	5,304	3	6
Jooeun Real Estate Trust	2,934	2,866	3	6
Jooeun Industrial	7,751	2,833	16,689	39
Jooeun Credit Information	48	—	8,810	9,839
Frontier Investments	—	1	117	125
ING Life	—	—	142	142
H&CB Finance(H.K.)	2,564	1,192	16	—
Jooeun First Securitization	680	1,572	778	772
Jooeun Second Securitization	282	11,521	6,483	1,174
Jooeun Third Securitization	255	18,941	591	9,101
Jooeun Fourth Securitization	2,458	—	817	—
Korea Asset Investment	—	—	40	—
	₩23,396	₩44,230	₩34,848	₩21,887

(*) Consist of interest income, loss on disposal of loans and securities, fees and commission income, and rent received

(**) Consist of interest expense, loss on disposal of loans and securities, fees and commission expense, loss on impairment of investment debt securities

Trading securities of ₩3,492,868 million and investment securities of ₩1,488,769 million other than the above transactions with related parties, are managed by Jooeun Investment Management Co., Ltd., a subsidiary of the Bank, as of June 30, 2001 (Note 5).

28. Employee Benefits:

As of June 30, 2001 and 2000, the Bank provided employees with ₩72,577 million and ##81,523 million of housing loans and ₩90,197 million and ₩52,800 million of general loans, respectively.

29. Business Segments:

The Bank is organized into four major business segments: Retail Banking, Business Banking, Treasury and Investment Management, and Credit Cards. These business segments 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 operations by business segment (Unit: Millions of Won).

At June 30, 2001	Retail banking	Business banking	Treasury and investment management	Credit cards	Other	Total
Operating revenue	₩ 1,791,117	₩ 601,580	₩ 432,729	₩ 374,245	₩ 280,440	₩ 3,480,111
Operating expense	1,380,557	406,933	428,746	238,004	148,042	2,602,282
Segment result	₩ 410,560	₩ 194,647	₩ 3,983	₩ 136,241	₩ 132,398	₩ 877,829
Loans	₩35,218,117	₩ 8,969,593	₩ 1,091,884	₩3,864,493	₩ —	₩49,144,087
(Allowance)	(339,959)	(493,243)	—	(121,242)	—	(954,444)
Securities	—	323,064	11,064,777	—	—	11,387,841
Fixed assets	816,672	98,811	13,684	88,154	300,882	1,318,203
Total assets	36,432,583	11,404,292	13,345,059	3,840,190	1,326,858	66,348,982

At June 30, 2000	Retail banking	Business banking	Treasury and investment management	Credit cards	Other	Total
Operating revenue	₩ 1,444,337	₩ 426,024	₩ 695,560	₩ 170,663	₩ 96,043	₩ 2,832,627
Operating expense	1,110,570	312,934	624,343	102,123	168,422	2,318,392
Segment result	₩ 333,767	₩ 113,090	₩ 71,217	₩ 68,540	₩ (72,379)	₩ 514,235
Loans	₩28,478,877	₩8,649,743	₩ 756,648	₩1,874,574	₩ —	₩39,759,842
(Allowance)	(273,919)	(800,480)	(74,669)	(36,262)	—	(1,185,330)
Securities	—	177,947	10,524,627	—	136,859	10,839,433
Fixed assets	786,718	82,570	14,571	98,486	247,194	1,229,539
Total assets	30,673,735	7,973,347	12,833,029	1,941,355	1,993,576	55,415,042

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.

The following table shows the distribution of the Bank's operations by geographical market (Unit: Millions of Won).

At June 30, 2001	Domestic	Overseas	Total
Operating revenue	₩ 3,441,929	₩ 38,182	₩ 3,480,111
Operating expense	2,565,504	36,778	2,602,282
Segment result	₩ 876,425	₩ 1,404	₩ 877,829
Loans	₩48,684,527	₩459,560	₩49,144,087
Securities	11,298,201	89,640	11,387,841

At June 30, 2000	Domestic	Overseas	Total
Operating revenue	₩ 2,810,390	₩ 22,237	₩ 2,832,627
Operating expense	2,296,288	22,104	2,318,392
Segment result	₩ 514,102	₩ 133	₩ 514,235
Loans	₩39,361,271	₩398,571	₩39,759,842
Securities	10,816,156	23,277	10,839,433

30. Trust Accounts:

The followings are summary of balance sheets at June 30, 2001 and 2000 and income statements for the six-month periods then ended of money trusts managed and operated by the Bank.

Condensed Balance Sheets

	Millions of Won	
	2001	2000
(Assets)		
Investment in securities	₩5,489,503	₩5,134,113
Loans	1,241,130	2,503,187
Foreclosed assets	1,031	1,820
Other	123,192	325,033
Due from banking accounts	204,019	254,540
	₩7,058,875	₩8,218,693
(Liabilities)		
Money trusts	₩6,160,075	₩7,260,957
Borrowings	611,884	328,454
Other	277,471	622,252
Allowance for future trust losses	9,445	7,030
	₩7,058,875	₩8,218,693

Condensed Income Statements

	Millions of Won	
	2001	2000
(Revenue)		
Interest revenue	₩308,082	₩380,755
Gains on securities transactions	58,119	37,638
Other	10,737	13,135
Reversal of allowance for credit losses	48,727	37,582
	₩425,665	₩469,110
(Expenses)		
Gains on money trust	₩242,116	₩325,944
Interest on borrowings	13,773	3,605
Commissions paid	484	5,840
Loss on securities transactions	37,966	58,272
Trust fees to the Bank	111,122	34,959
Other	5,748	25,318
Provisions for future trust losses	2,421	1,201
Provisions for possible credit losses	12,035	13,971
	₩425,665	₩469,110

31. Merger:

On December 22, 2000, Kookmin Bank and the Bank entered into a Memorandum of Understanding for a merger. The merger committee was organized on January 4, 2001, and is managing overall merger matters. On April 23, 2001, the Bank entered into a merger contract with Kookmin Bank, which will give rise to a new bank on October 31, 2001. The new bank will issue stocks to the shareholders listed on the register of shareholders. The expected stock exchange ratio is that one common stock of the Bank is exchanged with one common stock of the new bank, 1.688346 shares of common stock of Kookmin Bank are exchanged for one share of common stock of the new bank, and one preferred stock of Kookmin Bank and the Bank is exchanged for one preferred stock of the new bank.

Kookmin Bank was established in 1963 under the Citizens National Bank Act to provide and administer funds for financing the general public and small businesses. Pursuant to the repeal of the Citizens National Bank Act effective January 5, 1995, Kookmin Bank has conducted its operations in accordance with the provisions of the Bank Act. Kookmin Bank merged with Korea Long Term Credit Bank on December 31, 1998. Also, under the decision of the Financial Supervisory Commission in accordance with the Act concerning the Structural Improvement of the Financial Industry, Kookmin Bank purchased certain assets and assumed most of the liabilities of Daedong Bank as of June 29, 1998. Kookmin Bank is engaged in the banking and trust business according to the provisions of the Bank Act and the Trust Business Act and operates through 591 domestic branches and 4 overseas networks as of December 31, 2000. Kookmin Bank has its shares listed on the Korea Stock Exchange since September 1994. Kookmin Bank's paid-in capital amounts to ₩1,698,067 million including ₩200,000 million of preferred stock and 299,613,413 shares of common stocks are issued as of December 31, 2000. Goldman Sachs Capital Koryo, L.P., the largest shareholder of Kookmin Bank, owns 11.07% of its outstanding common stocks.

The following table summarizes the balance sheets as of December 31, 2000 and the related statements of income of banking accounts of H&CB and Kookmin Bank (Unit: Millions of Won).

(1) Condensed balance sheets

	H&CB	Kookmin Bank	Total
Cash and due from banks	₩ 2,058,245	₩ 6,618,750	₩ 8,676,995
Trading securities	2,429,285	2,457,754	4,887,039
Investment securities	8,111,956	16,893,551	25,005,507
Loans	45,030,068	50,570,411	95,600,479
Fixed assets	886,136	1,277,588	2,163,724
Other	1,920,920	3,703,519	5,624,439
(Total assets)	₩60,436,610	₩81,521,573	₩141,958,183
Deposits	₩46,890,329	₩56,522,145	₩103,412,474
Borrowings	3,130,509	7,066,273	10,196,782
Debentures	3,194,239	6,674,942	9,869,181
Other	4,678,145	7,001,692	11,679,837
(Total liabilities)	57,893,222	77,265,052	135,158,274
Capital stock	841,813	1,698,067	2,539,880
Capital surplus	777,397	1,600,590	2,377,987
Retained earnings	983,022	875,045	1,858,067
Capital adjustments	(58,844)	82,819	23,975
(Total shareholders' equity)	2,543,388	4,256,521	6,799,909
(Total liabilities and shareholders' equity)	₩60,436,610	₩81,521,573	₩141,958,183

(2) Condensed income statements

	H&CB	Kookmin Bank	Total
Operating revenue	₩ 6,000,607	₩ 8,851,893	₩ 14,852,500
Operating expense	(5,251,890)	(7,958,266)	(13,210,156)
Operating income	748,717	893,627	1,642,344
Non-operating gains	195,053	442,880	637,933
Non-operating losses	(190,851)	(297,111)	(487,962)
Income before income tax expenses	752,919	1,039,396	1,792,315
Income tax expenses	(229,090)	(319,696)	(548,786)
Net income	₩ 523,829	₩ 719,700	₩ 1,243,529

[Annex VII]

UBS

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Board of Directors
H&CB
36-3, Yoido-dong
Youngdeungpo-gu
Seoul, Korea 150-758

August 14, 2001

Dear Members of the Board:

We understand that H&CB and Kookmin Bank ("Kookmin") have entered into a merger agreement, dated as of April 23, 2001 (the "Agreement"), pursuant to which each of H&CB and Kookmin will merge with and into a newly formed corporation ("New Kookmin" and, such merger, the "Merger") and (i) holders of the common stock, par value KRW 5,000 per share, of H&CB ("H&CB Common Stock") will receive one share of the common stock, par value KRW 5,000 per share, of New Kookmin ("New Kookmin Common Stock") for each share of H&CB Common Stock they own; (ii) holders of H&CB American depositary shares, each of which represents one-half of a share of H&CB Common Stock ("H&CB ADSs" and, together with H&CB Common Stock, "H&CB Shares"), will receive one New Kookmin American depositary share, which will represent one share of New Kookmin Common Stock ("New Kookmin ADS" and, together with New Kookmin Common Stock, "New Kookmin Shares"), for every two H&CB ADSs they own; (iii) holders of the common stock, par value KRW 5,000 per share, of Kookmin ("Kookmin Common Stock") will receive one share of New Kookmin Common Stock for every 1.688346 shares of Kookmin Common Stock they own; and (iv) holders of Kookmin global depositary shares, each of which represents one share of Kookmin Common Stock ("Kookmin GDSs" and, together with Kookmin Common Stock, "Kookmin Shares"), will receive one New Kookmin ADS for every 1.688346 Kookmin GDSs they own. Representatives of H&CB have advised us that the conversion ratio in the Merger for each outstanding share of H&CB Common Stock was structured such that, as a result of the Merger, each outstanding share of H&CB Common Stock would effectively be converted into the right to receive 1.688346 (the "Exchange Ratio") shares of Kookmin Common Stock, in the form of one share of New Kookmin Common Stock.

You have requested UBS AG, acting through its business group UBS Warburg ("UBS Warburg"), to provide you with an opinion as to the fairness, from a financial point of view, of the Exchange Ratio to the holders of H&CB Common Stock.

UBS Warburg has been retained by H&CB solely for purposes of rendering this opinion and will receive a fee for our services upon delivery of this opinion. UBS Warburg and its affiliates in the past have provided services to H&CB and Kookmin unrelated to the proposed Merger and have received customary compensation for the rendering of such services. In the ordinary course of business, UBS Warburg, its successors and affiliates may actively trade securities of H&CB and Kookmin and its affiliates for their own account and for the accounts of customers and, accordingly, may at any time hold long or short positions in such securities.

Our opinion does not address H&CB's underlying business decision to effect the Merger or constitute a recommendation to any shareholder of H&CB as to how such shareholder should vote with respect to any matter relating to the Merger. At your direction, we were not requested to, and we did not, participate in the negotiation or structuring of the Merger. In addition, at your direction, we have not been asked to, nor do we, offer any opinion as to the terms of the Agreement and the obligations thereunder, or the form of the Merger. We express no opinion as to what the value of New Kookmin Shares will be when issued pursuant to the Merger or the prices at which New Kookmin Shares will trade at any time. In rendering this opinion, we have assumed, at your direction, that each of H&CB and Kookmin will comply with all material covenants and agreements set forth in, and other material terms of, the Agreement and that the Merger will be consummated in accordance with its terms without waiver, modification or amendment of any material term, condition or agreement.

In arriving at our opinion set forth below, we have, among other things: (i) reviewed current and historical market prices and trading volumes of H&CB Common Stock and Kookmin Common Stock; (ii) reviewed certain publicly available business and financial information, including publicly available financial forecasts, relating to H&CB and Kookmin; (iii) reviewed certain internal financial information and other data relating to the businesses and financial prospects of H&CB and Kookmin, including estimates and financial forecasts prepared by the managements of H&CB and Kookmin, that were provided to or discussed with us by the managements of H&CB and Kookmin and are not publicly available; (iv) conducted discussions with members of the senior managements of H&CB and Kookmin; (v) reviewed publicly available financial and stock market data with respect to certain companies in lines of businesses we believe to be generally comparable to those of H&CB and Kookmin; (vi) compared the financial terms of the Merger with publicly available financial terms of certain other transactions which we believe to be generally relevant; (vii) considered the pro forma financial impact of the Merger and the potential cost savings and other synergies anticipated to result from the Merger provided to or discussed with us by the management of H&CB; (viii) reviewed the Agreement; and (ix) considered such other financial studies, analyses and investigations, and considered such other information, as we deemed necessary or appropriate.

In connection with our review, with your consent, we have not assumed any responsibility for independent verification of any of the information provided to or reviewed by us for the purpose of this opinion and have, with your consent, relied on such information being accurate and complete in all material respects. In addition, at your direction, we have not made any independent evaluation or appraisal of any of the assets or liabilities (contingent or otherwise) of H&CB or Kookmin, nor have we been furnished with any such evaluation or appraisal. We are not experts in the evaluation of allowances for loan losses, and we did not make an independent evaluation of the adequacy of the allowances for loan losses of H&CB or Kookmin, and was not requested to, and did not, conduct a review of any individual credit files of H&CB or Kookmin and, as a result, we have assumed, at the direction of H&CB and Kookmin, that the aggregate allowances for loan losses of H&CB and Kookmin are adequate to cover such losses and will be adequate on a pro forma basis for New Kookmin. With respect to publicly available financial forecasts relating to H&CB and Kookmin, we have reviewed and discussed such forecasts with the managements of H&CB and Kookmin and have assumed, at the direction of H&CB and Kookmin, that such forecasts represent reasonable estimates and judgments as to the future financial performance of H&CB and Kookmin. With respect to the financial forecasts and estimates prepared by the managements of H&CB and Kookmin, we have assumed, at the direction of H&CB and Kookmin, that they have been reasonably prepared on a basis reflecting the best currently available estimates and judgments of the managements of H&CB and Kookmin as to the future financial performance of H&CB and Kookmin. With respect to the estimates of the potential cost savings and other synergies anticipated by the management of H&CB to result from the Merger, we have assumed, at your direction, that they have been reasonably prepared on a basis reflecting the best currently available estimates and judgments of the management of H&CB as to such potential cost savings and other synergies (including the amount, timing and achievability thereof). We also have assumed, with your consent, that all governmental, regulatory or other consents and approvals necessary for the consummation of the Merger will be obtained without any material adverse effect on H&CB, Kookmin or the Merger. In connection with our engagement, we were not requested to, and we did not, solicit third party indications of interest in the acquisition of all or a part of H&CB. Our opinion is necessarily based on economic, monetary, market and other conditions as in effect on, and the information available to us as of, the date of this opinion.

On the basis of and subject to the foregoing, we are of the opinion that, as of the date hereof, the Exchange Ratio is fair, from a financial point of view, to the holders of H&CB Common Stock.

Very truly yours,

UBS AG, Seoul Branch

UBS AG, Seoul Branch

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 20. *Indemnification of Directors and Officers*

Kookmin Bank. Kookmin Bank's directors, executive officers and the members of its audit committee are insured against liability relating to the performance of their duties under a directors' and officers' insurance policy. The policy provides coverage of up to ₩20 billion in the aggregate for all insured persons, with respect to each incident triggering liability.

H&CB. Article 13 of H&CB's Regulations on the Board of Directors provides:

"The Bank shall, to the maximum extent and in the manner permitted by applicable law, indemnify each of its current or former directors against expenses, judgements, fines, settlements, and other losses actually and reasonably incurred in connection with any proceeding, arising out of the fact that such person is or was a director of the Bank".

In addition, H&CB has purchased and maintains on behalf of its directors and officers an insurance policy, within certain limits, covering liabilities which may be incurred by them in such capacities.

Item 21. *Exhibits and Financial Statement Schedules*

(a) Exhibits

Number	Description
2.1	Merger Agreement, dated as of April 23, 2001, by and between Kookmin Bank and H&CB (included as Annex I to the prospectus which is a part of this Registration Statement and incorporated by reference herein).
3.1*	Proposed Articles of Incorporation of New Kookmin (subject to revision by the incorporators of New Kookmin) (in English and Korean).
4.1*	Form of Share Certificate of New Kookmin's common stock, par value ₩5,000 per share (in English and Korean).
4.2	Form of Amended and Restated Deposit Agreement to be entered into among New Kookmin, The Bank of New York, as depositary, and all owners and holders from time to time of American depositary receipts issued thereunder, including the form of American depositary receipt (incorporated herein by reference to Exhibit (a) of the registrants' Registration Statement on Form F-6 (Registration No. 333-13882) filed on September 5, 2001).
4.3	Long-term debt instruments of Kookmin Bank and its consolidated subsidiaries and H&CB and its consolidated subsidiaries and for any of their respective consolidated subsidiaries for which financial statements are required to be filed are omitted pursuant to Item 601(b)(4)(iii) of Regulation S-K. Each of Kookmin Bank and H&CB agrees to furnish the Commission on request a copy of any instrument defining the rights of holders of its long-term debt and that of any subsidiary for which consolidated or unconsolidated financial statements are required to be filed.
5.1*	Opinion of Shin & Kim regarding the legality of securities being registered.
8.1	Opinion of Simpson Thacher & Bartlett regarding tax matters.
8.2	Opinion of Cleary, Gottlieb, Steen & Hamilton regarding tax matters.
10.1	Amended and Restated Investment Agreement dated as of September 4, 2001 between Kookmin Bank and Goldman Sachs Capital Koryo, L.P. (to become effective upon completion of the merger).
10.2*	Investment Agreement dated as of July 15, 1999 between H&CB, ING Insurance International B.V. and ING Verzekeringen N.V. (as amended).
21.1*	List of subsidiaries of Kookmin Bank.
21.2*	List of subsidiaries of H&CB.
23.1*	Consent of Shin & Kim (included as part of its opinion filed as Exhibit 5.1 and incorporated herein by reference).
23.2	Consent of Simpson Thacher & Bartlett (included as part of its opinion filed as Exhibit 8.1 and incorporated herein by reference).

Number	Description
23.3	Consents of PricewaterhouseCoopers (2 consents).
23.4	Consent of Cleary, Gottlieb, Steen & Hamilton (included as part of its opinion filed as Exhibit 8.2 and incorporated herein by reference).
24.1*	Powers of Attorney (contained on signature pages to the registration statement).
99.1*	Consent of UBS AG, Seoul Branch.

* Previously filed.

(b) Financial Statement Schedules

None.

Item 22. ***Undertakings***

(a) The undersigned registrants hereby undertake:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20 percent change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement;

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) To file a post-effective amendment to the registration statement to include any financial statements required by Item 8.A of Form 20-F at the start of any delayed offering or throughout a continuous offering. Financial statements and information otherwise required by Section 10(a)(3) of the Act need not be furnished, *provided*, that the registrants include in the prospectus, by means of a post-effective amendment, financial statements required pursuant to this paragraph (a)(4) and other information necessary to ensure that all other information in the prospectus is at least as current as the date of those financial statements.

(b) The undersigned registrants hereby undertake as follows: that prior to any public reoffering of the securities registered hereunder through use of a prospectus which is a part of this registration statement, by any person or party who is deemed to be an underwriter within the meaning of Rule 145(c), the issuer undertakes that such reoffering prospectus will contain the information called for by the applicable registration form with respect to reofferings by persons who may be deemed underwriters, in addition to the information called for by the other Items of the applicable form.

(c) The registrants undertake that every prospectus (i) that is filed pursuant to paragraph (a) immediately preceding, or (ii) that purports to meet the requirements of section 10(a)(3) of the Act and is used in connection with an offering of securities subject to Rule 415, will be filed as a part of an amendment to the registration statement and will not be used until such amendment is effective, and that, for purposes of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(d) The undersigned registrants hereby undertake: (i) to respond to requests for information that is incorporated by reference into the prospectus pursuant to Items 4, 10(b), 11 or 13 of this Form, within one business day of receipt of such request, and to send the incorporated documents by first class mail or other equally prompt means; and (ii) to arrange or provide for a facility in the U.S. for the purpose of responding to such requests. This includes information contained in documents filed subsequent to the effective date of the registration statement through the date of responding to the request.

(e) The undersigned registrants hereby undertake to supply by means of a post-effective amendment all information concerning a transaction, and the company being acquired involved therein, that was not the subject of and included in the registration statement when it became effective.

(f) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrants pursuant to the foregoing provisions, or otherwise, the registrants have been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrants of expenses incurred or paid by a director, officer or controlling person of the registrants in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrants will, unless in the opinion of their respective counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by them is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

SIGNATURES OF KOOKMIN BANK

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this Amendment to the Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized in the City of Seoul, Republic of Korea, on September 10, 2001.

KOOKMIN BANK

By: /s/ Sang-Hoon Kim

Name: Sang-Hoon Kim
Title: Chairman, President, Chief Executive Officer and Director, Kookmin Bank

Pursuant to the requirements of the Securities Act of 1933, this Amendment to the Registration Statement has been signed by the following persons in the capacities indicated on September 10, 2001.

Name	Title
/s/ Sang-Hoon Kim Sang-Hoon Kim	Chairman, President, Chief Executive Officer and Director, Kookmin Bank
* Chong-Min Lee	Audit Committee Standing Member and Director, Kookmin Bank
/s/ Yoo-Hwan Kim Yoo-Hwan Kim	Executive Vice President & Chief Financial and Accounting Officer, Kookmin Bank
* In Kie Kim	Non-executive Director, Kookmin Bank
* Hyung Chin Chang	Non-executive Director, Kookmin Bank
* Ji Hong Kim	Non-executive Director, Kookmin Bank
Henry Cornell	Non-executive Director, Kookmin Bank

Name	Title
* Bong Ho Paick	Non-executive Director, Kookmin Bank
* Ik Rae Kim	Non-executive Director, Kookmin Bank
* Seung Hun Hahn	Non-executive Director, Kookmin Bank
* Young Suk Kim	Non-executive Director, Kookmin Bank
Se Ung Lee	Non-executive Director, Kookmin Bank
* Chang Ki Min	Non-executive Director, Kookmin Bank

*By: /s/ Yoo-Hwan Kim
Name: Yoo-Hwan Kim
Title: Attorney-in-fact

SIGNATURE OF AUTHORIZED REPRESENTATIVE OF KOOKMIN BANK

Pursuant to the Securities Act of 1933, as amended, the undersigned, the duly registered representative in the United States of Kookmin Bank, has signed this Registration Statement or amendment thereto in the City of New York, State of New York, on September 10, 2001.

By: /s/ Soo-Jong Choi
Name: Soo-Jong Choi
Title: General Manager
Kookmin Bank, New York Branch

SIGNATURES OF H&CB

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this Amendment to the Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized in the City of Seoul, Republic of Korea, on September 10, 2001.

H&CB

By: *

Name: Jung Tae Kim
Title: Chairman, President and Chief Executive Officer, H&CB

Pursuant to the requirements of the Securities Act of 1933, this Amendment to the Registration Statement has been signed by the following persons in the capacities indicated on September 10, 2001.

Name	Title
* Jung Tae Kim	Chairman, President & Chief Executive Officer, H&CB
* Choul Ju Lee	Auditor and Executive Director, H&CB
* Jan Op de Beeck	Executive Director & Executive Vice President, H&CB
* Je Hyung Jo	Executive Vice President & Chief Financial and Accounting Officer, H&CB
Woon Youl Choi	Non-executive Director, H&CB
* Joon Park	Non-executive Director, H&CB
* Kuk Ju Kwon	Non-executive Director, H&CB
Ju Hyun Yoon	Non-executive Director, H&CB
* Sun Jin Kim	Non-executive Director, H&CB
* Kyung Hee Yoon	Non-executive Director, H&CB

* Sung Hee Jwa	Non-executive Director, H&CB
Bruce G. Willison	Non-executive Director, H&CB
Moon Soul Chung	Non-executive Director, H&CB
* Jae Kyu Lee	Non-executive Director, H&CB
* Won Bae Yoon	Non-executive Director, H&CB
* Chul Soo Ahn	Non-executive Director, H&CB

*By: /s/ Young Il Kim
Name: Young Il Kim
Title: Attorney-in-fact

SIGNATURE OF AUTHORIZED REPRESENTATIVE OF H&CB

Pursuant to the Securities Act of 1933, as amended, the undersigned, the duly registered representative in the United States of H&CB, has signed this Amendment to the Registration Statement or amendment thereto in the City of New York, State of New York, on September 10, 2001.

By: /s/ Sei Jun Park

Name: Sei Jun Park
Title: General Manager
H&CB, New York Branch

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

EXHIBITS

to

AMENDMENT NO. 1

TO THE

REGISTRATION STATEMENT

ON

FORM F-4

UNDER

THE SECURITIES ACT OF 1933

KOOKMIN BANK AND H&CB

EXHIBIT INDEX

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