

Consolidated Balance Sheet

December 31, 2001 and 2000

In Millions of Korean Won

In Thousands of U.S. Dollars (Note 3)

	2001	2000	2001	2000
ASSETS				
Cash and due from banks (Note 4)	W 4,167,367	W 6,581,562	US\$ 3,142,574	US\$ 4,963,096
Trading securities (Note 5)	2,722,341	3,659,981	2,052,893	2,759,959
Investment securities (Note 6)	23,732,797	16,958,915	17,896,687	12,788,564
Loans (Note 7)	48,822,903	51,820,720	36,816,909	39,077,536
Premises and equipment, net (Note 8)	2,650,972	2,774,587	1,999,074	2,092,291
Intangible asset	219,971	239,611	165,878	180,688
Guarantee deposit	203,953	184,242	153,799	138,935
Derivative financial instruments	2,374,303	1,994,486	1,790,440	1,504,024
Trade accounts receivable, net	955,314	1,094,453	720,394	825,317
Prepaid expense	393,769	488,919	296,938	368,689
Others	4,331,011	4,424,486	3,265,976	3,336,465
Total assets	W 90,574,701	W 90,221,962	US\$68,301,562	US\$68,035,564
LIABILITIES AND EQUITY				
Deposits (Note 9)	W 12,197,768	W 9,460,171	US\$ 9,198,226	US\$ 7,133,829
Borrowings (Note 10)	23,517,601	26,708,935	17,734,410	20,140,966
Debentures (Note 11)	37,478,525	39,169,102	28,262,216	29,537,065
Provision for guarantees outstanding (Note 13)	188,930	412,262	142,470	310,883
Accrued severance benefits	323,964	384,994	244,298	290,320
Other accounts payable	2,200,668	2,032,306	1,659,504	1,532,544
Accrued expenses	963,130	1,629,936	726,288	1,229,120
Derivative financial instruments (Note 15)	2,709,249	2,058,781	2,043,020	1,552,508
Unearned income	213,690	230,914	161,142	174,130
Trade accounts payable	215,992	247,679	162,878	186,773
Other liabilities (Note 12)	1,850,893	2,586,712	1,395,742	1,950,616
Total liabilities	81,860,410	84,921,792	61,730,194	64,038,754
Commitments and Contingencies (Note 14)				
Equity :				
Paid-in capital (Note 16)	7,161,861	4,111,861	5,400,695	3,100,717
Capital surplus (Note 17)	-	47,313	-	35,678
Retained earnings (Note 18)	(75,477)	(36,856)	(56,917)	(27,792)
Capital adjustment (Note 19)	(320,442)	(288,730)	(241,642)	(217,729)
Minority interests in consolidated subsidiaries	1,948,349	1,466,582	1,469,232	1,105,936
Total equity	8,714,291	5,300,170	6,571,368	3,996,810
Total Liabilities, Minority Interests and Equity	W 90,574,701	W 90,221,962	US\$68,301,562	US\$68,035,564

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

Consolidated Statements of Operations

for the years ended December 31, 2001 and 2000

In Millions of Korean Won

In Thousands of U.S. Dollars (Note 3)

	2001	2000	2001	2000
Interest income:				
Interest on loans	W 3,674,518	W 4,217,507	US\$ 2,770,921	US\$ 3,180,384
Interest on due from banks	298,754	476,331	225,288	359,197
Interest on trading securities	185,443	269,934	139,841	203,555
Interest on investment securities	606,386	655,528	457,270	494,327
Other interest income	115,880	126,603	87,384	95,470
	4,880,981	5,745,903	3,680,704	4,332,933
Interest expense:				
Interest on deposits	572,901	625,195	432,019	471,454
Interest on borrowings	1,400,708	1,586,667	1,056,261	1,196,491
Interest on bond payable	2,723,111	3,393,589	2,053,474	2,559,074
Other interest expenses	80,912	100,466	61,015	75,761
	4,777,632	5,705,917	3,602,769	4,302,780
Net interest income	103,349	39,986	77,935	30,153
Non-interest revenue:				
Fees and commissions	777,145	618,324	586,038	466,273
Gains from trading securities	306,750	461,983	231,317	348,377
Gains from derivative financial instruments (Note 15)	4,174,685	2,593,241	3,148,092	1,955,540
Gains on foreign currency transaction	483,483	1,152,297	364,590	868,937
Sales of manufacturing subsidiaries	3,126,733	47,022	2,357,841	35,458
Others (Note 20)	834,081	1,267,761	628,973	956,007
	9,702,877	6,140,628	7,316,851	4,630,592
Non-interest expense:				
Fees and commissions	73,242	78,290	55,231	59,038
Losses from trading securities	322,896	1,148,129	243,493	865,794
Losses from derivative financial instruments (Note 15)	4,016,126	2,940,856	3,028,524	2,217,673
Losses on foreign currency transaction	476,118	646,468	359,036	487,496
General and administrative expenses (Note 21)	869,417	550,856	655,620	415,396
Cost of Sales of manufacturing subsidiaries	2,604,462	38,164	1,964,001	28,778
Others (Note 20)	368,218	833,957	277,670	628,879
	8,730,479	6,236,720	6,583,575	4,703,054
Operating income (loss)	1,075,747	(56,106)	811,211	(42,309)
Non-operating expense, net	(580,181)	(1,752,973)	(437,509)	(1,321,901)
Extraordinary income net	20,658	260,748	15,578	196,628
Income (loss) before income taxes	516,224	(1,548,331)	389,280	(1,167,582)
Income taxes (Note 22)	89,231	19,209	67,288	14,486
Net income (loss) before minority interest in earnings of consolidated subsidiaries	426,993	(1,567,540)	321,992	(1,182,068)
Minority interest in (earnings) losses of consolidated subsidiaries	(307,430)	167,558	(231,831)	126,354
Net income (loss)	W 119,563	W (1,399,982)	US\$ 90,161	US\$(1,055,714)

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

Consolidated Statements of Changes in Shareholders' Equity

for the years ended December 31, 2001 and 2000

In Millions of Korean Won

In Thousands of U.S. Dollars (Note 3)

	2001	2000	2001	2000
I. Capital stock				
Balance, beginning of the year	W 4,111,861	W 4,971,661	US\$ 3,100,717	US\$ 3,749,085
Capital contribution	3,050,000	100,000	2,299,978	75,409
Transferred to capital surplus	-	(959,800)	-	(723,777)
Balance, end of the year	7,161,861	4,111,861	5,400,695	3,100,717
II. Consolidated capital surplus :				
Balance, beginning of the year	47,313	34,754	35,678	26,208
Transferred from capital stock	-	959,800	-	723,776
Offsetting accumulated deficit	-	(950,181)	-	(716,523)
Changes in capital surplus of equity method investee	(99)	-	(75)	-
Changes of equity ownership ratio	(48,536)	-	(36,601)	-
Others	1,322	-	998	-
Balance, end of the year	-	47,313	-	35,678
III. Consolidated retained earnings				
Balance, beginning of the year	(36,856)	488,136	(27,792)	368,099
Net income(loss)	119,563	(1,399,982)	90,161	(1,055,714)
Offsetting accumulated deficit	-	950,181	-	716,523
Changes of equity ownership ratio	(80,445)	(46,098)	(60,663)	(34,762)
Changes of subsidiaries	20,783	-	15,672	-
Cummulative effect of accounting changes	-	(8,746)	-	(6,595)
Others	(98,522)	(20,347)	(74,295)	(15,343)
Balance, end of the year	(75,477)	(36,856)	(56,917)	(27,792)
IV. Consolidated capital adjustment :				
Balance, beginning of the year	(288,730)	799,955	(217,729)	603,239
Changes in capital surplus of equity method investee	99	(2,939)	75	(2,216)
Changes in the year	(31,811)	(1,085,746)	(23,988)	(818,752)
Balance, end of the year	(320,442)	(288,730)	(241,642)	(217,729)
V. Minority interest equity				
Balance, beginning of the year	1,466,582	1,056,114	1,105,936	796,406
Changes in the year	481,767	410,468	363,296	309,530
Balance, end of the year	1,948,349	1,466,582	1,469,232	1,105,936
Total shareholders' equity	W 8,714,291	W 5,300,170	US\$ 6,571,368	US\$ 3,996,810

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

Consolidated Statements of Cash Flows

for the years ended December 31, 2001 and 2000

In Millions of Korean Won

In Thousands of U.S. Dollars (Note 3)

	2001	2000	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income (loss)	W 119,563	W (1,399,982)	US\$ 90,161	US\$(1,055,714)
Adjustments to reconcile net income to net cash provided by operating activities:				
Loss on disposal of loans, net	1,081,638	1,823,413	815,653	1,375,019
Loss on trading securities, net	31,937	705,606	24,083	532,091
Gain on investment securities, net	(80,929)	(121,415)	(61,028)	(91,558)
Depreciation	71,855	50,800	54,185	38,308
Gain on foreign currency translation, net	(10,889)	(505,829)	(8,211)	(381,441)
Loss (Gain) from derivative financial instrument, net	(158,559)	339,718	(119,568)	256,178
Increase (Decrease) in other receivables	140,871	(2,027,442)	106,230	(1,528,876)
Decrease in prepaid expenses	95,150	286,330	71,752	215,919
Decrease in accrued expense	(666,690)	(150,751)	(502,745)	(113,680)
Others, net	1,236,666	535,701	932,559	403,968
Net cash provided by (used in) operating activities	1,860,613	(463,851)	1,403,071	(349,786)
CASH FLOWS FROM INVESTING ACTIVITIES				
Decrease in trading securities	1,034,093	2,808,615	779,800	2,117,951
Decrease in due from banks	2,426,259	1,171,840	1,829,620	883,674
Disposal of investment securities	5,272,626	27,016,320	3,976,040	20,372,762
Increase (Decrease) in loans	1,086,150	(9,305,153)	819,056	(7,016,932)
Acquisition of investment securities	(8,684,323)	(27,004,425)	(6,548,769)	(20,363,792)
Increase (Decrease) in premises and equipment	27,723	(554,358)	20,906	(418,036)
Others, net	175,296	244,327	132,189	184,245
Net cash provided by (used in) investing activities	1,337,824	(5,622,834)	1,008,842	(4,240,128)
CASH FLOWS FROM FINANCING ACTIVITIES				
Increase in deposits	2,813,082	2,439,271	2,121,320	1,839,432
Net increase (decrease) in borrowings	(3,191,335)	3,155,503	(2,406,557)	2,379,536
Net decrease in bonds issued	(1,448,926)	(119,619)	(1,092,622)	(90,203)
Increase in paid-in capital	50,000	100,000	37,705	75,409
Others, net	(1,333,710)	520,618	(1,005,739)	392,593
Net cash provided by (used in) financing activities	(3,110,889)	6,095,773	(2,345,893)	4,596,767
Increase in cash due to the addition of consolidated company	-	20,076	-	15,139
Net increase in cash	87,548	29,164	66,020	21,992
Cash, beginning of the year	109,512	80,348	82,582	60,590
Cash, end of the year (Note 4)	W 197,060	W 109,512	US\$ 148,602	US\$ 82,582

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

Notes to Consolidated Financial Statements

December 31, 2001 and 2000

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 industries. The Bank operates through 36 local branches and 5 overseas branches as of December 31, 2001. 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 consolidated subsidiaries as of December 31, 2001 and 2000 is as follows:

Subsidiaries	Invested amount (In Millions of Won)		Ownership ratio (%)	
	2001	2000	2001.12.31	
Domestic				
KDB Capital Corp.	W 478,208	W 340,160		81.66
Daewoo Securities Co., Ltd.	563,247	232,548		36.72
Daewoo Shipbuilding & Marine Engineering Co., Ltd.	390,368	390,368		40.82
Seoul Debt Restructuring Fund	262,800	262,800		43.80
Arirang Restructuring Fund	145,800	145,800		43.73
Mukoonghwa Restructuring Fund	145,700	145,700		43.71
Korea Infra Structure Fund	5,636	5,636		56.36
Seoul Investment Trust Management	11,373	-		81.85
Samwon Industrial Co., Ltd.	200	200		50.00
Yujin Fiber Board Ind. Co., Ltd.	-	1,400		-
	W 2,003,332	W 1,524,612		

Subsidiaries	Invested amount (In Millions of Won)		Ownership ratio (%)	
	2001	2000	2001.12.31	
Foreign				
KDB Asia (HK) Ltd.	US\$ 60	US\$ 60		
KDB Ireland Ltd.	US\$ 20	US\$ 20		
Metropolitan Industrial Leasing Co., Ltd.	THB 98	THB 98		49.00
Vietnam International Leasing Co., Ltd.	US\$ 2	US\$ 2		32.00
Daewoo Mangalia Heavy Industries	Lei1 56,138	Lei 156,138		51.00
Daewoo Bank (Hungary)	HUF 4,687	HUF 4,687		100.00
Daewoo Bank (Romania)	Lei 75,000	Lei 75,000		99.99
Daewoo Security (Europe) and others	US\$ 40	US\$ 46		100.00
Won Equivalent	W 204,237	W 212,398		

Notes to Consolidated Financial Statements

December 31, 2001 and 2000

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

Subsidiaries	Incorporated date	Outstanding Capital (In millions of Won)		Major business
		2001	2000	
KDB Capital Corp.	December 1972	W 698,064	W 458,704	Leasing industrial machinery, equipment, aircrafts, ship, automobiles and investing in and providing finance to venture capital companies.
Daewoo Securities Co., Ltd.	September 1970	W 1,020,883	W 842,300	Trading, subscribing and selling securities.
Restructuring Funds	September 1998	W 1,254,734	W 1,266,700	Investing & financing for restructuring of domestic companies.
Korea Infra structure Fund	December 1999	W 10,000	W 10,000	Investing & financing for companies operating social infrastructure
Daewoo Shipping & Marine Engineering Co., Ltd.	October 2000	W 991,954	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. Investing in securities.
KDB Ireland Ltd.	June 1997	US\$ 20	US\$ 20	Conducting international securities operation. Supporting to introduce commercial loan for Korean companies. Investing in securities

The following companies, which were consolidated in 2000, are excluded from consolidation in 2001.

Companies	Reason of Exclusion
KDB Lease (HK) Ltd.	Under liquidation
Yujin Fiber Board Ind. Co., Ltd.	Disposal of its stock

2. 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.

Financial statements for the twelve months ended December 31, 2001 and 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, 2001 and 2000 was W122,915 million and W153,018 million, respectively.

Provision for Possible Loan Losses -

The Bank and its subsidiaries provide 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.

- ☐ Total assets of investees are less than 7,000 million won
- ☐ Investees under court receivership or bankruptcy
- ☐ Investees under process to be sold-out
- ☐ Converted stocks with restrictions on disposition under the corporate restructuring law

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.

The Bank recorded impairment losses on investment securities of W328,133 million and W363,478 million in 2001 and 2000, respectively.

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-cancelable 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.

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.

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

Notes to Consolidated Financial Statements

December 31, 2001 and 2000

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.

Bonds Sold under Repurchase Agreements -

The Bank provides a provision for possible losses from the bonds sold under repurchase agreements as determined based possible loss estimates when the bonds are repurchased. The provision for possible losses as of December 31, 2001 and 2000 is W220,677 million and W695,607 million, respectively.

Disposition of Loans -

The Bank records the difference between selling price and book value of disposed loans as gain or loss on disposal of loans. The book value is face amount of the disposed loans less identifiable allowance for possible loan losses. When the Bank cannot allocate the allowance for possible loan losses to specific disposed loans, it records gain or loss by the difference between selling price and face amount of the loan.

Foreign Currency Translation -

Assets and liabilities denominated in foreign currencies are translated into Korean Won at basic exchange rates (1,326.1

Won/US\$ in 2001, 1,259.7 Won/US\$ in 2000) 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, 2001 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 2001 and 2000 amounted to W5,763 million (including W4,030 million of early payment of severance benefits) and W137,323 million (including W131,569 million of early payment of severance benefits), respectively.

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.

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 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 and its consolidated companies record deferred income taxes which arises from temporary differences between amount reported for financial reporting purposes and income tax purposes. Income tax expenses comprise 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.

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.

Compensation to Trust Accounts -

The Bank receives management fees from trust accounts for the management and custodian services.

Certain trust funds held by the Bank are guaranteed certain rate of return by the Bank. 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 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 2000 Accounts -

Certain accounts in the 2000 annual financial statements have been reclassified. These reclassifications and restatements have no effect on previously reported net income or retained earnings for 2000.

3. United States Dollar Amounts:

The Bank operates primarily in Korean Won and its official accounting records are maintained in Korean Won. The U.S. Dollar amounts are provided herein as supplementary information solely for the convenience of the readers. Won amounts are expressed in U.S. Dollars at the rate of W1,326.1:US\$1, the basic rate on December 31, 2001. 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 2000 U.S. Dollar amounts, which were previously expressed at W1,259.7: US\$1, the rate prevailing on December 31, 2000, have been restated to reflect the exchange rate in effect on December 31, 2001.

4. Cash and Due from Banks:

Cash and due from banks at December 31, 2001 and 2000 comprise the following:

	Annual Interest Rate (%)		Millions of Won	
	2001.12.31		2001	2000
Cash on hand in Won	-	W	146,063	W 102,233
Cash on hand in foreign currency	-		50,997	7,279
Due from banks in Won	0.0 - 8.6		1,801,840	1,536,134
Due from banks in foreign currency	1.8 - 7.1		2,168,467	4,935,916
		W	4,167,367	W 6,581,562

Due from banks in Won at December 31, 2001 and 2000 are summarized as follows:

Bank	Annual Interest Rate (%)		Millions of Won	
	2001.12.31		2001	2000
The Bank of Korea	-	W	62,720	W 172,641
Others	0.0 - 8.6		1,739,120	1,363,493
		W	1,801,840	W 1,536,134

Due from banks in foreign currency at December 31, 2001 and 2000 are summarized as follows:

Bank	Annual Interest Rate (%)		Millions of Won	
	2001.12.31		2001	2000
The Bank of Korea	-	W	40,774	W 10,767
Kookmin Bank	2.1 - 5.2		567,787	567,071
Shinhan Bank	2.9 - 7.1		53,045	177,617
The Export-Import Bank of Korea	-		-	2,869,031
Others	1.8 - 5.2		1,506,861	1,311,430
		W	2,168,467	W 4,935,916

Notes to Consolidated Financial Statements

December 31, 2001 and 2000

Restricted deposits included in due from banks at December 31, 2001 are as follows:

	Millions of Won
Reserve deposits with the Bank of Korea	W 62,720
Deposits from customers and deposits with Korea Securities Finance Corp.	1,226,550
China Construction Bank	4,783
Harvit Bank	4,690
Kookmin Bank	27,454
Koram Bank	1,640
	W1,327,837

Reserve deposits with the Bank of Korea represent amounts required under the Banking Act for the payment of deposits. Deposits in KSFC are reserved as subscription deposits, reserve for claims of customers deposits and other deposits. Reserve deposits with China Construction Bank and Bank of Communications also represent amounts required under the related banking regulations of those countries. Deposits with Harvit Bank, Kookmin Bank and others and Korea First Bank and others are pledged as collateral.

The maturity of amounts due from banks at December 31, 2001 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
2002	W 1,421,150	W 1,999,909	W 3,421,059
2003	-	47,077	47,077
2004	359,340	30,500	389,840
2005	-	66,305	66,305
Thereafter	21,350	24,676	46,026
	W 1,801,840	W 2,168,467	W 3,970,307

5. Trading Securities:

Trading securities held by the Bank and its subsidiaries at December 31, 2001 and 2000 comprise the following:

	The Bank		Subsidiaries		Total	
	2001	2000	2001	2000	2001	2000
Marketable equity securities	W 10,243	W 236,613	W 225,599	W 151,160	W 235,842	W 387,773
Government and public bonds	110,108	89,919	189,485	140,251	299,593	230,170
Corporate bonds	170,486	152,034	311,617	891,872	482,103	1,043,906
Beneficiary certificates	375,702	452,276	575,885	541,234	951,587	993,510
Securities denominated in foreign currency	580,106	731,915	98,243	116,788	678,349	848,703
Others	-	78,061	74,867	77,858	74,867	155,919
	W 1,246,645	W 1,740,818	W 1,475,696	W 1,919,163	W 2,722,341	W 3,659,981

Trading securities of the Bank as of December 31, 2001 and 2000 comprise the following:

	Annual Interest Rate (%)	Millions of Won	
	2001.12.31	2001	2000
Marketable equity securities	-	W 10,243	W 236,613
Government and public bonds	4.4 - 6.9	110,108	89,919
Corporate bonds	2.0 - 9.0	170,486	152,034
Beneficiary certificates	6.0 - 9.0	375,702	452,276
Debt securities in foreign currency	0.0 - 9.75	580,106	731,915
Others	-	-	78,061
		W 1,246,645	W 1,740,818

Par value, acquisition cost and fair value of trading debt securities of the Bank as of December 31, 2001 and 2000 are as follows (millions of won):

	Par Value		Acquisition Cost		Fair Value	
Government and public bonds	W	110,000	W	108,967	W	110,108
Corporate bonds		171,139		169,765		170,486
Securities in foreign currency		590,524		578,601		580,106
Total in 2001	W	871,663	W	857,333	W	860,700
Total in 2000	W	1,019,023	W	972,876	W	973,868

Trading securities in foreign currency at December 31, 2001 and 2000 comprise the following:

Foreign Currency (in thousands)				Millions of Won	
2001		2000		2001	2000
USD	398,466	USD	581,023	W 528,406	W 731,915
DEM	35,021	-	-	20,996	-
EUR	22,844	-	-	26,787	-
SGD	5,459	-	-	3,917	-
				W 580,106	W 731,915

6. Investment Securities:

Investment securities held by the Bank and its subsidiaries at December 31, 2001 and 2000 comprise the following (in millions of Won):

	The Bank (*)		Subsidiaries		Total	
	2001	2000	2001	2000	2001	2000
Equity investments	W 10,942,574	W 7,237,520	W 542,337	W 617,312	W 11,484,911	W 7,854,832
Government and public bonds	2,913,054	2,904,267	3,395	7,737	2,916,449	2,912,004
Corporate bonds	4,894,965	1,857,064	555,584	95,257	5,450,549	1,952,321
Investment securities in foreign currency	2,458,790	1,470,362	391,268	161,610	2,850,058	1,631,972
Others	1,026,442	2,591,817	4,388	15,969	1,030,830	2,607,786
	W 22,235,825	W 16,061,030	W 1,496,972	W 897,885	W 23,732,797	W 16,958,915

(*) Consolidation adjustments are included.

Investment securities of the Bank at December 31, 2001 and 2000 comprise the following:

Bank	Annual Interest Rate (%)	Millions of Won	
	2001.12.31	2001	2000
Equity Securities			
Investments using the equity method	-	W 4,208,829	W 642,161
Investments not using the equity method	-	6,748,332	6,595,359
		10,957,161	7,237,520
Debt Securities			
Government and public bonds	3.0 - 17.5	2,913,054	2,904,267
Corporate bonds	0.0 - 20.0	4,894,965	1,857,064
Investment securities in foreign currency	0.0 - 13.8	2,444,203	1,470,362
Other	1.0 - 22.0	1,026,442	2,591,817
		11,278,664	8,823,510
		W 22,235,825	W 16,061,030

Notes to Consolidated Financial Statements

December 31, 2001 and 2000

Equity investments of the Bank as of December 31, 2001 and 2000 comprise the following (in millions of Won):

	Ownership (%)	Acquisition Cost		Book Value		Fair Value or Net Book Value (*)	
	2001.12.31	2001	2000	2001	2000	2001	2000
Investments using the equity method:							
KDB Bank (UK) Ltd.(*)	100.00 W	- W	37,666 W	- W	46,564 W	- W	46,564
Daewoo Heavy Industries & Machinery Ltd.	21.91	173,078	173,078	186,153	173,078	146,891	133,998
Korea General Chemical Corp.(*)	98.75	94,082	94,082	-	107,573	-	107,573
Hankang Restructuring Fund	23.01	145,700	145,700	147,802	137,411	147,801	137,411
Korea Electric Power Corporation	21.59	3,265,468	-	3,634,862	-	7,177,780	-
Others		221,213	146,620	240,012	177,535	245,504	186,442
		3,899,541	597,146	4,208,829	642,161	7,717,976	611,988
Investments not using the equity method:							
Samsung Life Insurance	1.89	264,496	264,496	132,248	264,496	40,518	812
Industrial Bank of Korea	12.53	400,000	400,000	410,721	365,928	410,721	365,928
Korea Highway Corp	13.20	1,430,100	1,430,100	1,430,184	1,430,184	1,471,251	1,486,444
Korea National Housing Corp.	25.20	1,300,618	1,300,618	1,300,618	1,300,618	1,336,842	1,298,492
Korea Land Development Corp.	27.19	1,161,904	1,161,904	1,191,329	1,191,329	844,292	840,106
Korea Water Resources Corp.	8.25	671,307	671,307	671,307	671,307	745,646	584,218
Others		2,222,397	2,115,279	1,611,925	1,371,497	1,630,572	1,084,506
		7,450,822	7,343,704	6,748,332	6,595,359	6,479,842	5,660,506
		W11,350,363	W 7,940,850	W10,957,161	W 7,237,520	W14,197,818	W 6,272,494

(*) The investees are under liquidation and excluded from consolidation in 2001 and 2000.

Investment securities held by the Bank using the equity method at December 31, 2001 and 2000 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 (46,564)	W -	W -	W -	W -
Korea Asset Management Corp.	43,367	2	880	1,757	(239)	44,007
Daewoo Heavy Industries & Machinery Co., Ltd.	173,078	-	-	13,075	-	186,153
Korea General Chemical Corp.	107,573	-	107,573	-	-	-
Korea Electric Power Corp.	-	3,265,468	-	371,068	(1,674)	3,634,862
Hankang Restructuring Fund	137,411	-	-	10,391	-	147,802
Binggrae Co., Ltd.	13,674	107	-	3,380	(70)	17,091
Others	120,494	76,721	1,787	(16,991)	477	178,914
Total in 2001	W 642,161	W 3,295,734	W 110,240	W 382,680	W (1,506)	W 4,208,829
Total in 2000	W 1,266,495	W (550,134)	W 47,377	W (32,739)	W 5,916	W 642,161

(*) Valuation gain or loss includes gain on foreign currency translation of W3,655 million.

The equity method adjustments are calculated as 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. Equity method adjustment debits are amortized over 5 years and equity method adjustment credits are amortized over 5 years (purchased before December 31, 2000) or weighted average useful lives of tangible assets of investees using the straight-line method.

Investments in debt securities available-for-sale of the Bank at December 31, 2001 and 2000 comprise the following (in millions of Won):

	Par Value	Acquisition Cost	Market (carrying) Value
Government and public bonds	W 97,943	W 68,033	W 158,879
Corporate bonds	4,077,799	4,118,184	4,036,957
Beneficiary certificates	188,442	176,442	191,841
Investment securities in foreign currency	2,140,878	1,521,545	1,428,171
Others	719,237	719,106	719,234
Total in 2001	W 7,224,299	W 6,603,310	W 6,535,082
Total in 2000	W 4,972,023	W 4,684,313	W 4,549,128

Investments in debt securities held-to-maturity of the Bank at December 31, 2001 and 2000 comprise the following (in millions of Won):

	Par Value	Acquisition Cost	Book Value
Government and public bonds	W 2,764,362	W 2,756,469	W 2,754,175
Corporate Bond	865,613	653,905	858,008
Investment securities in foreign currency	1,021,909	1,018,688	1,016,032
Others	115,384	115,366	115,367
Total in 2001	W 4,767,268	W 4,544,428	W 4,743,582
Total in 2000	W 4,293,497	W 4,275,751	W 4,274,382

Investment securities denominated in foreign currency of the Bank at December 31, 2001 and 2000 comprise the following:

Foreign Currency (in thousands)				Millions of Won	
2001		2000		2001	2000
Securities available-for-sale					
USD	806,460	USD	351,969	W 1,069,448	W 443,375
JPY	32,448,921	JPY	274,689	327,539	3,025
EUR	7,699	EUR	-	9,028	-
DEM	33,021	DEM	9,901	19,797	6,010
SGD	2,549	SGD	-	1,829	-
CHF	669	CHF	2,450	530	1,916
BEF	-	BEF	744	-	22
				W 1,428,171	W 454,348
Securities held-to-maturity					
JPY	16,059,582	JPY	12,212,413	W 162,106	W 134,522
USD	643,938	USD	699,064	853,926	880,612
CHF	-	CHF	1,125	-	880
				W 1,016,032	W 1,016,014

Notes to Consolidated Financial Statements

December 31, 2001 and 2000

7. Loans:

Loans at December 31, 2001 and 2000 comprise the following (in millions of Won):

	Millions of Won	
	2001	2000
Loans in Won	W 17,888,738	W 23,343,473
Loans in foreign currency	18,508,587	19,077,862
Notes purchased	4,340	1,205,496
Bills purchased	3,530,515	2,651,286
Advances for customers	334,441	591,586
Bonds purchased under repurchase agreements	-	209,376
Call loans	2,104,998	1,001,342
Domestic import usance bills	889,251	1,967,048
Debentures accepted by private subscription	6,326,006	2,666,741
Others	1,571,145	2,949,523
	51,158,021	55,663,733
Less: Provision for possible loan losses	(2,001,280)	(3,409,680)
Present value discount account	(333,838)	(433,333)
	W 48,822,903	W 51,820,720

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

	The Bank		Subsidiaries		Total	
	2001	2000	2001	2000	2001	2000
Loans in Won						
Loans for working capital	W 6,844,746	W 9,144,539	W 271,197	W 111,671	W 7,115,943	W 9,256,210
Loans for facilities	10,611,883	14,305,997	245,370	251,929	10,857,253	14,557,926
Inter-company loans	(84,458)	(470,663)	-	-	(84,458)	(470,663)
	W 17,372,171	W 22,979,873	W 516,567	W 363,600	W 17,888,738	W 23,343,473
Loans in foreign currency						
Loans for working capital	W 2,910,083	W 2,999,912	W 620,046	W 340,587	W 3,530,129	W 3,340,499
Loans for facilities	15,324,298	16,482,161	238,784	381,345	15,563,082	16,863,506
Inter-company loans	(578,652)	(1,049,003)	(5,972)	(77,140)	(584,624)	(1,126,143)
	W 17,655,729	W 18,433,070	W 852,858	W 644,792	W 18,508,587	W 19,077,862

The maturity of loans in Won and foreign currency of the Bank at December 31, 2001 are as follows (in millions of Won):

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
2002	W 4,524,664	W 1,618,749	W 1,672,199	W 2,214,538	W 10,030,150
2003	338,180	1,871,283	704,076	2,492,358	5,405,897
2004	421,626	2,002,345	236,352	2,122,202	4,782,525
2005	690,392	1,885,373	120,207	2,859,025	5,554,997
Thereafter	869,884	3,234,133	177,249	5,636,175	9,917,441
	W 6,844,746	W 10,611,883	W 2,910,083	W 15,324,298	W 35,691,010

(*) Inter company loans amounting to W663,110 million are included.

The Bank's restructured loans for 2001 and 2000 due to court receivership, court mediation or other financial restructuring process are as follows:

	Millions of Won	
	2001	2000
Changes in contractual terms	W 879,102	W 2,016,184
Exemption	5,818	-
Conversion to equity investment	63,647	742,467
Conversion to convertible bonds	501,247	117,031
Total	W 1,449,814	W 2,875,682

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, 2001 to Daewoo group companies and customers under workout programs are as follows:

	Millions of Won
Loans	W 6,553,693
Provision for possible loss	1,503,857

8. Premises and Equipment:

Premises and equipment at December 31, 2001 and 2000 comprise the following:

	Millions of Won							
	Acquisition Cost or Revaluation		Accumulated Depreciation		Net Book Value			
	2001	2000	2001	2000	2001	2000	2001	2000
Land	W 1,042,265	W 1,124,309	W -	W -	W 1,042,265	W 1,124,309		
Buildings and structures	1,278,556	1,140,662	145,898	125,989	1,132,658	1,014,673		
Machinery	340,617	483,129	190,415	167,239	150,202	315,890		
Construction in progress	109,922	240,785	-	-	109,922	240,785		
Others	513,100	354,208	297,176	275,278	215,924	78,930		
	W 3,284,460	W 3,343,093	W 633,489	W 568,506	W 2,650,971	W 2,774,587		

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, 2001, the government-posted prices of domestic land of the Bank and its subsidiaries are W694,063 million.

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.

Notes to Consolidated Financial Statements

December 31, 2001 and 2000

9. Deposits:

Deposits at December 31, 2001 and 2000 comprise the following:

	Annual Interest Rate (%)		Millions of Won	
	2001.12.31		2001	2000
Won currency deposits:				
Demand deposits	0.0 - 1.0	W	216,610	W 130,907
Time & savings deposits	0.0 - 11.5		7,894,962	7,497,851
			8,111,572	7,628,758
Foreign currency deposits:				
Checking deposits	-		63,716	95,322
Passbook deposits	0.0 - 0.9		406,179	31,114
Time deposits	0.1 - 7.4		1,199,238	312,117
Temporary deposits	-		993	1,109
Others	-		165,676	2,776
			1,835,802	442,438
Negotiable certificates of deposits	0.0 - 6.7		2,250,394	1,388,975
			W 12,197,768	W 9,460,171

10. Borrowings:

Borrowings at December 31, 2001 and 2000 comprise the following:

	Annual Interest Rate (%)		Millions of Won	
	2001.12.31		2001	2000
Won currency borrowings				
Borrowings from Korean Government	2.0 - 4.5	W	2,869,910	W 2,854,239
Others	0 - 10.95		1,980,013	2,674,285
			4,849,923	5,528,524
Foreign currency borrowings				
Borrowings from Korean Government	6M Libor		10,250,864	12,604,883
Off-shore borrowings	2.3 - 5.6		1,872,762	1,346,210
Others	0.2 - 6.0		4,302,118	4,467,926
			16,425,744	18,419,019
			W 21,275,667	W 23,947,543

The subordinated debts included in borrowings from Korean government at December 31, 2001 and 2000 comprise the following:

Type	Annual Interest Rate (%)		Millions of Won	
	2001.12.31		2001	2000
Government fund	4.0 - 4.5	W	2,448,301	W 2,628,444
AID relending facilities	2.0		371	439
ADB relending facilities	6M Libor		3,988,168	3,786,983
IBRD relending facilities	6M Libor		6,262,696	8,817,900
			W 12,699,536	W 15,233,766

The maturity of borrowings at December 31, 2001 are as follows (in millions of Won):

Matured in	Borrowings in Won		Borrowings in foreign currency	Total
2002	W	761,861	W 4,049,925	W 4,811,786
2003		455,033	1,702,926	2,157,959
2004		621,766	3,969,859	4,591,625
2005		595,348	2,411,726	3,007,074
2006		612,602	996,594	1,609,196
Thereafter		1,803,313	3,294,714	5,098,027
	W	4,849,923	W 16,425,744	W 21,275,667

11. Debentures:

Debentures at December 31, 2001 and 2000 comprise the following:

Type	Annual Interest Rate (%)	Millions of Won	
	2001.12.31	2001	2000
Industrial finance bonds ("IFB") in Won	1.0 - 12.4	W 24,107,214	W 25,091,658
IFB in foreign currency	1.2 - 8.6	9,464,951	9,894,904
Off-shore IFB in foreign currency	1.7 - 9.0	2,649,953	3,492,038
Others	2.0 - 12.4	1,335,248	860,057
		37,557,366	39,338,657
Premiums on Debentures		4,571	594
Discounts on Debentures		(83,412)	(170,149)
		W 37,478,525	W 39,169,102

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 are 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, 2001 and 2000 are W14,910 million and W27,801 million, respectively.

The Bank acquired W369,260 million and W261,263 million of industrial finance bonds as of December 31, 2001 and 2000, respectively. The treasury bonds are deducted from industrial finance bonds.

The maturity of debentures at December 31, 2001 is as follows (in millions of Won):

Matured on or before December 31	Debentures in Won	Debentures in foreign currency	Total
2002	W 12,223,909	W 4,607,504	W 16,831,413
2003	5,544,179	972,591	6,516,770
2004	4,070,952	2,667,471	6,738,423
2005	2,624,423	849,447	3,473,870
2006	824,911	3,003,367	3,828,278
Thereafter	106,480	62,132	168,612
	W 25,394,854	W 12,162,512	W 37,557,366

Notes to Consolidated Financial Statements

December 31, 2001 and 2000

12. Other Liabilities:

Other liabilities at December 31, 2001 and 2000 comprise the following:

	Millions of Won	
	2001	2000
Withholding taxes	W 20,411	W 25,964
Deferred gain from foreign exchange	38,243	23,974
Provision for possible losses from disposed loans	227,194	695,607
Advance received on IFB	6,249	38,114
Others	229,291	1,031,145
	W 521,388	W 1,814,804

13. Guarantees Outstanding:

The Bank provides guarantees for its customers. Guarantees outstanding and the related provision for possible loss as of December 31, 2001 and 2000 are as follows (in millions of Won):

	Guarantees Amount		Provision for Possible Loss		Provision
	2001	2000	2001	2000	Ratio (%)
Acceptances	W 4,443,871	W 4,582,257	W 56,733	W 158,799	1.43
Guarantees on local borrowings	1,495,756	2,557,155	55,205	116,113	3.69
Guarantees on indebtedness in foreign currency	4,109,326	3,644,740	75,730	136,342	1.84
Letters of guarantee for importers	34,330	56,727	1,262	1,008	3.68
	W 10,083,283	W 10,840,879	W 188,930	W 412,262	1.87

14. Commitments and Contingencies:

As of December 31, 2001, the Bank has outstanding commitments related to commercial letters of credit and other guarantees (excluding the guarantees described in Note 13) amounting to W1,843,559 million.

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 2001, the Bank recognized losses from the settlement of such loans in the amount of W1,187 million. As of December 31, 2001, the Bank recorded a provision for possible losses from disposition of unsettled loans amounting to W220,677 as other liabilities (see Note 12).

Loans sold off to KDB First Securitization Specialty Co., Ltd. and others in accordance with Asset Securitization Plan at December 31, 2001 comprise the following:

	Disposal Date	Book Value	Selling Price	Retained Subordinated Debt Securities	Collateral(*)
KDB First SPC	June 8, 2000	W 950,627	W 600,000	W 201,800	W 120,000
KDB Second SPC	November 8, 2000	914,764	423,600	143,600	80,000
KDB Third SPC	September 20, 2001	1,793,546	949,900	349,900	185,000
KDB Fifth SPC	December 13, 2001	765,358	528,400	238,400	100,000
		W 4,424,295	W 2,501,900	W 933,700	W 485,000

(*) Investment securities are provided as collateral.

According to the contracts on asset transfer stipulating warranty for the assets above, 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 flow schedule.

The Bank sold off W3,120,559 million and W3,935,457 million of loans in 2001 and 2000 to KDB LONESTAR CRC and Korea Asset Management Corporation. The Bank recorded gains and losses from the disposition of the loans amounting to W497,109 million and W1,571,413 million in 2001, respectively, and W82,077 million and W1,905,302 million in 2000, respectively.

The Bank has provided credit lines to several securitization specialty companies in an amount of W6,927,837 million, of which W99,910 million was withdrawn as of December 31, 2001.

The Bank received 377,852 shares of Samsung Life Insurance in 2000 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 at 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.

However, Samsung Group companies have not performed the duty to compensate the short fall up to the balance sheet date. The collectible amount is to be determined through a judicial procedure against the Samsung Group companies. Considering the uncertainty of the net realizable amount, the Bank in 2001 devalued by 50 percent of the value initially assessed, W132,248 million.

As noted in Note 7, the Bank has outstanding loans to Daewoo Group Companies and other workout companies. The actual losses from these loans may differ from management's current estimation.

Beginning in 1997, Korea and other countries in the Asia Pacific region experienced a severe contraction in substantially all aspects of their economies. This situation is commonly referred to as the 1997 Asian financial crisis. In response to this situation, the Korean government and the private sector began implementing structural reforms to historical business practices.

The Korean economy continues to experience difficulties, particularly in the areas of restructuring private enterprises and reforming the banking industry. The Korean government continues to apply pressure to Korean companies to restructure into more efficient and profitable firms. The banking industry is currently undergoing consolidation and uncertainty exists with regard to the continued availability of financing. The Bank may be either directly or indirectly affected by the situation described above.

The Bank provided loans of W6,489,516 million and securities of W644,700 million on December 31, 2001 for companies under workout program, court receivership, court mediation and other restructuring process including Daewoo Motors Corp. The Bank provided W1,502,951 million for possible loan losses and W209,362 million for present value discount with regard to the above loans. Actual results of the credit loss from the loans to the customers could differ from the provisions reserved.

15. 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:

	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 5,679,599	W 5,679,599	W -	W (81,454)	W (81,454)	W -	W (16,079)
Futures	16,178	16,178	-	316	316	-	-
Swap	15,827,030	13,103,610	2,723,420	(240,233)	272,228	(512,461)	(514,834)
Call options	545,959	545,959	-	8,153	8,153	-	9,383
Put options	666,984	666,984	-	(6,959)	(6,959)	-	(11,213)
	22,735,750	20,012,330	2,723,420	(320,177)	192,284	(512,461)	(532,743)
Interest rate							
Futures	9,299,798	9,299,798	-	(2,251)	(2,251)	-	-
Swap	26,039,151	24,664,568	1,374,583	97,946	(98,547)	196,493	292,385
Call options	50,000	50,000	-	682	682	-	1,633
Put options	100,000	100,000	-	(735)	(735)	-	(3,265)
	35,488,949	34,114,366	1,374,583	95,642	(100,851)	196,493	290,753
Stock price index							
Futures	432	432	-	1	1	-	-
Call options	6,400	6,400	-	(8)	(8)	-	128
Put options	13,680	13,680	-	(13)	(13)	-	(110)
	20,512	20,512	-	(20)	(20)	-	18
	W58,245,211	W54,147,208	W 4,098,003	W (224,555)	W 91,413	W (315,968)	W (241,972)

The Bank adopted the revised accounting standards for derivative financial instruments for hedging purposes from 2000 (see Note 2).

16. Paid-in Capital:

The Bank increased and decreased its paid-in capital several times including a W3,000,000 million investment in kind of June 20, 2001, W50,000 million cash injection at December 29, 2001, and 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, 2001 is W7,161,861 million.

17. Capital Surplus:

Capital Reserves -

In accordance with a resolution of the board of directors, the Bank decreased its paid-in capital used to offset accumulated deficit and the capital reserve of the Bank as of December 31, 2001 are as follows (Millions of Won):

Resolution of Board of Directors	Decrease of Paid in Capital	Offset Accumulated Deficit	Capital Reserve
October 27, 1998	W 4,218,800	W 4,184,046	W 34,754
November 22, 2000	959,800	950,181	9,619
	W 5,178,600	W 5,134,227	W 44,373

In 2001, negative capital surplus due to the changes of ownership ratio are debited to consolidate retained earnings.

18. Retained Earnings:

Retained earnings as of December 31, 2001 and 2000 comprise the following:

	Millions of Won	
	2001	2000
Legal reserve	W 109,428	W -
Others	(184,905)	(36,856)
	W (75,477)	W (36,856)

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. Offset accumulated deficit with the approval of the government since 1997 are as follow:

Year	Approval Date	Accounts	Millions of Won
1997	1998.2.19	Legal reserve	W 54,594
1998	1999.2.27	Legal reserve	W 9,522
		Revalued surplus	679,486
		Capital reserve	4,200,438
			W 4,889,446
2000	2001.2.28	Legal reserve	W 456,997
		Capital reserve	950,181
			W 1,407,178

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, 2000. Retained earnings as of the beginning of 2001 and 2000 have been changed for the effect of application of new methods and the valuation of investment by equity method as follows (Millions of Won):

	Millions of Won	
	2001	2000
Losses on valuation of derivative financial instruments	W -	W (35,250)
Gains on valuation of investment by equity method	472	26,504
	W 472	W (8,746)

19. Capital adjustments:

Capital adjustments at December 31, 2001 and 2000 comprise the following:

	Millions of Won	
	2001	2000
Valuation gain on investment securities	W (479,192)	W (250,586)
The Bank's shares of capital adjustments of subsidiaries	158,750	(38,144)
	W (320,442)	W (288,730)

20. Other non-interest revenue (expense):

Other non-interest revenue (expense) for the year ended December 31, 2001 comprises the following:

		Millions of Won
Other non-interest revenue		
Revenue from operating lease	W	218,517
Others		144,299
	W	362,816
Other non-interest expense		
Depreciation of operating lease	W	75,533
Amortization of deferred loss on foreign exchange translation		47,601
Others		171,426
	W	294,560

Notes to Consolidated Financial Statements

December 31, 2001 and 2000

21. General and Administrative Expenses:

General and administrative expenses for the years ended at December 31, 2001 and 2000 comprise the following:

	Millions of Won	
	2001	2000
Salaries	W 241,470	W 184,355
Retirement allowance	29,910	42,363
Welfare expenses	111,156	73,130
Depreciation	113,180	50,800
Rent	27,537	17,024
Fees	97,121	25,955
Others	249,043	157,229
	W 869,417	W 550,856

22. Income Tax Expenses:

The statutory income tax rate applicable to the Bank, including resident tax surcharges, is approximately 30.8%. However, there was no income taxes payable except for special additional taxes due to operating loss carried forward.

Income tax expense for the years ended December 31, 2001 and 2000 comprises the following:

	Millions of Won	
	2001	2000
Income taxes payable (special additional tax)	W 706	W 13
Changes in deferred income taxes	5,434	-
Income taxes for overseas branches	821	614
	W 6,961	W 627

Considering future deductibility of accumulated deficit and temporary differences from future taxable income, the Bank recorded W146,709 million out of total future tax benefits of W1,818,892 million.

23. 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, 2001, which have been eliminated in the accompanying consolidated financial statements, are summarized as follows:

	Millions of Won	
	2001	2000
Intercompany interest	W 105,951	W 177,956
Intercompany loans / borrowings	766,874	1,633,356
Intercompany deposits	1,029,101	262,068
Others	404,144	365,066

24. Industry Segment Reporting:

The consolidated balance sheets summarized by the industry segment at December 31, 2001 and 2000 are as follows:

	Finance & Insurance		Non Finance & Insurance	
	2001	2000	2001	2000
ASSETS				
Cash an cash equivalents	W 4,158,261	W 6,479,023	W 101,126	W 164,772
Trading securities	2,722,014	3,659,685	327	296
Investment securities	24,086,516	17,278,620	74,797	76,112
Loans	48,970,222	51,888,828	234,809	95,261
Premises and equipment	1,164,312	1,311,337	1,597,670	1,566,661
Others	6,940,078	6,835,435	1,337,018	1,352,999
Total assets	W 88,041,403	W 87,452,928	W 3,345,747	W 3,256,101
LIABILITIES AND EQUITIES				
Deposits	W 12,290,788	W 9,522,404	W -	W -
Borrowings	23,317,308	25,903,066	584,153	969,208
Debentures	37,408,579	38,942,799	69,947	231,752
Other liabilities	6,783,971	8,168,445	1,900,290	1,417,018
Total liabilities	79,800,646	82,536,714	2,554,390	2,617,978
Equity				
Paid-in capital	7,161,861	4,111,861	991,954	991,954
Consolidated capital surplus	16	47,313	-	-
Capital surplus	(75,642)	(36,857)	181,462	20,710
Capital adjustment	(319,706)	(288,730)	(396,483)	(390,051)
Minority interests	1,474,228	1,082,627	14,424	15,510
Total equity	8,240,757	4,916,214	791,357	638,123
Total liabilities and equities	W 88,041,403	W 87,452,928	W 3,345,747	W 3,256,101

The consolidated statement of operations summarized by the industry segment for the years ended December 31, 2001 and 2000 are as follows:

	Finance & Insurance		Non Finance & Insurance	
	2001	2000	2001	2000
Interest income	W 4,852,307	W 5,745,903	W 41,602	W -
Interest expense	4,661,859	5,705,917	128,700	-
Net interest income(expense)	190,448	39,986	(87,098)	-
Non-interest revenue	6,543,890	6,140,628	3,172,376	-
Non-interest expense	5,848,666	6,236,720	2,869,700	-
Operating income(loss)	885,672	(56,106)	215,578	-
Non-operating income(expense), net	(557,228)	(1,752,973)	17,016	-
Extraordinary income(loss)	20,659	260,748	-	-
Income(loss) before income taxes	349,103	(1,548,331)	232,594	-
Income taxes	18,076	19,209	71,155	-
Net income(loss) before minority interest in earnings of consolidated subsidiaries	331,027	(1,567,540)	161,439	-
Minority interest in earnings of consolidated subsidiaries, net	(211,629)	167,558	(687)	-
Net income(loss)	W 119,398	W(1,399,982)	W 160,752	W -