

Consolidated Balance Sheets

		2000		1999	
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)
ASSETS					
Cash and due from banks (Note 4)	W	6,581,562	\$ 5,224,706	W 7,097,498	\$ 5,634,276
Trading securities (Note 5)		3,659,981	2,905,439	7,202,891	5,717,942
Investment securities (Note 6)		16,958,915	13,462,662	17,317,995	13,747,714
Loans (Note 7)		51,820,720	41,137,350	44,862,352	35,613,521
Premises and equipment, net (Note 8)		2,774,587	2,202,578	737,236	585,247
Intangible asset		239,611	190,213	60,783	48,252
Guarantee deposit		184,242	146,259	78,725	62,495
Derivative financial instruments		1,994,486	1,583,302	—	—
Trade account receivable, net		1,094,453	868,820	—	—
Prepaid expense		488,919	388,123	747,750	593,593
Others (Note 9)		4,424,486	3,512,333	2,477,645	1,966,854
Total assets		W 90,221,962	\$ 71,621,785	W 80,582,875	\$ 63,969,894
LIABILITIES AND EQUITY					
Deposits (Note 10)	W	9,460,171	\$ 7,509,860	W 7,083,133	\$ 5,622,873
Borrowings (Note 11)		26,708,935	21,202,616	22,747,562	18,057,920
Debentures (Note 12)		39,169,102	31,093,992	39,069,524	31,014,943
Provision for guarantees outstanding (Note 14)		412,262	327,270	529,718	420,511
Accrued severance benefits		384,994	305,624	111,214	88,286
Other account payable		2,032,306	1,613,325	265,158	210,493
Accrued expenses		1,629,936	1,293,908	1,686,225	1,338,592
Derivative financial instruments		2,058,781	1,634,342	—	—
Unearned income		230,914	183,309	239,872	190,420
Trade accounts payable		247,679	196,617	—	—
Other liabilities (Note 13)		2,586,712	2,053,436	1,499,848	1,190,640
Total liabilities		84,921,792	67,414,299	73,232,254	58,134,678
Commitments and Contingencies (Note 15)					
Equity:					
Paid-in capital (Note 17)		4,111,861	3,264,159	4,971,661	3,946,702
Capital surplus (Note 18)		47,313	37,559	34,754	27,589
Retained earnings (Note 19)		(36,856)	(29,258)	488,136	387,502
Capital adjustment (Note 20)		(288,730)	(229,205)	799,955	635,037
Minority interests in consolidated subsidiaries		1,466,582	1,164,231	1,056,115	838,386
Total equity		5,300,170	4,207,486	7,350,621	5,835,216
Total Liabilities, Minority Interests and Equity		W 90,221,962	\$ 71,621,785	W 80,582,875	\$ 63,969,894
<i>The accompanying notes are an integral part of these consolidated financial statements.</i>					

Consolidated Income Statements

	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 4,217,507	\$ 3,348,025	W 4,079,509	\$ 3,238,477
Interest on due from banks	476,331	378,131	409,767	325,289
Interest on trading securities	269,934	214,284	286,189	227,188
Interest on investment securities	655,528	520,384	500,747	397,513
Other interest income	126,603	100,503	47,358	37,595
	5,745,903	4,561,327	5,323,570	4,226,062
Interest expense:				
Interest on deposits	625,195	496,305	710,782	564,247
Interest on borrowings	1,586,667	1,259,559	1,532,541	1,216,592
Interest on bond payable	3,393,589	2,693,966	3,334,418	2,646,994
Other interest expenses	100,466	79,754	100,079	79,447
	5,705,917	4,529,584	5,677,820	4,507,280
Net interest income (loss)	39,986	31,743	(354,250)	(281,218)
Provision for possible loan losses	406,524	322,715	863,501	685,481
Net interest loss after provisioning for possible loan losses	(366,538)	(290,972)	(1,217,751)	(966,699)
Non-interest revenue:				
Fees and commissions	618,324	490,850	187,575	148,905
Gains from trading securities	461,983	366,740	1,210,245	960,741
Gains from derivative financial instruments (Note 16)	2,593,241	2,058,618	321,056	254,867
Gains on foreign currency transaction	1,152,297	914,739	1,521,719	1,208,001
Others (Note 21)	1,314,783	1,043,727	973,086	772,473
	6,140,628	4,874,674	4,213,681	3,344,987
Non-interest expense:				
Fees and commissions	78,290	62,150	42,991	34,128
Losses from trading securities	1,148,129	911,430	297,317	236,022
Losses from derivative financial instruments (Note 16)	2,940,856	2,334,569	240,266	190,733
Losses on foreign currency transaction	646,468	513,192	1,483,225	1,177,443
General and administrative expenses (Note 23)	550,856	437,291	265,107	210,452
Other (Note 21)	465,597	369,610	1,016,434	806,886
	5,830,196	4,628,242	3,345,340	2,655,664
Operating income	(56,106)	(44,540)	(349,410)	(277,376)
Non-operating income(loss) (Note 22)	(1,752,973)	(1,391,580)	1,059,871	841,368
Extraordinary income(loss), net	260,748	206,993	(64,361)	(51,092)
Income(loss) before income taxes	(1,548,331)	(1,229,127)	646,100	512,900
Income taxes (Note 24)	19,209	15,249	99,979	79,367
Net income(loss) before minority interest in earnings of consolidated subsidiaries, net	(1,567,540)	(1,244,376)	546,121	433,533
Minority interest in earnings of consolidated subsidiaries, net	167,558	133,015	(204,604)	(162,423)
Net income(loss)	W (1,399,982)	\$ (1,111,361)	W 341,517	\$ 271,110
<i>The accompanying notes are an integral part of these consolidated financial statements.</i>				

Consolidated Statements of Changes in Shareholders' Equity

	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)
₩ . Capital stock				
Balance, beginning of the year	W 4,971,661	\$ 3,946,702	W 4,171,661	\$ 3,311,630
Paid in capital increase	100,000	79,384	800,000	635,072
Transferred to capital surplus	(959,800)	(761,927)	—	—
Balance, end of the year	4,111,861	3,264,159	4,971,661	3,946,702
₩- Consolidated capital surplus				
Balance, beginning of the year	34,754	27,589	290,105	230,297
Transferred from capital stock	959,800	761,927	—	—
Offsetting accumulated deficit	(950,181)	(754,291)	—	—
Changes in capital surplus of equity method investee	2,940	2,334	—	—
Reclassification to capital adjustment	—	—	(260,333)	(206,662)
Changes of equity ownership ratio	—	—	4,981	3,954
Balance, end of the year	47,313	37,559	34,754	27,589
₩†. Consolidated retained earnings				
Balance, beginning of the year	488,136	387,502	(90,729)	(72,024)
Net income (loss)	(1,399,982)	(1,111,361)	341,517	271,110
Offsetting accumulated deficit	950,181	754,291	—	—
Changes of equity ownership ratio	(46,098)	(36,594)	(4,770)	(3,787)
Cummulative effect of accounting changes	(8,746)	(6,943)	245,278	194,711
Other	(20,347)	(16,152)	(3,160)	(2,508)
Balance, end of the year	(36,856)	(29,257)	488,136	387,502
₩‡. Consolidated capital adjustment				
Balance, beginning of the year	799,955	635,036	198,841	157,848
Changes in capital surplus of equity method investee	(2,939)	(2,333)	—	—
Changes in the year	(1,085,746)	(861,908)	340,781	270,525
Reclassification from capital surplus	—	—	260,333	206,663
Balance, end of the year	(288,730)	(229,205)	799,955	635,036
₩ . Minority interest equity				
Balance, beginning of the year	1,056,114	838,385	48,532	38,526
Changes in the year	410,468	325,846	1,007,582	799,859
Balance, end of the year	1,466,582	1,164,231	1,056,114	838,385
Total shareholders' equity	W 5,300,170	\$ 4,207,487	W 7,350,620	\$ 5,835,214

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

Consolidated Statements of Cash Flows

	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)
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	W (1,399,982)	\$ (1,111,361)	W 341,517	\$ 271,110
Adjustments to reconcile net income to net cash provided by operating activities:				
Loss (Gain) on disposal of loans, net	1,823,413	1,447,498	(166,314)	(132,027)
Loss (Gain) on trading securities, net	705,606	560,138	(899,023)	(713,680)
Gain on investment securities, net	(121,415)	(96,384)	(902,546)	(716,477)
Bad debt expenses	12,806	10,166	941,567	747,453
Depreciation	117,170	93,014	17,408	13,819
Loss (Gain) on foreign currency translation, net	(505,829)	(401,547)	15,984	12,689
Loss (Gain) from derivative financial instrument, net	339,718	269,682	—	—
Increase (Decrease) in other receivables	(2,027,442)	(1,609,464)	873,303	693,263
Decrease in prepaid expenses	286,330	227,300	611,861	485,720
Decrease in accrued expense	(150,751)	(119,672)	(655,335)	(520,231)
Payment of severance benefits	(63,747)	(50,605)	(18,439)	(14,638)
Others, net	520,272	413,013	10,587	8,404
Net cash provided by operating activities	(463,851)	(368,223)	170,570	135,405
CASH FLOWS FROM INVESTING ACTIVITIES				
Decrease in trading securities	2,808,615	2,229,590	4,267,472	3,387,689
Decrease (Increase) in due from banks	1,171,840	930,253	(1,965,660)	(1,560,419)
Disposal of investment securities	27,016,320	21,446,630	8,001,643	6,352,023
Increase (Decrease) in loans	(9,305,153)	(7,386,801)	4,561,923	3,621,436
Acquisition of investment securities	(27,004,425)	(21,437,187)	(8,335,804)	(6,617,293)
Increase in premises and equipment	(554,358)	(440,071)	(43,044)	(34,170)
Others, net	244,327	193,956	945,440	750,528
Net cash provided by investing activities	(5,622,834)	(4,463,630)	7,431,970	5,899,794
CASH FLOWS FROM FINANCING ACTIVITIES				
Increase (Decrease) in deposits	2,439,271	1,936,390	(2,658,478)	(2,110,406)
Increase in borrowings	63,768,706	50,622,137	4,503,278	3,574,881
Decrease in bonds issued	(119,619)	(94,958)	(1,795,797)	(1,425,575)
Decrease in borrowings	(60,613,203)	(48,117,173)	(9,650,126)	(7,660,654)
Increase in paid-in capital	100,000	79,384	800,000	635,072
Others, net	520,618	413,287	1,198,448	951,376
Net cash used in financing activities	6,095,773	4,839,067	(7,602,675)	(6,035,306)
Increase in cash due to the addition of consolidated company	20,076	15,937	—	—
Net increase in cash	29,164	23,151	(135)	(107)
Cash, beginning of the year	80,348	63,783	80,483	63,890
Cash, end of the year (Note 4)	W 109,512	\$ 86,934	W 80,348	\$ 63,783
<i>The accompanying notes are an integral part of these consolidated financial statements.</i>				

Notes to Consolidated Financial Statements

DECEMBER 31, 2000 AND 1999

note 1. The Consolidated Companies:

The accompanying consolidated financial statements include the banking and trust accounts, subject to guaranteed fixed rate of return or principal repayment, of the Korea Development Bank (the "Bank") and its consolidated subsidiaries. General information of the Bank and its consolidated subsidiaries, and equity-method investees is described below.

The Bank -

The Korea Development 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 and 5 overseas branches as of December 31, 2000. The Bank is engaged in the banking business under the Korea Development Bank Act and in trust business according to the Trust Business Act and other related regulations.

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

Consolidated Subsidiaries -

Summarized information regarding the consolidated subsidiaries as of December 31, 2000 and 1999 is as follows:

	Millions of Won		Percentage (%)	
	2000	1999	2000.12.31	
Domestic subsidiaries				
KDB Capital Corp.	W 340,160	W 378,014	76.6%	
Daewoo Securities Co., Ltd.	232,548	—	25.0%	
Daewoo Shipping & Marine Engineering Co., Ltd.	390,368	—	40.8%	
Seoul Debt Restructuring Fund	262,800	262,800	43.8%	
Arirang Restructuring Fund	145,800	145,800	43.7%	
Mukoonghwa Restructuring Fund	145,700	145,700	43.7%	
Sanub Finance Corp.	—	20,000	—	
Others	7,236	—	—	
	W 1,524,612	W 952,314		
Foreign subsidiaries				
KDB Asia (HK) Ltd.	US\$ 60	US\$ 60	100.0%	
KDB Ireland Ltd.	US\$ 20	US\$ 20	100.0%	
KDB Lease (Japan) Ltd.	JP ¥ —	JP ¥ 650	—	
Metropolitan Industrial Leasing Co., Ltd.	THB 98	THB 98	49.0%	
Daewoo Bank (Hungary)	HUF 4,687	—	100.0%	
Daewoo Bank (Romania)	Lei 75,000	—	99.9%	
Others	US\$ 55	US\$ 10	—	
Won Equivalent	W 212,398	W 118,902		

The brief explanation of the primary business activities of the consolidated subsidiaries is as follows:

Subsidiaries	Incorporated date	Outstanding Capital (in Millions)				Major business
			2000		1999	
KDB Capital Corp.	December 1972	W	458,704	W	457,864	Leasing industrial machinery, equipment, aircrafts, ship, automobiles and investing in and providing finance to venture capital companies.
Restructuring Funds	September 1998	W	1,266,700	W	1,266,700	Financing and investing for restructuring of domestic companies.
Daewoo Securities Co., Ltd.	September 1970	W	842,300			Trading, subscribing and selling securities.
Daewoo Shipping & Marine Engineering Co., Ltd.	October 2000	W	991,954			Manufacturing naval ships, submarines, and other special purpose vessels.
KDB Asia (HK) Ltd.	January 1986	US\$	60	US\$	60	Providing finance to Korean companies, Investment in securities, Conducting international securities operation.
KDB Ireland Ltd.	June 1997	US\$	20	US\$	20	Supporting to introduce commercial loan for Korean companies. Investing in securities

The following companies, which were consolidated in 1999, are excluded from consolidation in 2000.

Companies	Reason of Exclusion
KDB Lease (Japan) Ltd.	Under liquidation
Sanub Finance Corp.	Disposal of its stock

note2 . Summary of Significant Accounting Policies:

The significant accounting policies followed by the Bank and its consolidated subsidiaries in the preparation of the accompanying consolidated financial statements are summarized below.

Basis of Consolidated Financial Statement Presentation -

The official accounting records of the domestic and overseas consolidated subsidiaries, on which the Korean language financial statements are based, are maintained in accordance with generally accepted accounting principles in the Republic of Korea and the laws and regulations of the foreign countries, respectively. The

accompanying consolidated financial statements are prepared in conformity with financial accounting standards generally accepted in the Republic of Korea.

For the convenience of the readers, the accompanying consolidated financial statements have been condensed, restructured and translated into English from the Bank's statutory Korean language consolidated financial statements. Such consolidated financial statements are not intended to present the financial position, results of operations or cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of Korea.

The preparation of consolidated 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 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.

Notes to Consolidated Financial Statements

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Financial statements for the twelve months ended December 31, 2000 were used for consolidation of KDB Capital Corp., Daewoo Securities Co., Ltd., Seoul Debt Restructuring Fund, Arirang Restructuring Fund and Mukoonghwa Restructuring Fund which have a fiscal year end of March 31.

Principles of Consolidation -

The accompanying consolidated financial statements include the accounts of the Bank and certain majority-owned domestic and foreign subsidiaries as presented in Note 1. All significant intercompany transactions and balances have been eliminated on consolidation.

Recognition of Interest Income -

The Bank and its subsidiaries recognize 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 of the Bank 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%

The consolidated subsidiary, Daewoo Shipping & Marine Engineering Co., Ltd. provides an allowance for doubtful accounts based on estimated loss from bad debts in accordance with the agreement of business work-out, estimated based on analysis on collectability of trade receivables, loans and other receivables.

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 investees are valued using the equity method of accounting. The Bank considers that it has significant influence on 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 investees as current operations, capital adjustments or adjustments to retained earnings, depending on the nature of the underlying changes in the book value of the investees.

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.

Valuation on inventories -

Inventories are stated at the lower of cost or market value, cost being determined by the specific identification method for goods in process and goods in transit, and moving average method for raw materials and supplies.

Lease Transactions -

KDB Capital Corp. accounts for lease transactions as operating or financing leases, depending upon the terms of the underlying lease agreements. In general, leases are recognized as financing leases when ownership title transfers after expiration of non-cancellable leases or when a bargain purchase option exists.

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

Operating leases are reported as premises and equipment stated at cost, and depreciated using the straight-line method over the lease term. The related lease rental income is recognized as revenue on an accrual basis over the lease term.

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	8 ~ 40 years
Structures	4 ~ 40
Machinery	4 ~ 11
Vehicles	4 ~ 10
Others	4 ~ 20

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

Intangible Assets -

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

Present Value Discounts -

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 provisions 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.

Domestic subsidiaries have fully accrued estimated severance benefits in accordance with the relevant severance benefit laws and regulations in Korea. Overseas subsidiaries accrue employees' retirement benefits according to the local laws and regulations in the jurisdictions in which they operate.

Accrued severance benefits are funded through a group severance insurance plan. The Bank and domestic subsidiaries account for the amounts funded under the plan as cash and due from banks (see Note 4). No amount of the Bank 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

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risk rating of the companies for which guarantees are 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 on Repurchase Agreements -

Bonds purchased or sold on repurchase agreements are included in loans and borrowings, respectively. The difference between 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 subsidiaries are maintained in foreign currencies. For presentation in the accompanying financial statements, the financial statements of the overseas subsidiaries have been translated at exchange rates as of the balance sheet date for balance sheet.

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.

Statement of cash flows -

On the statement of cash flows, the Bank and subsidiaries recorded the net cash inflows and outflows for loans, deposits, trading securities and others 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 Korea 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. All 1999 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. Dollars 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	
	2000.12.31		2000	1999
Cash on hand in Won	—	W	102,233	W 77,776
Cash on hand in foreign currency	—		7,279	2,572
Due from banks in Won	0.0 - 8.6		1,536,134	347,288
Due from banks in foreign currency	2.1 - 8.0		4,935,916	6,708,311
			6,581,562	7,135,947
Less: Allowance for doubtful accounts			—	(38,449)
		W	6,581,562	W 7,097,498

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

	Annual Interest Rate (%)	Millions of Won	
	2000.12.31	2000	1999
The Bank of Korea	–	W 172,641	W 65,706
Others	0.0 - 8.6	1,363,493	281,582
		W 1,536,134	W 347,288

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

	Annual Interest Rate (%)	Millions of Won	
	2000.12.31	2000	1999
The Bank of Korea	5.78 - 7.84	W 10,767	W 25,555
The Export-Import Bank of Korea	8	2,869,031	2,608,707
Kookmin Bank	7.1 - 7.8	567,071	662,228
Shinhan Bank	7.1 - 7.4	177,617	293,174
KBC Bank	7	111,232	–
Others	2.1 - 8.0	1,200,198	3,118,647
		W 4,935,916	W 6,708,311

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
Deposits for severance payment	24,426
Deposits from customers and deposits with KSFC	778,195
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
Korea First Bank and others	115,975
	W 1,164,152

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 and Bank of Communications 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 and Korea First Bank and others are pledged as collateral.

The maturity of amounts due from banks at December 31, 2000 are as follows (in millions of Won):

Matured on or before December 31	Due from banks in Won	Due from banks in foreign currency	Total
2001	W 1,502,621	W 4,786,137	W 6,288,758
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 1,536,134	W 4,935,916	W 6,472,050

Notes to Consolidated Financial Statements

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note5 . Trading Securities:

Trading securities held by the Bank and its subsidiaries at December 31, 2000 and 1999 comprise the following:

	The Bank		Subsidiaries		Total	
	2000	1999	2000	1999	2000	1999
Marketable equity securities	W 236,613	W 638,243	W 151,160	W 581,210	W 387,773	W1,219,453
Government and public bonds	89,919	114,891	140,251	13,570	230,170	128,461
Corporate bonds	152,034	253,221	891,872	872,781	1,043,906	1,126,002
Beneficiary certificates	452,276	3,285,139	541,234	398,664	993,510	3,683,803
Securities denominated in foreign currency	731,915	501,730	116,788	117,583	848,703	425,859
Others	78,061	194,439	77,858	231,420	155,919	619,313
	W1,740,818	W4,987,663	W1,919,163	W2,215,228	W3,659,981	W7,202,891

Trading securities of the Bank as of 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 638,243
Government and public bonds	7.0 - 9.3		89,919	114,891
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	501,730
Others	14.0		78,061	194,439
			W 1,740,818	W 4,987,663

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

	Par Value		Acquisition Cost		Fair Value	
Government and public bonds	W	89,000	W	89,986	W	89,919
Corporate bonds		153,139		149,819		152,034
Securities in foreign currency		776,884		733,071		731,915
Total in 2000	W	1,019,023	W	972,876	W	973,868
Total in 1999	W	911,788	W	880,737	W	869,842

note6 . Investment Securities:

Investment securities held by the Bank and its subsidiaries at December 31, 2000 and 1999 comprise the following (in millions of Won):

	The Bank		Subsidiaries		Total	
	2000	1999	2000	1999	2000	1999
Equity investment	W 7,237,520	W 9,767,583	W 617,312	W 500,298	W 7,854,832	W10,267,881
Government and public bonds	2,904,267	1,776,003	7,737	61	2,912,004	1,776,064
Corporate bonds	1,857,064	974,570	95,257	66,926	1,952,321	1,041,496
Investment securities denominated in foreign currency	1,470,362	1,449,500	161,610	93,734	1,631,972	1,543,234
Others	2,591,817	2,688,107	15,969	1,213	2,607,786	2,689,319
	W16,061,030	W16,655,763	W 897,885	W 662,232	W 16,958,915	W17,317,994

Equity investments of the Bank as of December 31, 2000 and 1999 comprise the following (in 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:								
KDB Bank (UK) Ltd.(*)	100.00 W		37,666 W	37,666 W	46,564 W	46,564 W	46,564 W	46,564
Daewoo Heavy Industries & Machinery Ltd.	21.91		173,078	–	173,078	–	133,998	–
Korea General Chemical Corp.(*)	98.75		94,082	94,082	107,573	122,271	107,573	122,271
Hankang Restructuring Fund	23.01		145,700	145,700	137,411	194,235	137,411	179,211
Korea Land Development Corp.	–		–	1,161,904	–	1,048,571	–	758,783
Korea National Housing Corp.	–		–	1,300,618	–	1,434,114	–	1,444,691
Others			146,620	339,703	177,535	929,084	186,442	919,744
			W 597,146	W3,079,673	W 642,161	W3,739,744	W 611,988	W3,471,264
Investments not using the equity method:								
Samsung Life Insurance	1.89 W		264,496 W	– W	264,496 W	– W	812 W	–
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.	5.74		1,300,618	–	1,300,618	–	1,298,492	–
Korea Land Development Corp.	28.30		1,161,904	–	1,191,329	–	840,106	–
Korea Heavy Industry & Construction Co., Ltd.	31.30		552,947	–	208,410	–	208,410	–
Korea Water Resources Corp.	9.28		671,307	671,307	671,307	671,307	584,218	312,693
Korea Tobacco & Ginseng Corp.	6.90		220,739	260,000	250,316	389,496	250,316	389,496
The Export-Import Bank of Korea	5.74		200,000	200,000	200,000	200,000	171,274	126,633
Others			1,141,593	2,298,079	712,771	3,053,844	662,916	2,926,542
			7,343,704	5,259,486	6,595,359	6,027,839	5,779,989	5,468,556
			W7,940,850	W8,339,159	W7,237,520	W9,767,583	W6,391,977	W8,939,820

(*) The investees are under liquidation and excluded from consolidation in 2000 and 1999 due to under liquidation.

Investment securities held by the Bank using the equity method at December 31, 2000 and 1999 are summarized as follows (in millions of Won):

	Beginning Book Value		Acquisition (Disposition)		Dividends		Valuation Gain or Loss(*)		Capital Adjustment		Ending Book Value	
KDB Bank (UK) Ltd.	W	46,564	W	–	W	–	W	–	W	–	W	46,564
Korea Asset Management Corp.		42,448		–		–		919		–		43,367
Daewoo Heavy Industries & Construction Co., Ltd.		–		173,078		–		–		–		173,078
Korea General Chemical Corp.		135,253		–		15,609		(12,071)		–		107,573
Korea Appraisal Board		19,493		–		92		(5,302)		–		14,099
Hankang Restructuring Fund		194,235		–		24,186		(32,638)		–		137,411
Others		834,138		(723,212)		7,490		16,353		5,916		120,069
Total in 2000		1,272,131		(550,134)		47,377		(32,739)		5,916		642,161
Total in 1999		W 3,662,968		W 101,358		W (16,467)		W 168,461		W 40,263		W3,956,583

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 of the Bank 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

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

	Par value	Acquisition cost	Market (carrying) value
Government and public bonds	W 205,676	W 205,542	W 213,518
Corporate bonds	1,813,359	1,729,750	1,753,927
Beneficiary certificates	293,380	293,380	306,732
Investment securities denominated in foreign currency	802,156	584,520	454,348
Others	1,857,452	1,871,121	1,820,603
Total in 2000	W 4,972,023	W 4,684,313	W 4,549,128
Total in 1999	W 4,678,326	W 4,326,710	W 4,145,372

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

	Par value	Acquisition cost	Book value
Government and public bonds	W 2,690,749	W 2,690,749	W 2,690,749
Corporate Bond	107,000	102,374	103,137
Investment securities denominated in foreign currency	1,025,237	1,019,119	1,016,014
Others	470,511	463,509	464,482
Total in 2000	4,293,497	4,275,751	4,274,382
Total in 1999	W 2,756,206	W 2,611,390	W 2,742,808

Investment securities denominated in foreign currency of the Bank 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
				454,348	W 582,512
Securities held-to-maturity	CHF	1,125	CHF 8,211	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
				W1,016,014	W 866,988

note7. Loans:

Loans at December 31, 1999 and 2000 comprise the following (in millions of Won):

	Millions of Won	
	2000	1999
Loans in Won	W 23,343,473	W 20,479,604
Loans in foreign currency	19,077,862	19,988,214
Notes purchased	1,205,496	859,924
Bills purchased	2,651,286	1,697,674
Advances for customers	591,586	659,220
Bonds purchased under repurchase agreements	209,376	36,306
Call loans	1,001,342	437,833
Domestic import usance bills	1,967,048	1,381,661
Debentures accepted by private subscription	2,666,741	1,281,813
Others	2,949,523	2,291,325
	55,663,733	49,113,574
Less : Provision for possible loan losses	(3,409,680)	(3,756,802)
Present value discount account	(433,333)	(494,420)
	W 51,820,720	W 44,862,352

Loans in Won and foreign currency of the Bank and its subsidiaries comprise the following (in millions of Won):

	The Bank		Subsidiaries		Total	
	2000	1999	2000	1999	2000	1999
Loans in Won						
Loans for working capital	W 9,144,539	W 6,059,628	W 111,671	W 315,179	W 9,256,210	W 6,374,807
Loans for facilities	14,305,997	14,091,045	251,929	271,603	14,577,926	14,362,648
Inter-company loans	(470,663)	(257,851)	—	—	(470,663)	(257,851)
	W22,979,873	W19,892,822	W 363,600	W 586,782	W 23,343,473	W 20,479,604
Loans in foreign currency						
Loans for working capital	W 2,999,912	W 2,788,097	W 340,587	W 300,167	W 3,340,499	W 3,088,264
Loans for facilities	16,482,161	17,897,729	381,345	471,269	16,863,506	18,368,998
Inter-company loans	(1,049,003)	(1,456,535)	(77,140)	(12,513)	(1,126,143)	(1,469,048)
	W18,433,070	W19,229,291	W 644,792	W 758,923	W 19,077,862	W 19,988,214

The loans in Won and foreign currency of the Bank at December 31, 2000 are as follows (in millions of Won):

Matured in	Loans in Won		Loans in foreign currency		Total
	Loans for working capital	Loans for facilities	Loans for working capital	Loans for facilities	
2001	W 5,702,497	W 2,033,507	W 1,539,077	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
	W 9,144,539	W14,305,997	W 2,999,912	W16,482,161	W42,932,609

Notes to Consolidated Financial Statements

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The Bank's restructured loans for 1999 and 2000 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

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.

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

	Millions of Won
Loans	W 5,074,913
Provision for possible loss	2,714,424

note8 . 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 1,124,309	W 455,482	W –	W –	W 1,124,309	W 455,482
Buildings and structures	1,140,662	196,488	–	–	1,014,673	173,921
Machinery	483,129	47,219	125,989	22,567	315,890	13,209
Construction in progress	240,785	87,726	167,239	34,010	240,785	87,726
Otherss	354,208	25,827	–	–	78,930	6,897
			275,278	18,930		
	W 3,343,093	W 812,742	W 568,506	W 75,507	W 2,774,587	W 737,235

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, book value and the government-posted prices of domestic land of the Bank and its subsidiaries are W1,122,613 million and W761,900 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.

note9 . Other Assets:

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

	Millions of Won	
	2000	1999
Other accounts receivable	W 2,368,997	W 157,668
Accrued income	1,151,130	1,032,391
Deferred income tax debits	251,038	238,267
Operating lease assets	910,916	1,703,140
Inventories	121,320	-
Others	921,074	935,260
	5,724,475	4,066,726
Allowance for bad debt	(570,833)	(456,560)
Present value discount	(59,478)	(4,761)
Depreciation	(669,678)	(1,127,760)
	W 4,424,486	W 2,477,645

note10 . 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	0.0 - 1.0	W 130,907	W 180,168
Time & savings deposits	2.0 - 11.5	7,497,851	4,017,694
		7,628,758	4,197,862
Foreign currency deposits :			
Checking deposits	-	95,322	5,289
Passbook deposits	0.0 - 2.2	31,114	71,004
Time deposits	0.1 - 7.9	312,117	235,746
Temporary deposits	-	1,109	914
Off-shore deposits	-	-	32,916
Others	-	2,776	-
		442,438	345,869
Negotiable certificates of deposits	5.75 - 6.75	1,388,975	2,539,402
		W 9,460,171	W 7,083,133

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note 11. Borrowings:

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

	Annual interest rate (%)	Millions of Won	
	2000.12.31	2000	1999
Won currency borrowings			
Borrowings from Korean Government	2.0 - 10.0	W 2,854,239	W 2,751,770
Others	0 - 19.0	2,674,285	1,731,843
		5,528,524	4,483,613
Foreign currency borrowings			
Borrowings from Korean Government	LIBOR+0.75 - 1.12	12,604,883	10,886,581
Off-shore borrowings	2.3 - 7.1	1,346,210	1,428,335
Others	0.3 - 9.3	4,467,926	5,002,216
		18,419,019	17,317,132
Other borrowings			
Bond sold under repurchase agreement		1,669,192	627,381
Notes sold		201,790	154,051
Call money		880,647	165,385
Others		9,763	-
		W 2,761,392	W 946,817
		W 26,708,935	W 22,747,562

The subordinated debts included in borrowings from Korean Government at December 31, 2000 and 1999 comprise the following:

Type	Annual interest rate (%)	Millions of Won	
	2000.12.31	2000	1999
Government fund	5.0~10.0	W 2,628,444	W 2,658,083
AID relending facilities	2.00	439	506
ADB relending facilities	6ML + 0.4	3,786,983	3,441,481
IBRD relending facilities	6ML + 1.0	8,817,900	7,445,100
		W 15,233,766	W 13,545,170

The maturity of borrowings at December 31, 2000 are as follows (in millions of Won):

Matured in	Borrowings in Won	Borrowings in foreign currency	Total
2001	W 1,192,692	W 2,304,907	W 3,497,599
2002	573,341	877,490	1,450,831
2003	519,422	1,765,112	2,284,534
2004	668,548	4,256,255	4,924,803
2005	542,842	2,799,242	3,342,084
Thereafter	2,031,679	6,416,013	8,447,692
	W 5,528,524	W 18,419,019	W23,947,543

note12. Debentures:

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

	Annual interest rate (%)	Millions of Won	
	2000.12.31	2000	1999
Industrial finance bonds issued ("IFBI") in Won	1.0 - 18.0	W 25,091,658	W22,864,522
IFBI in foreign currency	3ML +0.1 - 9.0	9,894,904	11,544,349
Off-shore IFBI in foreign currency	1.0 - 9.0	3,492,038	3,688,197
Others	8.7 - 23.0	860,057	1,148,218
		39,338,657	39,245,286
Premiums on Deventures		594	1,786
Discounts on Deventures		(170,149)	(177,548)
		W 39,169,102	W39,069,524

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 Korean 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 is W801,785 million as of December 31, 1999.

The maturity of debentures at December 31, 2000 are as follows (in millions of Won):

Matured in	Debentures in Won	Debentures in foreign currency	Total
2001	W 10,600,903	W 3,302,585	W 13,903,488
2002	6,271,191	3,622,337	9,893,528
2003	4,233,581	1,274,816	5,508,397
2004	1,882,960	2,545,141	4,428,101
2005	2,618,400	836,167	3,454,567
Thereafter	325,479	1,825,097	2,150,576
	W 25,932,514	W 13,406,143	W 39,338,657

note13. Other Liabilities:

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

	Millions of Won	
	2000	1999
Withholding taxes	W 25,964	W 27,244
Deferred gain from foreign exchange	23,974	27,778
Provision for possible losses from disposed loans	695,607	706,348
Advance received on IFBI	38,114	203,399
Advances received	555,606	-
Borrowings from Trust accounts	93,271	172,672
Guarantee money received	93,478	54,986
Others	1,060,698	307,421
	W 2,586,712	W 1,499,848

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note 14. Guarantees Outstanding:

The Bank provides guarantees for its customers. Guarantees outstanding and the related provision for possible loss as of December 31, 2000 and 1999 are as follows (in millions of Won):

	Guarantees amount		Provision for possible loss		Provision ratio (%)
	2000	1999	2000	1999	2000.12.31
Acceptances	W 4,582,257	W 3,437,826	W 158,799	W 137,325	3.47
Guarantees on local borrowings	2,557,155	2,802,057	116,113	237,755	4.54
Guarantees on indebtedness in foreign currency	3,644,740	3,523,624	136,342	154,577	3.74
Letters of guarantee for importers	56,727	36,229	1,008	61	1.78
	W 10,840,879	W 9,799,736	W 412,262	W 529,718	3.80

note 15. 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 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 1999, the Bank recognized gains and losses from the settlement of such loans in the amount of W71,874 million and W1,514 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.

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, certain customers of the Bank and its subsidiaries are in the process of restructuring loans with their creditor banks. The actual losses from these loans may differ from management's current estimation.

At December 31, 2000, one of the Bank's subsidiaries, Daewoo Securities Ltd. is involved in 43 pending litigations for damages, (claim amount : W231,343 million). The final results of the litigations are not reasonably estimable as of the balance sheet date.

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 consolidated financial statements reflect management's current assessment of the impact to date of the economic situation on the financial position of the Bank and its subsidiaries. Actual results may differ materially from management's current assessment.

note 16 . 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.

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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
	W35,120,764	W30,352,042	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 Note2). The financial statements for 1999 were not restated.

note17 . 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.

note18 . Capital Surplus:

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.

note19 . Retained Earnings:

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

	Millions of Won	
	2000	1999
Legal reserve	W -	W524,766
Others	(36,856)	(36,630)
	W(36,856)	W488,136

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 the 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	
	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
Others	-	(245,248)
	W (8,746)	W 245,279

note20 . Capital adjustments:

Capital adjustments at December 31, 2000 and 1999 comprise the following:

	Millions of Won	
	2000	1999
Valuation gain on investment securities	W (250,586)	W 775,820
The Bank's shares of capital adjustments of subsidiaries	(38,144)	24,135
	W (288,730)	W 799,955

note21 . Other non-interest revenue (expense):

Other non-interest revenue (expense) for the year ended December 31, 2000 comprises the following:

	Millions of Won	
Other non-interest revenue		
Recovery of allowance for bad debts	W	381,141
Revenue from financing lease		138,929
Revenue from operating lease		232,716
Revenue from trust operation		17,885
Recovery from allowance for guarantee and acceptance		150,731
Others		393,381
	W	1,314,783
Other non-interest expense		
Loss from trust operation		87,920
Depreciation of operating lease		166,242
Amortization of deferred loss on foreign exchange translation		105,505
Others		105,930
	W	465,597

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note22 . 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 1,628	W 1,834
Rental income	10,970	1,556
Gain on disposal of loans	82,077	704,152
Gain from investment securities	723,271	1,255,732
Others	30,359	5,464
	848,305	1,968,739
Non-operating expense		
Loss on disposition of premises and equipment	W 3,901	W 2,481
Loss on disposal of loans	1,905,491	537,837
Loss from investment securities	657,563	353,186
Others	34,323	15,364
	W 2,601,278	W 908,868
	W (1,752,973)	W 1,059,871

note23 . 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 184,355	W 94,472
Retirement allowance	42,363	25,841
Welfare expenses	73,130	18,573
Depreciation	50,800	17,408
Rent	17,024	6,186
Fees	25,955	52,365
Others	157,229	50,262
	W 550,856	W 265,107

note24 . 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, 2000.

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 Bank recorded at W152,401 million which is realizable deferred tax assets between the beginning balance, W1,399,531 million and the ending balance, W1,840,799 million.

note25 . Intercompany Transactions and Account Balances:

Significant transactions made in the ordinary course of business during 2000 among the Bank and its subsidiaries balances at December 31, 2000, which have been eliminated in the accompanying consolidated financial statements, are summarized as follows:

	Millions of Won	
	2000	1999
Intercompany interest	W 177,956	W 299,631
Intercompany loans / borrowings	1,633,356	1,726,899
Others	627,134	534,096

note26 . Industry Segment Reporting:

The consolidated balance sheets summarized by the industry segment at December 31, 2000 and 1999 are as follows:

	Finance & Insurance		Non Finance & Insurance	
	2000	1999	2000	1999
ASSETS				
Cash an cash equivalents	W 6,479,023	W 7,097,498	W 164,772	W -
Trading securities	3,659,685	7,202,891	296	-
Investment securities	17,278,620	17,317,995	76,112	-
Loans	51,888,828	44,862,352	95,261	-
Premises and equipment	1,311,337	798,017	1,566,661	-
Others	6,835,435	3,304,122	1,352,999	-
Total assets	W 87,452,928	W 80,582,875	W 3,256,101	W -
LIABILITIES AND EQUITIES				
Deposits	W 9,522,404	W 7,083,133	W -	W -
Borrowings	25,903,066	22,747,562	969,208	-
Debentures	38,942,799	39,069,524	231,752	-
Other liabilities	8,168,445	4,332,036	1,417,018	-
Total liabilities	W 82,536,714	W 73,232,255	W 2,617,978	W -
Equity				
Paid-in capital	W 4,111,861	W 4,971,661	W 991,954	W -
Consolidated capital surplus	47,313	34,754	-	-
Capital surplus	(36,857)	488,136	20,710	-
Capital adjustment	(288,730)	799,955	(390,051)	-
Minority interests	1,082,627	1,056,114	15,510	-
Total equity	4,916,214	7,350,620	638,123	-
Total liabilities and equities	W 87,452,928	W 80,582,875	W 3,256,101	W -

The Bank and its subsidiaries did not engage in the non finance and insurance industry segment for the year 1999.