



BUILDING A STRONG ECONOMY

Year 2001 was a **challenging** year for the Korean economy.
However, the KDB succeeded in turning these challenges into new **opportunities**.

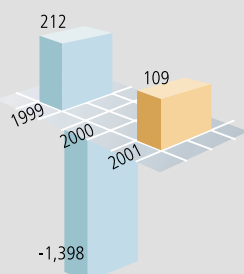
HIGHLIGHTS OF YEAR 2001

PROFIT IMPROVEMENT

The KDB earned W109 billion in net income in 2001, thanks to a dramatic increase in net interest income from an improved profit structure and more income from fee-earning businesses including bond underwriting, project finance and syndication businesses. Also boosting profitability was a dramatic rise in securities-related profit stemming from falling interest rates and the recovering stock market. The Bank's concerted efforts to prevent loan delinquency were also an important factor as they enabled it to greatly minimize additional loan-related losses.

In 2002, the KDB will continue to improve its profit structure through measures such as the disposition of non-performing assets and holding shares to reach its target net income of W300 billion.

> Net Income (Loss)
(Billions of Won)

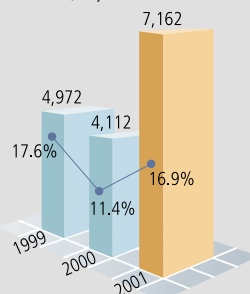


INCREASE IN PAID-IN CAPITAL

In June 2001, the KDB received W3 trillion worth of KEPCO stocks in kind from the government in return for a payment guarantee for the privatization of KEPCO affiliates. The move was intended to protect the Bank's BIS capital adequacy ratio and enhance investment and lending capacities. In December 2001, the government additionally injected W50 billion in cash into the Bank as partial compensation for losses incurred in the disposal of Korea Heavy Industries stocks during its privatization.

The increase in its paid-in capital significantly strengthened the Bank's financial soundness, by raising its consolidated BIS capital adequacy ratio from 11.4 percent at the end of 2000 to 16.9 percent at the end of 2001.

> Paid-in Capital & BIS Capital Ratio
(Billions of Won, %)



AMENDMENT OF THE KDB ACT

To respond to the changes in the nation's financial environment and to develop emerging industries, the Bank pushed ahead with the 15th amendment to the KDB Act since May 2001. The National Assembly passed the bill on February 28, 2002. Major changes to the Act include:

- 1) Expanding the scope of business to include loans to finance stock acquisition in relation to takeovers or M&A's, thus revitalizing the M&A market and better supporting corporate restructuring
- 2) Widening the range of businesses eligible for the Bank's working capital loans. Previously only those supplied with the Bank's equipment capital loans were eligible
- 3) Diversifying funding sources through issuing securities (other than Industrial Finance Bonds) and borrowing from the Bank of Korea under the aggregate credit ceiling system

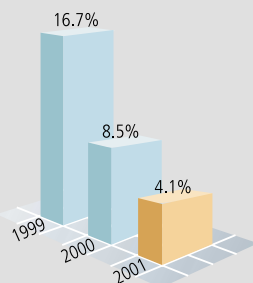
PROMOTION OF A CLEAN BANK

In 2001, the KDB significantly reduced its amount of non-performing loans (NPLs: loans rated substandard and below) to W2,037 billion from W4,445 billion in 2000. As a result, its ratio of NPLs to total loans as of December 31, 2001 was greatly reduced from 8.5 percent to 4.1 percent, considerably improving the Bank's asset quality.

The KDB reduced its NPLs by selling them to domestic and foreign investors, issuing ABS's, normalizing operations in related businesses, and promptly executing security rights against loans not expected to normalize in due course.

In the future, the KDB will strive to reinforce its status as a "clean bank" by reducing its level of NPLs to that of world-class banks. To that end, it will promote the spin-off or sale of insolvent businesses and provide support to viable companies to assist the normalization of their operations.

> Ratio of NPLs to Total Loans
(%)



MOVE INTO NEW HEADQUARTERS

In July 2001, the KDB opened its brand-new headquarters in the Yeouido district of Seoul, after four years and 10 months of construction that started in August 1996. The complex was constructed on 21,450 square meters of land, is eight stories tall, has four underground levels and covers a total space of 100,000 square meters.

The headquarters boasts a modern design representing the oval shape of Yeouido Island and eaves of a Korean traditional house selected to beautify the hub of Korean finance, Yeouido. The building has three divisions: the east wing facing Yeouido Square, the west wing facing the National Assembly and the ellipse wing, located between the two. In addition, the headquarters also houses the "Atrium," a court with a glass roof and walls.

Within the new headquarters, the KDB opened a museum on the first basement floor in November 2001. Visitors can learn about the KDB's functions and contributions towards Korea's economic progress over the 50 years from its establishment in 1954, and the Bank's past, present and future.

