

Non-consolidated Balance Sheets

(Banking Accounts)

DECEMBER 31, 2000 AND 1999	2000		1999	
	In Millions of Korean Won	In Thousands of U.S. Dollars (Note 3)	In Millions of Korean Won	In Thousands of U.S. Dollars (Note 3)
ASSETS				
Cash and due from banks (Note 4)	W 5,181,705	\$ 4,113,443	W 6,827,472	\$ 5,419,919
Trading securities (Note 5)	1,740,818	1,381,931	4,987,664	3,959,406
Investment securities (Note 5)	17,588,246	13,962,250	17,649,588	14,010,945
Loans (Note 6)				
less provision for possible loan losses of				
W2,163,037 million in 2000 and				
W3,201,167 million in 1999, and present				
value discount of W426,678 million				
in 2000 and W486,968 million in 1999	50,029,317	39,715,263	43,293,370	34,368,000
Premises and equipment, net (Note 7)	739,955	587,405	678,290	538,454
Derivative financial instruments (Note 15)	1,991,932	1,581,276	–	–
Other assets (Note 8)	4,037,087	3,204,800	2,227,110	1,767,969
Total assets	W 81,309,060	\$ 64,546,368	W 75,663,494	\$ 60,064,693
LIABILITIES AND EQUITY				
Deposits (Note 9)	W 8,521,967	\$ 6,765,077	W 6,895,684	\$ 5,474,068
Borrowings (Note 10)	23,564,031	18,706,066	20,641,346	16,385,922
Industrial finance bonds issued (Note 11)				
add premium on bonds of W594 million				
in 2000 and W1,786 million in 1999 and				
less discount on bonds of W126,750 million				
in 2000 and W171,783 million in 1999	38,360,614	30,452,182	37,944,831	30,122,117
Provision for possible guarantees losses (Note 13)	367,495	291,732	529,718	420,511
Accrued severance benefits	4,588	3,642	109,433	86,872
Derivative financial instruments (Note 15)	2,034,196	1,614,826	–	–
Other liabilities (Note 12)	4,658,003	3,697,707	3,303,250	2,622,252
Total liabilities	77,510,894	61,531,232	69,424,262	55,111,742
Commitments and Contingencies (Note 14)				
Equity:				
Paid-in capital (Notes 1 and 16)	4,111,861	3,264,159	4,971,661	3,946,702
Capital surplus (Note 16)	44,373	35,225	34,754	27,589
Retained earnings (Note 16)	–	–	456,997	362,783
Capital adjustment (Note 16)	(358,068)	(284,248)	775,820	615,877
Total equity	3,798,166	3,015,136	6,239,232	4,952,951
Total liabilities and equity	W 81,309,060	\$ 64,546,368	W 75,663,494	\$ 60,064,693

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

Non-consolidated Income Statements

(Banking Accounts)

	2000		1999	
FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999	In Millions of Korean Won	In Thousands of U.S. Dollars (Note 3)	In Millions of Korean Won	In Thousands of U.S. Dollars (Note 3)
Interest income:				
Interest on loans	W 4,261,467	\$ 3,382,922	W 4,053,484	\$ 3,217,817
Interest on due from banks	408,549	324,322	402,553	319,563
Interest on trading securities	129,183	102,551	106,885	84,850
Interest on investment securities	637,652	506,194	491,038	389,806
Other interest income	21,120	16,766	16,560	13,146
	5,457,971	4,332,755	5,070,520	4,025,182
Interest expense:				
Interest on deposits	588,595	467,250	488,620	387,886
Interest on borrowings	1,409,187	1,118,669	1,438,394	1,141,854
Interest on bond payable	3,268,224	2,594,446	3,161,228	2,509,509
Other interest expenses	90,745	72,037	101,748	80,772
	5,356,751	4,252,402	5,189,990	4,120,021
Net interest income (loss)	101,220	80,353	(119,470)	(94,839)
Provision for possible loan losses (Note 6)	—	—	731,703	580,855
Net interest loss after provisioning for possible loan losses	101,221	80,353	(851,173)	(675,694)
Non-interest revenue:				
Fees and commissions	195,440	155,148	180,465	143,260
Gain from trading securities	170,249	135,151	668,839	530,951
Gain from derivative financial instruments (Note 15)	2,500,879	1,985,297	733,075	581,944
Others (Note 17)	1,545,003	1,226,484	920,429	730,673
	4,411,571	3,502,080	2,502,808	1,986,828
Non-interest expense:				
Fees and commissions	32,708	25,965	36,528	28,997
Loss from trading securities	409,590	325,149	136,419	108,295
Loss from derivative financial instruments (Note 15)	2,866,007	2,275,150	524,856	416,652
General and administrative expense (Note 18)	229,998	182,582	183,999	146,066
Others (Note 17)	621,608	493,457	1,414,999	1,123,282
	4,159,911	3,302,303	2,296,801	1,823,292
Operating income (loss)	352,880	280,130	(645,166)	(512,158)
Non-operating income (expense), net (Note 19)	(2,015,180)	(1,599,730)	924,072	733,565
Extraordinary income, net	264,496	209,968	21,186	16,818
Income (loss) before income taxes	(1,397,804)	(1,109,632)	300,092	238,225
Income taxes (Note 20)	627	498	88,374	70,155
Net income (loss)	W (1,398,431)	\$ (1,110,130)	W 211,718	\$ 168,070
The accompanying notes are an integral part of these non-consolidated financial statements.				

Non-consolidated Statements of Disposition of Deficit

(Banking Accounts)

		2000		1999	
DATE OF DISPOSITION: FEBRUARY 28, 2001 DATE OF APPROPRIATIONS: FEBRUARY 29, 2000		In Millions of Korean Won	In Thousands of U.S. Dollars (Note 3)	In Millions of Korean Won	In Thousands of U.S. Dollars (Note 3)
Retained earnings before appropriations					
(Accumulated deficit before disposition):					
Retained earnings carried over from prior year	W	–	\$ –	W	– \$ –
Cumulative effects of accounting changes (Note 16)		(8,746)	(6,943)	245,279	194,712
Net income (loss) for the year		(1,398,431)	(1,110,130)	211,718	168,070
		(1,407,177)	(1,117,073)	456,997	362,782
Disposition of accumulated deficit					
(Appropriations of retained earnings)					
Transfer(provision) from(to) legal reserve		456,996	362,782	(456,997)	362,782
Transfer from capital surplus		950,181	754,291	–	–
		1,407,177	1,117,073	(456,997)	362,782
Undisposed accumulated deficit to be carried forward to subsequent year					
	W	–	\$ –	W	– \$ –

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

Non-consolidated Statements of Cash Flows

(Banking Accounts)

	2000		1999	
	In Millions of Korean Won	In Thousands of U.S. Dollars (Note 3)	In Millions of Korean Won	In Thousands of U.S. Dollars (Note 3)
FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999				
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income(loss)	W (1,398,431)	\$ (1,110,130)	W 211,718	\$ 168,070
Adjustments to reconcile net income(loss) to net cash provided by operating activities:				
Loss (Gain) on disposal of loans, net	1,823,224	1,447,348	(172,925)	(137,275)
Loss (Gain) on trading securities, net	249,290	197,896	(519,811)	(412,647)
Loss (Gain) on investment securities, net	186,397	147,969	(749,517)	(594,996)
Bad debt expenses	—	—	731,703	580,855
Depreciation	21,067	16,724	14,768	11,723
Retirement allowance	27,244	21,627	24,025	19,072
Loss (gain) on foreign currency translation, net	(471,720)	(374,470)	45,641	36,232
Loss (gain) from derivative financial instruments, net	349,869	277,740	—	—
Decrease (increase) in accrued income	(114,958)	(91,258)	77,641	61,635
Decrease (increase) in derivative financial instruments	(298,258)	(236,769)	—	—
Payment of severance benefits	(24,654)	(19,571)	(34,554)	(27,430)
Others, net	(1,161,132)	(921,753)	1,047,057	831,195
Net cash provided by (used in) operating activities	(812,062)	(644,647)	675,746	536,434
CASH FLOWS FROM INVESTING ACTIVITIES				
Net decrease in trading securities	2,982,568	2,367,681	3,380,604	2,683,658
Net decrease in loans	(7,766,110)	(6,165,047)	2,185,686	1,735,084
Net increase in investment securities	(324,819)	(257,854)	(1,345,567)	(1,068,165)
Net increase in premises and equipment	(80,485)	(63,892)	(45,866)	(36,410)
Others, net	2,396,144	1,902,154	(219,818)	(174,500)
Net cash provided by (used in) investing activities	(2,792,702)	(2,216,958)	3,955,039	3,139,667
CASH FLOWS FROM FINANCING ACTIVITIES				
Net increase (decrease) in deposits	1,581,794	1,255,691	(1,713,376)	(1,360,146)
Net increase (decrease) in borrowings	2,189,646	1,738,228	(2,418,860)	(1,920,187)
Net increase (decrease) in bonds issued	(261,860)	(207,875)	(1,300,941)	(1,032,739)
Increase in paid-in capital	100,000	79,384	800,000	635,072
Others, net	26	21	14	11
Net cash provided by (used in) financing activities	3,609,606	2,865,449	(4,633,163)	(3,677,989)
Net increase (decrease) in cash	4,842	3,844	(2,378)	(1,888)
Cash, beginning of the year	79,553	63,152	81,931	65,040
Cash, end of the year (Note 4)	W 84,395	\$ 66,996	W 79,553	\$ 63,152
The accompanying notes are an integral part of these non-consolidated financial statements.				

Notes to Non-consolidated Financial Statements

(Banking Accounts)

DECEMBER 31, 2000 AND 1999

note 1. The Bank:

The Korea Development Bank (the "Bank") was established in 1954 in accordance with the Korea Development Bank Act for the purpose of supplying and managing major industrial capital to develop Korean industry. The Bank operates through 35 local branches, 5 overseas branches and 2 overseas subsidiaries as of December 31, 2000. The Bank is engaged in the banking business under the Korea Development Bank Act and in the trust business according to the Trust Business Act and other related regulations.

The Korea Development Bank Act prescribes that the Korean Government owns the entire capital of the Bank.

note 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 Financial Statement Presentation -

The official accounting records of the Bank are expressed and maintained in Korean Won in accordance with generally accepted accounting principles in the Republic of Korea.

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

For the convenience of the readers, the accompanying non-consolidated financial statements have been condensed, restructured and translated into English from the Bank's statutory Korean language non-consolidated financial statements with certain expanded descriptions. Such 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 the Republic of Korea.

The preparation of financial statements in conformity with financial accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the non-consolidated 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, interest income on delinquent and dishonored loans, other than those subject to security deposits and guaranteed by financial institutions, is recognized on a cash basis. Such unaccrued interest income as of December 31, 2000 and 1999 was W153,018 million and W166,573 million, respectively.

Provision for Possible Loan Losses -

The Bank provides for possible loan losses based on borrowers' future debt servicing ability (forward looking criteria) as determined by a credit rating model developed by the Bank. This credit rating model includes the financial and non-financial factors of borrowers and classifies borrowers' credit risk. Provisions are determined by applying the following minimum percentages to the various credit risk ratings:

Loan classifications	Provision percentages
Normal	0.5%
Special attention	2% or more
Substandard	20% or more
Doubtful	50% or more
Loss	100%

Securities -

Marketable securities held for obtaining short-term transaction gains are included in trading securities. Those securities not included in trading securities are classified as investment securities. Securities which have a fair value different from their acquisition cost are carried in accordance with the following guidelines:

- Trading securities

The initial cost of trading securities is determined by the moving average method. Trading securities are subsequently carried at their market values. Unrealized gains and losses on trading securities are charged to current operations.

- Investment securities

Marketable securities held for investment purposes are carried at their market values. Unrealized gains and losses on marketable investment securities are reported as a capital adjustment in shareholders' equity.

Investment securities which allow the Bank significant influence over the investee are valued using the equity method of accounting. The Bank considers that it has significant influence on the investees, in which the Bank holds more than 15% of interest. However, the Bank does not apply equity method for the following investments.

- Investees which are owned by Korean Government and Government invested companies
- Total assets of investees are less than 7,000 million won
- Investees under court receivership or bankruptcy
- Investees under process to be sold-out

Under the equity method, the Bank records changes in its proportionate ownership of the book value of the investee as current operations, capital adjustments or adjustments to retained earnings, depending on the nature of the underlying changes in the book value of the investee.

Unmarketable equity securities and debt securities held to maturity are stated at cost. If market value or net book value declines significantly compared to acquisition cost and is not expected to recover, the acquisition cost is adjusted to the market value or net book value. In such cases, the difference between the carrying amount and the revalued amount is charged to current operations.

Premises and Equipment and Related Depreciation -

Premises and equipment used for business purposes are recorded at cost, except for those assets subject to upward revaluation in accordance with the Korean Asset Revaluation Law. Such revaluation presents facilities and buildings at their depreciated replacement cost and land at the prevailing market price, as of the effective date of revaluation. The revaluation increment, net of a 3% tax, is credited to capital surplus. Previously recorded accumulated depreciation was eliminated and a new basis for depreciation of the revalued assets was established. Depreciation is computed using the declining balance method, except for buildings and structures, which are depreciated using the straight-line method, based on the estimated useful lives of the assets as described below:

	Estimated useful lives
Buildings	20 ~ 40 years
Structures	10 ~ 40 years
Machinery	4 years
Vehicles	4 years
Others	4 years

Routine maintenance and repairs are charged to expense as incurred. Expenditures which enhance the value or extend the useful life of facilities are capitalized as premises and equipment.

Intangible Assets -

Intangible assets are stated at cost, net of accumulated amortization. Amortization of these intangibles is computed using the straight-line method over the period of 5 ~ 20 years.

Present Value Discount -

When the Bank disposes of foreclosed land and buildings under long-term installment contracts, the resulting long-term installment account receivables are valued at the net present value of future cash flows, calculated using the Bank's one year time deposit interest rate. The difference between the nominal value and the present value of these account receivables is amortized over the installment period using the effective interest method. Resulting amortization is recognized as interest income.

Loans which are impaired due to restructuring of the borrower, court mediation or negotiation, are revalued using the adjusted interest rate. The difference between book value and the readjusted value is offset against the provision for possible loan losses, and the remaining difference is recognized as bad debt expenses in the year incurred.

Foreign Currency Translation -

Assets and liabilities denominated in foreign currencies are translated into Korean Won at basic exchange rates (1,259.7 Won/US\$) on the balance sheet date. Resulting exchange gains or losses are reflected in current operations.

Accrued Severance Benefits -

Employees and directors with one or more years of service are entitled to receive a lump-sum payment upon termination of their employment with the Bank, based on their length of service and rate of pay at the time of termination. Accrued severance benefits represent the amount which would be payable assuming all eligible employees were to terminate their employment as of the balance sheet date.

On December 31, 2000 the Bank paid accrued severance benefits to employees and directors except for employees in overseas branches, and others. Actual payments of severance benefits for the years ended 2000 and 1999 amounted to W137,323 million (including W131,569 million of early payment of severance benefits) and W34,563 million, respectively. Early payment of severance benefits of W112,669 million is recorded in other account payable as of December 31, 2000.

Accrued severance benefits in 1999 were funded through a group severance insurance plan. The Bank accounts for the amounts funded under the plan as cash and due from banks. No amount was funded for 2000 due to the early payment of the severance benefits.

Provision For Possible Guarantee Losses -

The Bank provides a provision for possible losses on guarantees outstanding as determined based on a credit risk rating of the companies for which guarantees are

Notes to Non-consolidated Financial Statements

(Banking Accounts)

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provided. The Bank provides a provision of 20% or more of guaranteed amounts for companies classified as "substandard," 50% or more for "doubtful" and 100% for "loss." The allowance is shown in the liability section.

Deferred Income Taxes -

The Bank records deferred income taxes which arises from temporary differences between amount reported for financial reporting purposes and income tax purposes. Income tax expenses comprises taxes payable for the period and the change in deferred tax assets and liabilities for the period.

Bonds Purchased Under Resale Agreements and Bonds Sold Under Repurchase Agreements -

Bonds purchased or sold under resale or repurchase agreements are included in loans and borrowings, respectively. The difference between the sale and repurchase price is treated as interest and accrued evenly over the life of the agreements.

Translation of Foreign Currency Financial Statements -

Accounts and records of the overseas branches are maintained in foreign currencies. For presentation in the accompanying financial statements, the financial statements of the branches have been translated at exchange rates as of the balance sheet date.

Derivative Financial Instruments -

Derivative financial instruments for trading purposes are stated at fair value on the balance sheet date.

The Bank adopted the revised hedging accounting for derivatives from 2000. Derivative financial instruments for fair value hedges are stated at market. The gains and losses on the hedging instruments, as well as the related loss or gain on the hedged items, are recognized in current operations in the same accounting period.

In 1999, valuation gains and losses from derivatives for hedging purposes are recognized in a manner consistent with the accounting treatment appropriate for valuation gains and losses of underlying hedged transactions. The hedging instruments are valued at fair value when underlying hedged transactions are valued at market and resulting unrealized valuation gains or losses are recognized currently.

Compensation to Trust Accounts -

If the income from trust operations is insufficient to generate the required rate of return, the deficiency may be either recovered from previously established special allowances or compensated by the Bank's Banking Accounts. Such compensation is accounted for as other operating expenses of the Banking Accounts and other income of the Trust Accounts, in accordance with the relevant laws and regulations applicable to trust operations.

Statement of cash flows -

On the statement of cash flows, the Bank recorded the net cash inflows and outflows for loans, deposits and trading securities due to their frequent turnover and short-term maturity.

Reclassification of 1999 Accounts -

Certain accounts in the 1999 annual financial statements have been reclassified. These reclassifications and restatements have no effect on previously reported net income or retained earnings for 1999.

note3. 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 readers. Won amounts are expressed in U.S. Dollars at the rate of W1,259.7:US\$1, the basic rate on December 31, 2000. This presentation is not required by or in accordance with Korean 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 1999 U.S. Dollar amounts, which were previously expressed at W1,145.4: US\$1, the rate prevailing on December 31, 1999, have been restated to reflect the exchange rate in effect on December 31, 2000.

note4. Cash and Due from Banks:

Cash and due from banks at December 31, 2000 and 1999 comprise the following:

	Annual Interest Rate (%)	Millions of Won	
		2000	1999
Cash on hand in Won	—	W 82,333	W 77,758
Cash on hand in foreign currency	—	2,062	1,795
Due from banks in Won	0.0 - 8.6	466,212	153,150
Due from banks in foreign currency	0.0 - 8.9	4,631,098	6,633,218
		5,181,705	6,865,921
Less: Allowance for doubtful accounts		—	(38,449)
		W 5,181,705	W 6,827,472

Due from banks in Won at December 31, 2000 and 1999 are summarized as follows:

Bank	Annual Interest Rate (%)	Millions of Won	
	2000.12.31	2000	1999
The Bank of Korea	—	W 172,641	W 65,706
Others	5.0 - 8.6	293,571	87,444
		W 466,212	W 153,150

Due from banks in foreign currency at December 31, 2000 and 1999 are summarized as follows:

Bank	Annual Interest Rate (%)	Millions of Won	
	2000.12.31	2000	1999
The Bank of Korea	—	W 10,767	W 25,555
The Export-Import Bank of Korea	7.6	2,869,031	2,608,707
Kookmin Bank	7.1 - 7.8	567,071	662,228
KDB Asia (HK) Ltd.	6.9 - 7.3	170,060	—
KDB Ireland Ltd.	7.0 - 8.9	187,569	158,638
KDB Bank	7.0	111,232	—
Shinhan Bank	7.1 - 7.4	158,722	286,350
Others	2.1 - 8.0	556,646	2,891,740
		W 4,631,098	W 6,633,218

Restricted deposits included in due from banks at December 31, 2000 are as follows:

	Millions of Won	
Reserve deposits with the Bank of Korea	W 172,641	Reserve deposits with the Bank of Korea represent amounts required under the Banking Act for the payment of deposits. The deposits for severance payment are made under a group severance insurance plan, and their withdrawal is restricted to the actual payment of severance benefits. Reserve deposits with China Construction Bank also represent amounts required under the related banking regulations of those countries. Deposits with Hanvit Bank, Housing & Commercial Bank, Kookmin Bank, Chase Manhattan Bank, New York and others are pledged as collateral.
Deposits for severance payment	24,426	
China Construction Bank	4,544	
Hanvit Bank	21,893	
Housing & Commercial Bank	21,500	
Kookmin Bank	7,323	
Chase Manhattan Bank, New York and Others	17,655	
Sanwa Bank	6,299	
	W 276,281	

The maturity of amounts due from banks at December 31, 2000 and 1999 are as follows (millions of won):

	Due from banks in Won	Due from banks in foreign currency	Total
Mature on or before December 31			
2001	W 432,699	W 4,481,319	W 4,914,018
2002	26,190	38,925	65,115
2003	—	—	—
2004	—	28,973	28,973
2005	7,323	62,985	70,308
Thereafter	—	18,896	18,896
	W 466,212	W 4,631,098	W 5,097,310

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(Banking Accounts)

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note5. Securities:

Trading securities at December 31, 2000 and 1999 comprise the following:

	Annual Interest Rate (%)		Millions of Won	
	2000.12.31		2000	1999
Marketable equity securities	–	W	236,613	W 638,244
Government and public bonds	7.0 - 9.3		89,919	114,890
Corporate bonds	1.0 - 11.0		152,034	253,221
Beneficiary certificates	6.0 - 9.0		452,276	3,285,139
Debt securities in foreign currency	0.0 - 13.6		731,915	501,731
Other	14.0		78,061	194,439
			W 1,740,818	W 4,987,664

Par value, acquisition cost and fair value of trading debt securities at December 31, 2000 and 1999 are as follows (millions of won):

	Par Value		Acquisition Cost		Fair Value	
	2000	1999	2000	1999	2000	1999
Government and public bonds	W 89,000	W116,000	W 89,986	W116,085	W 89,919	W114,890
Corporate bonds	153,139	264,090	149,819	258,201	152,034	253,221
Securities in foreign currency	776,884	531,698	733,071	506,451	731,915	501,731
	W1,019,023	W911,788	W972,876	W880,737	W973,868	W869,842

Investment securities at December 31, 2000 and 1999 comprise the following:

	Annual Interest Rate (%)		Millions of Won	
	2000.12.31		2000	1999
Investments using the equity method	–	W	1,949,543	W 2,380,710
Investments not using the equity method	–		6,595,359	8,380,698
Government and public bonds	3.0 - 17.5		2,904,267	1,776,003
Corporate bonds	6.0 - 17.5		2,076,898	974,570
Investment securities in foreign currency	2.0 - 7.7		1,470,362	1,449,500
Other(*)	1.0 - 20.0		2,591,817	2,688,107
			W 17,588,246	W 17,649,588

(*)Other investment securities of W200,000 million are pledged as collateral to KDB First Securitization Specialty Co., Ltd. and KDB Second Securitization Specialty Co., Ltd.

Investments in debt securities available-for-sale at December 31, 2000 and 1999 comprise the following (millions of won):

	Par Value		Acquisition Cost		Market (Carrying) Value	
	2000	1999	2000	1999	2000	1999
Government and public bonds	W 205,676	W 280,585	W 205,542	W 280,375	W 213,518	W 273,634
Corporate bonds	2,079,619	1,048,463	2,029,782	1,014,489	1,973,761	974,570
Investment securities in foreign currency	802,156	985,785	584,520	699,571	454,348	582,512
Other	2,150,832	2,363,493	2,164,501	2,332,275	2,127,335	2,314,656
	W5,238,283	W4,678,326	W4,984,345	W4,326,710	W4,768,962	W4,145,372

Investments in debt securities held-to-maturity at December 31, 2000 and 1999 comprise the following (millions of won):

	Par Value		Acquisition Cost		Carrying Amount of Bonds	
	2000	1999	2000	1999	2000	1999
Government and public bonds	W2,690,749	W1,502,369	W2,690,749	W1,502,369	W2,690,749	W1,502,369
Corporate bond	107,000	–	102,374	–	103,137	–
Investment securities in foreign currency	1,025,237	875,919	1,019,119	736,439	1,016,014	866,988
Other	470,511	377,918	463,509	372,582	464,482	373,451
	W 4,293,497	W 2,756,206	W 4,275,751	W 2,611,390	W 4,274,382	W 2,742,808

Investments in subsidiaries at December 31, 2000 and 1999 comprise the following (millions of won):

	Ownership (%)	Acquisition Cost		Book Value		Fair Value or Net Book Value(*)	
	2000.12.31	2000	1999	2000	1999	2000	1999
Investments using the equity method:							
The KDB Capital Corp.	76.56	W 340,160	W 378,014	W 132,207	W 328,754	W 108,691	W 364,475
Daewoo Securities	25.00	232,548	–	148,535	–	117,354	–
Daewoo Shipbuilding & Marine Engineering Co. Ltd.	40.82	390,368	–	390,368	–	240,707	–
Daewoo Heavy Industries & Machinery Ltd.	21.19	173,078	–	173,078	–	133,998	–
Seoul Debt Restructuring Fund	43.80	262,800	262,800	287,738	276,130	287,738	276,130
Airang Restructuring Fund	43.73	145,800	145,800	136,940	306,753	136,940	306,753
Mukoonghwa Restructuring Fund	43.71	145,700	145,700	136,841	160,246	136,841	160,246
Hankang Restructuring Fund	23.01	145,700	145,700	137,411	194,235	137,411	179,211
Other		361,638	574,085	406,425	1,114,592	415,332	1,140,347
		W2,195,792	W1,625,099	W1,949,543	W 2,380,710	W1,715,012	W 2,427,162
Investments not using the equity method:							
Samsung Life Insurance	1.89	264,496	–	264,496	–	812	–
Industrial Bank of Korea	2.29	400,000	400,000	365,928	283,008	277,001	283,008
Korea Highway Corp	14.60	1,430,100	1,430,100	1,430,184	1,430,184	1,486,444	1,430,184
Korea National Housing Corp.	24.00	1,300,618	1,300,618	1,300,618	1,300,618	1,298,492	1,444,691
Korea Land Development Corp.	28.30	1,161,904	1,161,904	1,191,329	1,191,329	840,106	758,783
Other		2,786,586	3,429,386	2,042,804	4,175,559	1,877,134	3,755,364
		7,343,704	7,722,008	6,595,359	8,380,698	5,779,989	7,672,030
		W9,539,496	W9,347,107	W8,544,902	W10,761,408	W7,495,001	W10,099,192

(*) Net book value is used in the case of non-listed investees.

Investment securities using the equity method at December 31, 2000 are summarized as follows (millions of won):

	Beginning Book Value	Acquisition (Disposition)	Dividends	Valuation Gain or Loss(*)	Capital Adjustment	Ending Book Value
The KDB Capital Corp.	W 340,185	W(37,995)	W –	W 2,570	W(172,553)	W 132,207
Daewoo Securities	–	232,548	–	(32,601)	(51,412)	148,535
Daewoo Shipbuilding & Marine Engineering Co., Ltd.	–	390,368	–	–	–	390,368
Daewoo Heavy Industries & Machinery Ltd.	–	173,078	–	–	–	173,078
Seoul Debt Restructuring Fund	276,131	–	18,396	30,003	–	287,738
Airang Restructuring Fund	306,753	–	43,740	(126,073)	–	136,940
Mukoonghwa Restructuring Fund	160,246	–	13,842	(9,563)	–	136,841
Hankang Restructuring Fund	194,235	–	24,186	(32,638)	–	137,411
Other	1,129,664	(723,212)	23,191	20,916	2,248	406,425
	W2,407,214	W 34,787	W123,355	W(147,386)	W(221,717)	W1,949,543

(*) Valuation gain or loss includes gain on foreign currency translation of W8,364 million.

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The equity method adjustments, which comprise the differences between the initial purchase price and the Bank's initial proportionate ownership of net book value of investees at the time of purchase, are amortized over 5 years using the straight-line method. The accumulated unamortized equity method adjustments are as follows (millions of won):

	Equity Method Adjustment			
	Debit		Credit	
Beginning balance	W	35,876	W	26,225
Increased(Decreased)		223,025		(13,242)
Amortized		(13,635)		(2,248)
Ending balance	W	245,266	W	10,735

Investment securities denominated in foreign currency at December 31, 2000 and 1999 comprise the following:

Foreign Currency (In thousands)				Millions of Won			
2000		1999		2000		1999	
Securities available-for-sale							
BEF	744	BEF	736	W	22	W	21
CHF	2,450	CHF	21,077		1,916		15,119
DEM	9,901	DEM	22,308		6,010		13,123
IDR	–	IDR	3,906		–		63
JPY	274,689	JPY	1,290,469		3,025		14,477
MYR	–	MYR	16,684		–		5,029
THB	–	THB	31,864		–		976
USD	351,969	USD	465,853		443,375		533,704
				W	454,348	W	582,512
Securities held-to-maturity							
CHF	1,125	CHF	8,211	W	880	W	5,890
DEM	–	DEM	5,061		–		2,977
JPY	12,212,413	JPY	11,676,264		134,522		130,989
USD	699,064	USD	634,828		880,612		727,132
				W	1,016,014	W	866,988

Issuers of the securities held by the Bank at December 31, 2000 and 1999 are categorized as follows:

	Millions of Won		Percentage (%)
	2000	1999	2000.12.31
By Country			
The Republic of Korea	W 18,826,166	W 22,185,874	97.40
The Philippines	128,326	110,866	0.66
Thailand	37,432	100,297	0.19
Indonesia	64,299	75,564	0.34
Other	272,841	164,651	1.41
	W 19,329,064	W 22,637,252	100.00

	Millions of Won		Percentage (%)
	2000	1999	2000.12.31
By Issuer			
Korea Highway Corporation	W 1,430,184	W 1,430,184	7.40
Korea Asset Management Corp.	829,211	1,338,900	4.29
Korea National Housing Corp.	1,300,618	1,300,618	6.73
Korea Deposit Insurance Corp.	1,383,054	42,511	7.16
Korea Land Development Corp.	1,295,670	1,191,329	6.70
Korea Electric Power Corporation	377,338	918,175	1.95
Other	12,712,989	16,415,535	65.77
	W 19,329,064	W 22,637,252	100.00

	Millions of Won		Percentage (%)
	2000	1999	2000.12.31
By Industry			
Banking and insurance	W 7,579,135	W 8,914,294	39.21
Construction	3,705,650	4,933,261	19.17
Manufacturing	3,377,051	4,797,765	17.47
Public administration and national defense	1,475,203	1,614,313	7.63
Electric, gas and water supply industry	641,551	1,013,238	3.12
Other	2,550,474	1,364,381	13.20
	W 19,329,064	W 22,637,252	100.00

note 6. Loans:

Loans at December 31, 2000 and 1999 comprise the following:

	Millions of Won	
	2000	1999
Loans in Won	W 23,450,536	W 20,150,673
Loans in foreign currency	19,482,073	20,685,826
Notes purchased	1,188,817	857,511
Bills purchased	2,651,287	1,697,674
Advances for customers	242,119	448,819
Bonds purchased under repurchase agreements	209,376	42,322
Call loans	972,342	473,995
Domestic import usance bills	1,861,803	1,290,050
Debentures accepted by private subscription	2,485,265	1,275,206
Other	75,414	95,429
	52,619,032	46,981,505
Less: Provision for possible loan losses	(2,163,037)	(3,201,167)
Present value discount account	(426,678)	(486,968)
	W 50,029,317	W 43,293,370

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(Banking Accounts)

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Loans in Won and foreign currency as of December 31, 2000 and 1999 comprise the following :

(1) Loans in Won

	Annual Interest Rate (%)	Millions of Won	
		2000	1999
	2000.12.31		
Loans for working capital:			
Industrial fund loans	6.9 - 12.4	W 7,867,942	W 4,845,654
Government fund loans	7.1 - 7.5	348,491	323,098
Banking institution loans	6.6 - 6.8	349,510	435,310
Other	-	578,596	455,566
		9,144,539	6,059,628
Loans for facilities:			
Industrial fund loans	7.7 - 13.6	11,152,613	10,867,803
Government fund loans	7.0 - 7.5	1,518,618	1,643,339
Other	-	1,634,766	1,579,903
		14,305,997	14,091,045
		W 23,450,536	W 20,150,673

(2) Loans in foreign currency

	Annual Interest Rate (%)	Millions of Won	
		2000	1999
	2000.12.31		
Loans for working capital:			
Local currency loans denominated in foreign currencies	3ML+1.2 - 6.4	W 1,273,144	W 821,655
Foreign currency loans	3ML+1.8 - 6.1	1,724,916	1,963,180
Other	-	1,852	3,262
		2,999,912	2,788,097
Loans for facilities:			
Local currency loans denominated in foreign currencies	3ML+2.1 - 6.9	5,237,503	7,070,402
Foreign currency loans	3ML+1.8 - 6.6	2,963,265	2,921,580
Offshore loans in foreign currencies	6ML+0.3 - 7.5	2,691,234	3,396,105
ADB loans	6ML+0.8	1,267,583	1,151,158
IBRD loans	6ML+1.0 - 1.4	4,320,271	3,356,198
Other	6ML+2.8	2,305	2,286
		16,482,161	17,897,729
		W 19,482,073	W 20,685,826

The maturity of loans in Won and foreign currency at December 31, 2000 are as follows:

Matured on or before December 31	Loans for working capital in Won	Loans for facility in Won	Loans for working capital in foreign currency	Loans for facility in foreign currency	Total
2001	W5,702,497	W 2,033,507	W1,539,077	W 2,871,725	W12,146,806
2002	1,335,058	2,495,402	606,243	2,548,626	6,985,329
2003	259,705	2,525,716	391,532	2,307,610	5,484,563
2004	355,624	1,958,764	214,132	1,832,243	4,360,763
2005	824,773	1,817,727	133,931	2,467,148	5,243,579
Thereafter	666,882	3,474,881	114,997	4,454,809	8,711,569
	W9,144,539	W14,305,997	W2,999,912	W16,482,161	W42,932,609

Changes in the provision for possible loan losses during the year ended December 31, 2000 are as follows:

	Millions of Won						
	Due from banks in foreign currency		Loans		Other assets		Total
Balance at beginning of year	W	38,449	W	3,201,167	W	163,934	W 3,403,550
Changes in overseas branch due to foreign currency translation		–		6,703		–	6,703
Transfer from loan acquisition		–		393,185		–	393,185
Current write-offs		–		(1,027,214)		–	(1,027,214)
Write-offs due to loan restructuring		–		(150,799)		–	(150,799)
Current provision provided		(38,449)		(271,456)		(71,236)	(381,141)
Other		–		11,451		–	11,451
	W	–	W	2,163,037	W	92,698	W 2,255,735

At December 31, 2000 and 1999, a provision for possible loan losses and doubtful accounts is provided as follows:

	Millions of Won	
	2000	1999
Loans		
Loans in Won and foreign currency and notes purchased	W 1,650,364	W 2,418,097
Bills purchased	222,022	210,667
Advances for customers	57,787	254,738
Call loans	17,499	69,983
Domestic import usance bills	29,947	33,625
Debentures accepted by private subscription	149,339	213,862
Other loans	36,079	195
	2,163,037	3,201,167
Due from banks in foreign currency	–	38,449
Other assets	92,698	163,934
	W 2,255,735	W 3,403,550

The provision ratios to total loans at December 31, 2000, 1999 and 1998 are 4.27%, 6.81% and 4.97%, respectively.

Restructured loans for 2000 and 1999 due to court receivership, court mediation or other financial restructuring process are as follows:

	Millions of Won	
	2000	1999
Changes in contractual terms	W 2,016,184	W 1,352,227
Exemption	–	418,889
Conversion to equity investment	742,467	209,025
Conversion to convertible bonds	117,031	592,243
Total	W 2,875,682	W 2,572,384

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When the contractual terms (i.e., principal, interest rate, or maturity) of impaired loans are restructured, the Bank adjusts the carrying amount of the impaired loans to the present value determined based on the restructured terms. The Bank recognizes losses arising from the restructuring of the impaired loans as incurred. Loans restructured by changes in contractual terms are as follows (in Millions of Won):

	Period of Restructuring	
	2000	1999
Beginning		
Original amount before restructuring	W 2,430,217	W 2,761,587
Present value	1,943,249	2,262,520
Present value discount	486,968	499,067
Increase	157,050	67,951
Decrease(Amortization)	(217,340)	(80,050)
	(60,290)	(12,099)
Ending		
Original amount before restructuring	2,588,016	2,430,217
Present value	2,161,338	1,943,249
Present value discount	426,678	486,968

The present value discount is amortized using the effective interest rate method over the redemption period.

Certain customers of the Bank are in the process of restructuring loans with their creditor banks. The Bank's exposure as of December 31, 2000 to Daewoo Group companies and customers under work-out programs are as follows:

	Millions of Won
Loans and guarantees	W 3,651,291
Provision for possible loss	1,619,052

The Bank's loan portfolio by nation, major customers and industry as of December 31, 2000 and 1999 are categorized as follows:

	Millions of Won		Percentage (%)
	2000	1999	2000.12.31
By nation:			
The Republic of Korea	W 41,671,948	W 40,145,978	97.06
Indonesia	287,498	273,129	0.67
China	220,119	83,054	0.51
USA	214,147	72,893	0.50
Other	538,897	261,445	1.26
	W 42,932,609	W 40,836,499	100.00

	Millions of Won		Percentage (%)
	2000	1999	2000.12.31
By customer:			
Korea Electric Power Corp.	W 5,573,650	W 5,303,530	12.98
Small & Medium Industry Promotion Corp.	2,861,330	2,601,701	6.66
Korea Deposit Insurance Corp.	3,061,076	1,145,400	7.13
KDB Capital Corp.	539,498	913,831	1.26
Korea Highway Corp.	493,454	566,718	1.15
Korea Asset Management Corp.	1,131,559	500,919	2.64
Other	29,272,042	29,804,400	68.18
	W 42,932,609	W 40,836,499	100.00

	Millions of Won		Percentage (%)
	2000	1999	2000.12.31
By industry:			
Manufacturing	W 18,225,460	W 18,701,995	42.45
Banking and Insurance	11,013,829	9,592,529	25.65
Electric, gas and water supply industry	6,315,393	6,059,343	14.71
Transportation and communication	3,826,790	3,168,237	8.92
Construction	988,664	1,029,106	2.30
Other	2,562,473	2,285,289	5.97
	W 42,932,609	W 40,836,499	100.00

note 7 . Premises and Equipment:

Premises and equipment at December 31, 2000 and 1999 comprise the following:

	Millions of Won					
	Acquisition Cost or Revaluation		Accumulated Depreciation		Net Book Value	
	2000	1999	2000	1999	2000	1999
Land	W 417,070	W 422,375	W –	W –	W 417,070	W 422,375
Buildings and structures	169,152	164,367	15,637	13,443	153,515	150,924
Machinery	48,474	38,588	36,539	26,865	11,935	11,723
Vehicles	1,102	1,129	837	862	265	267
Construction in progress	150,829	87,726	–	–	150,829	87,726
Other	22,106	18,191	15,765	12,916	6,341	5,275
	W 808,733	W 732,376	W 68,778	W 54,086	W 739,955	W 678,290

In accordance with the Asset Revaluation Law, on July 1, 1998, the Bank revalued a substantial portion of its land and premises used for business purposes, based primarily on current replacement costs. The revaluation increment of W679,486 million, net of a revaluation tax payment of W11,288 million, was credited to capital surplus and used to offset accumulated deficit as approved by the Korean Government on February 27, 1999.

At December 31, 2000 and 1999, the government-posted prices of the Bank's land are W307,094 and W300,125 million respectively.

The Bank's premises and equipment, other than construction in progress, are covered by insurance policies against fire and other casualty losses. Automotive equipment is covered by a legal and general insurance policy.

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note8. Other Assets:

Other assets at December 31, 2000 and 1999 comprise the following:

	Millions of Won	
	2000	1999
Prepaid expenses	W 458,190	W 743,410
Receivables	2,241,610	113,516
Accrued income	715,686	597,794
Intangible assets	31,425	12,848
Deferred tax asset	152,299	152,401
Other	531,002	771,654
	4,130,212	2,391,623
Loss: Provision for possible losses	(92,698)	(163,934)
Present value discount	(427)	(579)
	W 4,037,087	W 2,227,110

note9. Deposits:

Deposits at December 31, 2000 and 1999 comprise the following:

	Annual Interest Rate (%)	Millions of Won	
	2000.12.31	2000	1999
Won currency deposits:			
Demand deposits			
Checking deposits	—	W 4,093	W 7,412
Temporary deposits	—	91,972	131,483
Passbook deposits	1.0	34,842	35,016
		130,907	173,911
Time & savings deposits			
Time deposits	3.0-8.0	4,758,719	2,632,424
Installment savings deposits	6.7-8.5	127,781	132,208
Savings deposits for corporate	3.0-5.0	1,268,512	831,950
Savings deposits	2.0-6.0	330,973	177,916
Long-term savings for household	10.5-11.5	92,763	45,371
Other	3.0-11.0	26,155	6,177
		6,604,903	3,826,046
		W 6,735,810	W 3,999,957
Foreign currency deposits :			
Demand deposits			
Checking deposits	—	W 95,322	W 5,289
Passbook deposits	0.0-2.2	31,114	70,837
Temporary deposits	—	1,109	914
Other	—	2,488	32,916
		130,033	109,956
Savings deposits			
Time deposits	0.1-7.9	267,149	246,369
		W 397,182	W 356,325
Negotiable certificates of deposits	5.2-6.4	W 1,388,975	W 2,539,402
		W 8,521,967	W 6,895,684

The maturities of time & savings deposits in won and foreign currency at December 31, 2000 are as follows (Millions of Won):

Matured on or before December 31	Time Deposits	Savings Deposits	Time Deposits in Foreign Currency	Total
2001	W4,177,396	W 75,761	W265,145	W4,518,302
2002	253,359	44,892	1,840	300,091
2003	327,964	7,128	164	335,256
	W4,758,719	W127,781	W267,149	W5,153,649

note 10. Borrowings:

Borrowings as of December 31, 2000 and 1999 comprise the following:

	Annual Interest Rate(%)	Millions of Won	
	2000.12.31	2000	1999
Won currency borrowings			
Ministry of Finance and Economy	2.0 - 10.0	W 2,628,883	W 2,658,589
Industrial Bank of Korea	5.5 - 6.7	267,215	232,424
Small & Medium Industry Promotion Fund	6.5 - 7.0	336,009	376,201
Ministry of Culture and Tourism	4.5	337,148	287,307
Korea Energy Management Corporation	4.5 - 6.5	353,081	311,326
Local governments	6.5 - 7.5	105,343	126,202
Other	0.0 - 7.0	252,775	258,764
		4,280,454	4,250,813
Foreign currency borrowings			
Small & Medium Industry Promotion Fund	Libor+1.7-2.3	4,120	5,442
KFW (Germany)	Libor+2.0	47,953	34,621
ADB	Libor+0.40	3,786,983	3,441,481
IBRD	Libor+1.0	8,817,900	7,445,100
The Japan Bank of International Cooperation("JBIC")	2.2	295,245	292,630
The Bank of Korea	6.2	388,553	1,145,856
Other	2.3 - 7.3	3,419,063	3,212,205
		16,759,817	15,577,335
Other borrowings			
Bonds sold under repurchase agreement		1,629,949	618,762
Notes sold		201,790	154,051
Call money		692,021	40,385
		2,523,760	813,198
		W 23,564,031	W 20,641,346

The repayment of W431,429, W107,270, and W4,858 million included in the borrowings above are guaranteed by the Korean Government, Export Insurance Corporation in Germany and Export Insurance Corporation in Switzerland, respectively.

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The maturities of borrowings in won and foreign currency at December 31, 2000 are as follows (Millions of Won):

Matured on or before December 31	Won Currency Borrowings	Foreign Currency Borrowings	Total
2001	418,188	1,694,787	2,112,975
2002	500,439	428,188	928,627
2003	489,393	1,549,414	2,038,807
2004	632,013	4,150,885	4,782,898
2005	514,347	2,754,207	3,268,554
Thereafter	1,726,074	6,182,336	7,908,410
	4,280,454	16,759,817	21,040,271

The subordinated debt included in borrowings at December 31, 2000 comprises the following:

Type	Annual Interest Rate (%)	Millions of Won	Condition of Borrowings
Government fund	5.0-10.0	2,628,444	Installment reimbursement
AID relending facilities	2.0	439	id
ADB relending facilities	Libor+0.40	3,786,983	Lump sum reimbursement
IBRD relending facilities	Libor+1.0	8,817,900	Installment reimbursement
		15,233,766	

note 11. Industrial Finance Bonds:

Industrial finance bonds issued ("IFBI") as of December 31, 2000 and 1999 comprise the following:

	Annual Interest Rate(%)	Millions of Won	
	2000.12.31	2000	1999
IFBI in Won	1.0 - 18.0	W 25,093,529	W 22,864,522
IFBI in foreign currency	Libor+0.1-0.9	9,901,203	11,561,509
Offshore IFBI in foreign currency	1.0 - 9.0	3,492,038	3,688,197
		38,486,770	38,114,228
Premiums on IFBI		594	1,786
Discounts on IFBI		(126,750)	(171,183)
		W 38,360,614	W 37,944,831

Under the Korea Development Bank Act, the Bank has authority to issue industrial finance bonds. The amount of issued bonds and guarantees outstanding by the Bank is limited to the amount of 30 times of paid-in capital and legal reserve. Bonds purchased or guaranteed by the Government are not included in the limit. When existing bonds are refinanced or guarantees are executed, the limit is temporarily not applied. The amount of issued bonds

guaranteed by the Korean Government as of December 31, 2000 and 1999 are W27,801 million and W801,785 million, respectively.

The Bank acquired W261,163million and W249,224 million of industrial finance bonds as of December 31, 2000 and 1999, respectively. The Bonds are deducted from industrial bonds issued.

The maturities of IFBI at December 31, 2000 are as follows (Millions of Won):

Matured on or before December 31	IFBI in Won	IFBI in Foreign Currency	Offshore IFBI in Foreign Currency	Total
2001	W10,287,643	W1,719,972	W1,580,718	W13,588,333
2002	6,027,396	2,908,236	712,798	9,648,430
2003	4,195,697	1,058,148	216,668	5,470,513
2004	1,870,116	2,041,261	503,880	4,415,257
2005	2,605,556	780,075	56,092	3,441,723
Thereafter	107,121	1,393,511	421,882	1,922,514
	W25,093,529	W9,901,203	W3,492,038	W38,486,770

note12. Other Liabilities:

Other liabilities at December 31, 2000 and 1999 comprise the following:

	Millions of Won	
	2000	1999
Payables	W 1,935,705	W 256,871
Accrued expenses	1,452,578	1,495,469
Advanced income	212,817	214,282
Guarantee deposits	41,158	51,874
Advance received on IFBI	38,114	203,399
Provisions for possible losses from disposed loans	695,607	706,348
Trust account debit	—	237,921
Other	282,024	137,086
	W 4,658,003	W 3,303,250

note13. Guarantees Outstanding:

The Bank provides guarantees for its customers. Guarantees outstanding and the related provision for possible loss as of December 31, 2000 are as follows (millions of Won):

	Guarantees Amount		Provision for Possible Loss	
	2000	1999	2000	1999
Acceptances	W 4,582,257	W3,437,826	W158,799	W 137,325
Guarantees on local borrowings	1,782,979	2,802,057	71,346	237,755
Guarantees on indebtedness in foreign currency	3,641,879	3,523,624	136,342	154,577
Letters of guarantee for importers	56,727	36,229	1,008	61
	W10,063,842	W9,799,736	W367,495	W529,718

note14. Commitments and Contingencies:

As of December 31, 2000, the Bank has outstanding commitments related to commercial letters of credit and other guarantees (excluding the guarantees described in Note 13) amounting to W2,084,119 million.

The Bank has entered into agreements with foreign banks for certain syndicated loans. The total amount available under such loans is US\$ 45,764 thousand, of which US\$ 5,321 thousand has not been withdrawn by borrowers as of December 31, 2000.

During 1998, the Bank sold with recourse W3,084,141 million of non-performing loans classified as substandard or below to the Korea Asset Management Corporation for proceeds of W1,339,629 million. The resulting loss was recorded as a loss on disposition of loans during 1998. During 2000, the Bank recognized gains and losses from

the settlement of such loans in the amount of W71,874 million and 1,514 million, respectively. As of December 31, 2000, the Bank recorded a provision for possible losses from unsettled disposed loans amounting to W695,607 as other liabilities (see Note 12).

The bank sold off W950,627 million of loans to KDB First Securitization Specialty Co., Ltd. and W914,764 million of loans to KDB Second Securitization Specialty Co., Ltd. in accordance with Asset Securitization Plan on June 8, 2000 and November 8, 2000, respectively. According to the contracts on asset transfer stipulating warranty for the above assets, the bank has a responsibility of warranty up to the 30 percent of the proceeds when the principal or a part of the interest is not repaid at the expected due date of cash flows. Securitization of W200,000 million have been provided as collateral to KDB First Securitization Specialty Co., Ltd. and KDB Second Securities Specialty Co., Ltd.

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The bank sold off W3,935,457 million of loans in 2000 to KDBLONESTAR CRC of W928,496 million, Korea Asset Management Corporation of W1,024,831 million, W1,865,391 million mentioned above, and others. The Bank recorded gain and loss from the disposition of the loans amounting to W10,203 million and W1,903,788 million, respectively.

The bank has provided credit lines to several securitization specialty companies in an amount of W2,978,400 million, of which W42,097million was withdrawn as of December 31, 2000.

The bank made a contract with Doosan Consortium to sell 19,482,314 shares of Korea Heavy Industrial & Construction Co., Ltd. at W8,150 per share. The Bank received ten percent of the contract amount as a down payment, and is supposed to be paid in three installment by March, 2001. The shares will be transferred on March 19, 2001, when all the proceeds have been received.

The Bank received 377,852 shares of Samsung Life Insurance donated by the chairman of Samsung Group, to make up uncollectable debts of Samsung Motors Inc. to the Bank. The Bank wrote off the outstanding Samsung Motors loans and recorded a gain of W264,496 million from the shares of Samsung Life Insurance valued W700 thousand per share. According to the agreement between Samsung Group companies and the creditors of the Samsung Motors. Samsung Group companies agreed to make up a possible short fall, in case the donated shares fall short of the Samsung Motors' debt. The ultimate effect of the related uncertainties cannot presently be determined.

Under the contract with Samsung Group companies, Samsung promised to sell the Samsung Life shares on behalf of the Bank by the end of 2000 and pay the cash agreed to the creditor of the Samsung Motors. Otherwise, Samsung is obliged to pay overdue interest to the creditors. However, Samsung has not complied with the contract until the balance sheet date.

As discussed in Note 6 to the financial statements, the Bank has outstanding loans to Daewoo Group Companies and other work-out companies. The actual losses from these loans may differ from management's current estimation.

The Bank entered into an agreement with the JBIC (Japan Bank for International Cooperation) in 2000 relating to W295,245 millions of loans to be used for designated purposes. As of December 31, 2000, the Bank has local loans denominated in foreign currency and foreign

currency loans amounting W293,938 million and W1,307 million, respectively, relating to this borrowing.

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

note15. Derivative Financial Instruments and the Related Contracts:

The Bank utilizes derivative financial instruments to hedge against financial market risks or for trading purposes.

In case of trading purposes, the Bank uses futures & forward contracts, swaps, options, in order to gain a profit from short-term fluctuations of the underlying value of the derivatives, by forecasting the future interest rate, exchange rate or other variables affecting the value of the instruments. Furthermore, the Bank also trades the instruments to hedge against the derivative financial instruments purchased by the Bank's customers.

Additionally, the trading derivatives include the derivatives used to hedge exchange rate of the Bank's foreign currency assets & liabilities and interest rate of the Bank's loans and borrowings, which the underlying assets and liabilities are already valued at fair market value in accordance with the financial accounting standards accepted in the Republic of Korea or the position hedging transactions in which derivative instruments are not specifically identified to the underlying transactions.

The hedging instruments generally include the cross currency swaps and/or interest rate swaps used to hedge the borrowings and bonds denominated in foreign currency from the exchange rate and/or the interest rate risks. Those hedging transactions are made with foreign financial institutions and domestic banks. The hedging instruments also include the interest swaps used to reduce interest rate risks of the Industrial Finance Bonds Issued in Won.

The unsettled contract amount of the Bank's derivatives and the related valuation gain(loss) are as follows:

	The unsettled contract amount			Valuation gain/loss (I/S)			
	Total	Trading purpose	Hedging purpose	Total	Trading purpose	Hedging purpose	Valuation gain/loss(B/S)
Currency							
Forward	W 5,255,915	W 5,255,915	W -	W 70,784	W 70,784	W -	W 70,363
Futures	113,373	113,373	-	-	-	-	-
Swap	11,694,087	8,104,884	3,589,203	(684,860)	(9,752)	(675,108)	(330,066)
Call options	709,566	709,566	-	28,591	28,591	-	27,533
Put options	709,566	709,566	-	(23,199)	(23,199)	-	(27,533)
	18,482,507	14,893,304	3,589,203	(608,684)	66,424	(675,108)	(259,703)
Interest rate							
Forward	74,486	74,486	-	88	88	-	88
Futures	2,898,082	2,898,082	-	440	440	-	-
Swap	13,664,189	12,484,670	1,179,519	266,183	93,365	172,818	217,345
	16,636,757	15,457,238	1,179,519	266,711	93,893	172,818	217,433
Stock price index							
Options	1,500	1,500	-	-	-	-	6
	1,500	1,500	-	-	-	-	6
	W 35,120,764	W 30,352,042	W 4,768,722	W (341,973)	W160,317	W (502,290)	W (42,264)

The Bank adopted the revised accounting standards for derivative financial instruments for hedging purposes from 2000 (see Note 2). The financial statements for 1999 were not restated.

note16 . Equity:

Paid-in Capital -

The Bank increased and decreased its paid-in capital several times including additional raising of W100,000 million and reducing of W959,800 million paid-in capital for the year ended in December 31, 2000. Paid-in capital of the Bank at December 31, 2000 is W4,111,861 million.

Capital Reserves -

In accordance with a resolution of the board of directors on October 27, 1998, the Bank decreased its paid-in capital by W4,218,800 million, of which W4,184,046 million was used to offset accumulated deficit and the remaining amount of W34,754 million was credited to capital reserve. Also in accordance with a resolution of the board of directors on November 22, 2000, the Bank decreased its paid-in-capital by W959,800 million, of which W950,181 million will be used to offset accumulated deficit and the remaining amount of W9,619 million will be credited to capital reserve.

Legal Reserve -

The Korea Development Bank Act requires the Bank to appropriate net income as a legal reserve. This reserve can be transferred to paid-in capital or used to offset accumulated deficit.

Offset of Accumulated Deficit -

In accordance with the Korea Development Bank Act, the Bank offsets accumulated deficit with reserves. If reserves are insufficient to eliminate the accumulated deficit, the Government should complement the deficiency. Legal reserves of W54,594 million were used to offset accumulated deficit with approval of the Government on February 19, 1998. Capital surplus of W4,879,924 million and legal reserves of W9,522 million were used to offset accumulated deficit with the approval of the Government on February 27, 1999. Capital surplus of W950,181 million and legal reserves of W456,997 million will be used to offset accumulated deficit on February 28, 2001 with approval of the Government.

Cumulative Effects of Accounting Changes -

According to the revised financial accounting standards generally accepted in the Republic of Korea and new accounting standards for the banking industry, the Bank adopted or changed certain accounting methods effective January 1, 1999 and 2000. Retained earnings as of the beginning of 1999 have been increased for the effect of retroactive application of new methods as follows(Millions of Won):

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	Millions of Won	
	2000	1999
Losses on valuation of derivative financial instruments	W (35,250)	W –
Gains on valuation of investment by equity method	26,504	490,527
Other	–	(245,248)
	W (8,746)	W 245,279

Capital adjustment -

Changes in gains or losses on valuation of investment securities accounted as capital adjustments are as follows(millions of Won):

	2000		1999	
	Investments on Equity Securities	Investments in Debt Securities	Total	Total
Beginning Balance	W 829,580	W(53,760)	W 775,820	W 76,147
Decrease due to disposal	525,415	(25,212)	500,203	11,663
Net gains or losses on valuation in 2000	(668,999)	35,314	(633,685)	711,336
Ending Balance	W(364,834)	W 6,766	W(358,068)	W775,820

note17 . Other Non-interest Revenue (Expense):

Other non-interest revenue (expense) for the year ended December 31, 2000 and 1999 comprises the following(millions of Won):

	Millions of Won	
	2000	1999
Other Non-Interest Revenue		
Gain on foreign currency transaction	W 927,760	W 877,220
Reversal of provision for possible losses on guarantees outstanding	150,731	–
Reversal of provision for possible loan losses	381,141	–
Others	85,371	73,209
	W 1,545,003	W 920,429
Other Non-Interest Expense		
Loss on foreign currency transaction	W 430,417	W 1,055,369
Education tax	32,574	34,133
Deposit insurance expenses	22,135	13,140
Provision for possible losses on guarantees outstanding	–	228,017
Donations	40,766	47,054
Others	95,716	37,286
	W 621,608	W 1,414,999

note18 . General and Administrative Expenses:

General and administrative expenses for the year ended at December 31, 2000 and 1999 comprise the following:

	Millions of Won	
	2000	1999
Salaries	W 101,831	W 83,062
Retirement allowance	27,244	24,025
Employee benefits	19,064	16,525
Rent	5,644	4,486
Depreciation	18,551	14,045
Taxes and dues	10,335	9,488
Printing	3,066	2,442
Travel	2,839	2,700
Commission	9,129	7,161
Other	32,295	20,065
	W 229,998	W 183,999

note19 . Non-operating Income (Expense):

Non-operating income(expense) for the year ended December 31, 2000 and 1999 comprise the following:

	Millions of Won	
	2000	1999
Non-operating income		
Gain on disposition of premises and equipment	W 1,374	W 1,788
Rental income	5,215	1,556
Gain on disposal of loans	82,077	702,801
Gain from investment securities	526,786	1,104,966
Other	6,615	3,831
	622,067	1,814,942
Non-operating expenses		
Loss on disposition of premises and equipment	W 1,644	W 2,451
Loss on disposal of loans	1,905,302	529,876
Loss from investment securities	713,183	355,449
Other	17,118	3,094
	W 2,637,247	W 890,870
	W (2,015,180)	W 924,072

note20 . Income Tax Expenses:

The statutory income tax rate applicable to the Bank, including resident tax surcharges, is approximately 30.8%. However, there was no provision for domestic income taxes except special additional taxes due to current year's operating losses. The effective tax rate is approximately 29.45% for the year ended December 31, 1999.

Income tax expense for the years ended December 31, 2000 and 1999 comprises the following:

	Millions of Won	
	2000	1999
Income taxes payable	W 13	W -
Deferred income taxes	-	87,882
Income taxes for overseas branches	614	492
	W 627	W 88,374

The tax effect of major tax adjustments for the year ended December 31, 2000 and 1999 are as follows:

	Millions of Won	
	2000	1999
Income before income tax expenses	W (1,397,804)	W 300,092
Computed tax at the expected statutory rate	(430,524)	92,428
Temporary differences (tax effect):		
Provision for possible loan losses	363,336	(637,232)
Provision for severance benefits	(25,549)	(4,070)
Loss on settlement of non-performing loans disposed	(3,308)	104,046
Loss on investments by equity method	174,119	19,298
Write-offs of loans	-	116,474
Provision for guarantees outstanding	(49,965)	70,229
Impairment loss on investment securities	79,485	96,472
Present value discount account	(18,569)	97,080
Other	296,959	57,996
	816,508	(79,707)
Permanent differences (tax effect):		
Dividends received deduction	(10,618)	(4,974)
Other	(126)	426
	(10,744)	(4,548)
Tax effect of taxable income	375,240	8,173
Tax effect of operating loss carryforward	(375,240)	(8,173)
Income taxes payable	W -	W -

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Changes in temporary differences for the years ended December 31, 2000 and 1999 are as follows (millions of Won):

	Beginning balance	Decrease	Increase	Ending balance
	W	W	W	W
Accrued severance benefits	82,952	82,952	-	-
Acquisition of stocks resulted from transferring capital surplus to common stocks	135,556	11,207	448	124,797
Loss on valuation of investment securities	19,237	6,356	-	12,881
Gain on valuation of trading securities	(371,128)	(173,458)	(9,695)	(207,365)
Impairment Loss on investment equity securities	608,026	-	257,300	865,326
Impairment Loss on investment debt securities	326,022	101,305	102,077	326,794
Present value discount account	486,968	486,968	426,678	426,678
Provision for possible loan losses	-	-	1,179,661	1,179,661
Provision for guarantees-outstanding	529,718	529,718	367,495	367,495
Loss on settlement of non-performing loans disposed	706,348	706,348	695,607	695,607
Loss on investment valuation by equity method	(428,909)	(355,408)	209,914	136,413
Other	(176,193)	(502,437)	315,067	641,311
	1,918,597	893,551	3,544,552	4,569,598
Operating loss carryforward	2,625,333	1,218,312	-	1,407,021
	W4,543,930	W2,111,863	W3,544,552	W5,976,619
Deferred tax assets (2000)	W1,399,531	W 650,454	W1,091,722	W1,840,799
Deferred tax assets (1999)	W1,487,410	W 505,145	W 417,266	W1,399,531

Considering future deductibility of accumulated deficit from future taxable income the Bank recorded W152,401 million out of total future tax benefits of W1,840,799 million.

note21 . Assets and Liabilities Denominated in Foreign Currencies:

Significant assets and liabilities denominated in foreign currencies at December 31, 2000 and 1999 are as follows:

	Thousands of U.S.\$ (*)		Millions of Won	
	2000	1999	2000	1999
(Assets)				
Foreign exchange	\$ 1,637	\$ 1,567	W 2,062	W 1,794
Due from bank	3,676,350	5,791,181	4,631,098	6,633,218
Trading securities	660,424	438,040	831,936	501,731
Investment securities	1,441,086	1,265,497	1,815,336	1,449,500
Bills bought	2,104,697	1,482,167	2,651,286	1,697,674
Call loans	613,549	163,989	772,888	187,833
Loans	15,409,869	18,059,914	19,411,812	20,685,826
Domestic import usance bills	1,477,973	1,126,288	1,861,803	1,290,050
Receivables	892,821	9,723	1,124,687	11,137
Other assets	440,433	933,602	554,813	1,069,349
	\$26,718,839	\$29,271,968	W33,657,721	W33,528,112
(Liabilities)				
Deposits	\$ 811,815	\$ 727,017	W 1,022,643	W 832,726
Call money	278,496	35,259	350,821	40,385
Bonds sold under repurchase agreement	191,232	239,893	240,895	274,774
Borrowings	13,292,989	13,599,908	16,745,178	15,577,334
Industrial finance bonds issued	10,587,997	13,282,102	13,337,700	15,213,319
Other	1,186,005	129,539	1,494,011	148,374
	\$26,348,534	\$28,013,718	W33,191,248	W32,086,912

(*) Foreign currencies denominated other than U.S. Dollars have been converted into U.S. Dollars by using the cross exchange rate in effect on December 31, 2000 and 1999.

note22 . Operation Results of Trust Accounts:

The income statement of Trust Accounts for the years ended December 31, 2000 and 1999 are as follows:

		Millions of Won	
		2000	1999
(Revenue)			
Interest income	W	174,314	W 266,423
Gains on securities		51,420	170,897
Other		115,897	66,487
	W	341,631	W 503,807
(Expenses)			
Dividends of trust profit to beneficiaries	W	165,728	W 298,933
Commissions paid		1,616	3,899
Loss on securities		103,773	158,112
Taxes and dues		2,547	3,687
Trust fee to the Bank		17,605	26,496
Provisions for possible loan losses		40,020	3,783
Others		10,342	8,897
	W	341,631	W 503,807

note23 . Related Party Transactions:

Significant transactions with related parties during 2000 and 1999 ended December 31, 2000 and 1999 are as follows:

		Millions of Won	
		Loans	
		2000	1999
The KDB Capital Co., Ltd.	W	539,498	W 913,831
KDB Asia (HK) Ltd.		25,194	50,750
Daewoo Shipbuilding & Marine Engineering Co., Ltd.		126,329	—
	W	691,021	W 964,581

note24 . Supplemental Cash Flow Information:

Transactions not involving an inflow or outflow of cash and cash equivalents are as follows:

		Millions of Won	
		2000	1999
Decrease in Capital	W	959,800	W —
Transfer of accrued severance benefit to other account payable		112,669	—
Equity swap of loans		742,467	209,025