



FINANCIAL SECTION

The year 2001 will be remembered as a year of landmark **improvements** in KDB's financial soundness.

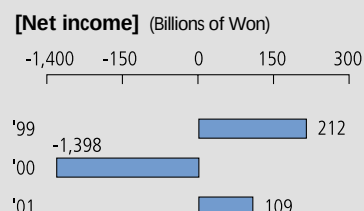
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Management's Discussion & Analysis

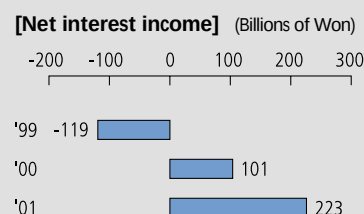
Results of operations

In 2001, the Bank recorded a net income of W109.0 billion and demonstrated its earning capacity by generating an operating income of W674.8 billion, a staggering rise of 91.2 percent or W321.9 billion from the previous year.



Net Interest Income

Through continuous efforts to improve its profit structure, the Bank saw its net interest income substantially rise to W223.1 billion in 2001 from W101.2 billion in 2000. Amid the worldwide trend of interest rate cuts, total interest income, (excluding provisions for possible loan losses), decreased to W4,583.0 billion, a 16 percent drop year-on-year, while interest expenses fell 18.6 percent to W4,359.8 billion.



Interest Income & Expense

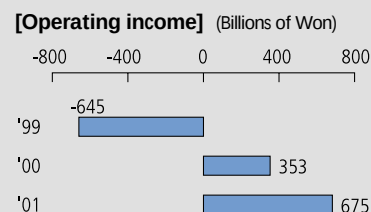
	2001			2000		
	Avg. Balance	Interest	Avg. Rate (%)	Avg. Balance	Interest	Avg. Rate (%)
Cash and due from banks	3,819	226	5.92	5,324	408	7.61
Securities (*)	10,752	706	6.57	10,828	767	3.45
Loans (**)	47,685	3,635	7.62	46,069	4,259	9.25
Other	76	16	21.05	54	24	44.44
Total interest-earning assets	62,332	4,583	7.35	62,275	5,458	7.41
Deposits	9,193	532	5.79	8,772	589	6.88
Borrowings	21,672	1,174	5.42	20,506	1,409	6.89
Debentures	36,740	2,598	7.07	38,452	3,268	8.50
Other	370	56	15.14	121	91	75.21
Total interest-bearing liabilities	67,975	4,360	6.41	67,581	5,357	7.93
Net interest income	(5,643)	223	0.94	(5,576)	101	(0.52)

(*) Excluding marketable equity securities in trading securities and investment in investment securities

(**) Excluding provision for possible loan losses and present value discount

Non-Interest Revenue & Expense

Revenue from fees and commissions rose significantly from W195 billion in 2000 to W311 billion in 2001 due to the Bank's brisk activities in project financing and investment banking. Improvement in losses from trading securities resulting from low interest rates and the bullish stock market was offset by the reversal of provision for possible losses on loans and guarantees by the Bank's sale of non-performing loans. Net non-interest income from foreign currency transactions and derivative financial instruments reached W41 billion and W162 billion in 2001, respectively.



	(Billions of Won)	
	2001	2000
Fees and commissions	311	195
Gain from trading securities	135	170
Gain from foreign currency transactions	392	928
Gain from derivative financial instruments	4,027	2,501
Reversal of provision for possible losses on loans & guarantees	246	532
Other	64	86
Total Non-Interest Revenue	5,175	4,412
Fees and commissions	36	33
Losses from trading securities	73	410
Losses from foreign currency transactions	351	430
Losses from derivative financial instruments	3,865	2,866
General & administrative expense	241	230
Other	158	191
Total Non-Interest Expense	4,724	4,160

Non-Operating Income and Expense

The Bank sold off loans worth W3,121 billion in 2001 and W3,935 billion in 2000 to KDB Lonestar CRC and the Korea Asset Management Corp. (KAMCO). It recorded net gains and losses from the disposition of these loans amounting to W497 billion and W1,571 billion in 2001, respectively, and W82 billion and W1,905 billion in 2000.

Net income from investment securities reached W507 billion, up W693 billion from the previous year due to the valuation gain of equity investment securities including Daewoo Securities.

	(Billions of Won)	
	2001	2000
Gain on disposal of loans	497	82
Gain from investment securities	819	527
Other	28	13
Total Non-Operating Income	1,344	622
Losses on disposal of loans	1,571	1,905
Losses from investment securities	312	713
Other	20	19
Total Non-Operating Expense	1,903	2,637

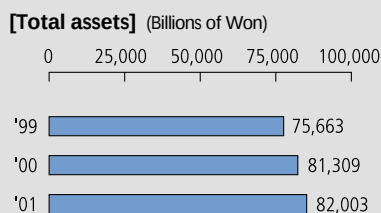
Extraordinary Income

Extraordinary income of W264 billion in 2000 was earned from the ownership transfer of 377,852 shares of Samsung Life Insurance, which the Bank had taken as collateral for the written-off loans to Samsung Motors.

Balance Sheet Analysis

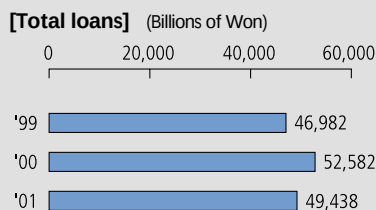
1. Assets

The Bank's total assets outstanding as of December 31, 2001, was W82 trillion, up 0.9 percent from the previous year. The Korean government's capital injection of W3.05 trillion was the main reason for the increase amid low loan demand.



Loan Portfolio

Loans outstanding as of December 31, 2001, totaled W35.7 trillion (excluding other loans of W13.7 trillion), down 19.1 percent or W8.4 trillion from 2000. The fall was mainly due to the 29.1 percent drop in won lending resulting from the Bank's aggressive non-performing loan (NPL; loans rated substandard and below) reduction strategies and weak loan demand in 2001.



	(Billions of Won)	
	2001	2000
By industry:		
Manufacturing	15,694	18,225
Banking & Insurance	5,418	11,014
Electricity, Gas & Water Supply	4,018	6,315
Transportation & Communication	3,971	3,827
Public Administration & National Defense	4,177	412
Other industries	2,413	4,324
By currency:		
Loans in won	17,457	24,635
Loans in foreign currency	18,234	19,482
Total Loans (*)	35,691	44,117

(*) Excluding other loans

Management's Discussion & Analysis

Loan Classification and Provision for Possible Loan Losses

Due to aggressive NPL reduction in 2001, provision for possible loan losses in the banking account decreased by a net W327 billion to stand at W1,836 billion.

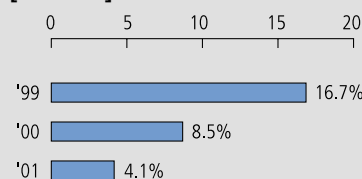
(Billions of Won)			
Classification	Loans (*)	Provision for possible loan losses	Ratio (%)
Normal	42,433	221	0.5
Special attention	3,564	452	12.7
Substandard	1,310	565	43.1
Doubtful	336	207	61.6
Estimated loss	391	391	100.0
Other (**)	1,073	-	-
Total	49,107	1,836	3.7

(*) Present value discounts are deducted

(**) Loans to or guaranteed by Korean government

The non-performing loan ratio (including for loans rated substandard and below) as of December 31, 2001, was 4.1 percent, representing a sharp decrease of 4.4 percent from the previous year. Thanks to the Bank's aggressive reduction of NPLs, the 2001 bad loan amount was W2,037 billion, down W2,408 billion from 2000. This was achieved through selling off of NPL to domestic and overseas investors, issuing ABS's and writing off NPLs.

[NPL ratio]



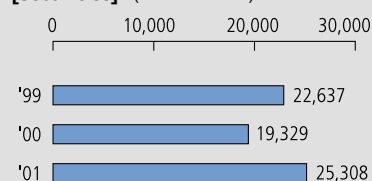
(Billions of Won)			
	2001	2000	1999
Total loans (*)	49,107	52,155	46,495
Provision for possible loss	1,836	2,163	3,201
Provision ratio	3.7%	4.1%	6.9%
Non-performing loans	2,037	4,445	7,768
Provision for possible loss	1,162	1,882	2,922
Provision ratio	57.1%	42.3%	37.6%
NPL ratio	4.1%	8.5%	16.7%

(*) Present value discounts are deducted

Securities

The total securities amount at the end of 2001 was W25.3 trillion, up 23.6 percent or W6.0 trillion from 2000 thanks to a capital injection by the Korean government consisting of a W3,000 billion investment in KEPCO (Korea Electric Power Corp.) stocks during the year.

[Securities] (Billions of Won)



(Billions of Won)			
	2001	2000	1999
Trading securities	1,247	1,741	4,988
Investment securities	24,061	17,588	17,649
Debt securities	11,278	9,043	6,888
Available for sale	6,535	4,769	4,145
Held-to-maturity	4,743	4,274	2,743
Equity securities	12,783	8,545	10,761
Total Securities	25,308	19,329	22,637

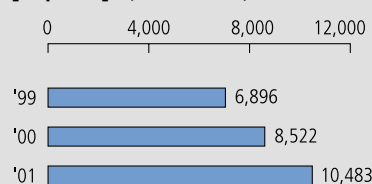
2. Funding Sources

The Bank's total funds outstanding at the end of 2001 amounted to W82.0 trillion, mainly comprised of W36.6 trillion (44.6%) in debentures, W21.4 trillion (26.0%) in borrowings, W10.5 trillion (12.8%) in deposits, and W7.2 trillion (8.7%) in paid-in capital.

Deposits

Total deposits increased 23 percent from 2000 to W10.5 trillion at the end of 2001, predominantly because of a 566.8 percent or W1.9 trillion rise in the balance of certificates of deposit in Won. This incredible rise in the balance of won-denominated CDs was due to depositors' preference for short-term financial instruments amid low interest rates.

[Deposits] (Billions of Won)

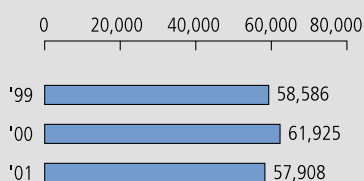


	(Billions of Won)	
	2001	2000
Deposits in Won	8,920	7,133
Demand deposits	217	131
Savings deposits	6,453	6,605
Certificates of Deposit	2,250	397
Deposits in foreign currencies and overseas branches	1,563	1,389
Total Deposits	10,483	8,522

Borrowings and Debentures

Outstanding borrowings and debentures at the end of 2001 reached W57.9 trillion, down 6.5 percent or W4.0 trillion from the year earlier. This decrease was primarily the result of low loan demand. Borrowings in foreign currencies dropped by 9.4 percent and Industrial Finance Bonds declined by 4.7 percent in 2001.

[Borrowings & Debentures] (Billions of Won)

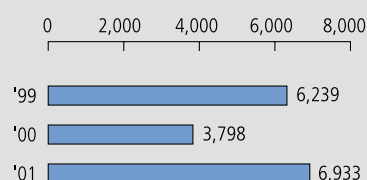


	(Billions of Won)	
	2001	2000
Borrowings	21,354	23,564
Won currency borrowings	4,282	4,280
Foreign currencies borrowings	15,178	16,760
Other	1,894	2,524
Debentures	36,554	38,361
Total Borrowings and Debentures	57,908	61,925

Capital Resources

Total equity at the end of 2001 stood at W6.9 trillion, up 82.5 percent or W3.1 trillion from 2000 due to the realization of net income and the government's capital injection into the Bank - a W3,000 billion investment in kind and W50 billion in cash. The purpose of the injection was to strengthen the Bank's capital base.

[Total equity] (Billions of Won)

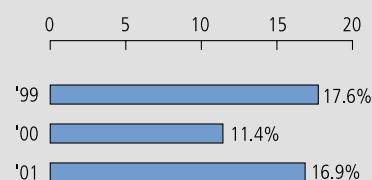


	(Billions of Won)	
	2001	2000
Paid-in capital	7,162	4,112
Capital surplus	44	44
Retained earnings	109	0
Capital adjustment	(382)	(358)
Total Equity	6,933	3,798

Risk-Adjusted Capital Ratio

The Bank's BIS capital as of December 31, 2001, was W12 trillion, up 72.3 percent or W5 trillion from 2000. Total risk-adjusted assets in 2001 rose 16.1 percent to W 71 trillion. Thanks to improvements in BIS capital and risk-adjusted assets, the Bank's BIS capital adequacy ratio (CAR) increased 5.5 percentage points from 2000 to 16.9 percent.

[BIS capital ratio]



Management's Discussion & Analysis

Consolidated BIS Capital Ratio

	(Billions of Won)	
	2001	2000
Tier I		
Paid-in capital		
Capital surplus	7,162	4,112
Retained earnings	-	47
Minority interest in consolidated subsidiaries	(76)	(37)
Consolidated-related adjusted account	1,474	1,083
Capital adjustment	(823)	(613)
Total	7,737	4,592
Tier II		
Reserve for loan losses	694	299
Asset revaluation surplus	-	-
Subordinated debt	3,869	2,296
Profit on valuation of securities	-	-
Upper Tier II	-	-
Total	4,563	2,595
Investment in Non-consolidated Subsidiaries	324	235
Total Capital	11,976	6,952
Risk-adjusted Assets	73,223	65,406
Balance sheet amount	63,481	55,985
Off-balance sheet amount	9,742	9,421
Total Risk-adjusted Assets	70,919	61,076
Risk-adjusted Capital Ratios		
Tier I	10.91%	7.52%
Total	16.88%	11.38%

Summary of Selected Financial Data

	(Billions of Won)		
	2001	2000	1999
Whole Year			
Interest income	4,583	5,458	5,071
Interest expense	4,360	5,357	5,190
Net interest income	223	101	(119)
Provision for loan losses (*)	(246)	(532)	960
Net interest income after provision for loan losses	469	633	(1,079)
Non-interest & Non-operating income (**)	6,273	4,502	4,317
Non-interest & Non-operating expense (**)	6,626	6,797	2,959
Extraordinary income, net	-	265	21
Net income before income taxes	116	(1,397)	300
Income tax	7	1	88
Net income (loss)	109	(1,398)	212
At Year's End			
Total assets	82,003	81,309	75,663
Loans (***)	47,271	49,992	43,293
Securities	25,308	19,329	22,637
Deposits	10,483	8,522	6,896
Borrowings and debentures	57,908	61,925	58,586
Total equity	6,933	3,798	6,239

(*) Including reversals of provision for both possible loan losses and possible guarantee losses

(**) Excluding provision for possible loan losses

(***) Excluding provision for possible loan losses and present value discount