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The KDB Vision

“World-class Investment Bank”

Banking in the 21st Century will be as information-intensive and vital to national competitiveness as any hi-tech industry.

In this era of global competition, to continue its locomotive role in national industry development and to lead Korea's financial industry in globalization, we have articulated our vision to become a world-class investment bank.

Having overcome the most turbulent period in Korea's recent economic history, we are clear as to the direction we should take and feel more confident of our ability to get there on schedule.

Specifically, we envision a world-class investment bank that

- leads the Korean financial industry in globalization,
- practices a universal banking system,
- supports the strategic industries of the 21st Century,
- plays a leadership role in international finance, and
- develops and supports North Korea-related investment.

GOVERNOR'S MESSAGE



On the threshold of the new millennium, 1999 was truly a significant year for the Korean economy, heralding a rebound from two years of economic hardship in the nation. Major economic indicators signalled clear signs of recovery. The real GDP showed 10.7 percent increase against a decline of 6.7 percent in the previous year, boosted by recoveries in private consumption, business investment, and exports. Alongside this economic rebound, it is noteworthy that comprehensive reform, in accordance with market principles, was carried out in the financial, corporate, and public sectors of the economy.

Against this backdrop, KDB made significant progress last year with its strategic agenda. The goals were set at the start of 1999 to support the nation's economic recovery, reinforce the Bank's investment

banking operations, put its financial performance back on a profitable track, and to realize its ultimate goal of a clean balance sheet. Backed by the devoted efforts of our staff, the Bank was able to realize a net profit of ₩212 billion for the year, after experiencing net losses in the previous two years.

In 1999, KDB provided a total of ₩13.6 trillion in new loans and investments. The Bank concentrated its resources on facilitating corporate restructuring, funding corporate investments which contribute to improved productivity, supporting promising SMEs including venture businesses, and on stimulating national infrastructure development. In the area of investment banking, momentum accelerated throughout 1999 with excellent performance in lead-managing and underwriting corporate, and government bond issues and direct equity investments in venture businesses and SMEs.

Notwithstanding some instability in the domestic capital markets and hurdles in accessing the international capital markets due to Korea's sovereign credit ratings, KDB was able to meet the ever-growing demand for funds by diversifying its funding sources and developing new financial instruments. The Bank raised ₩16.9 trillion in domestic and overseas markets in 1999. The largest source of domestic funds continued to be the issuance of Won denominated Industrial Finance Bonds, amounting to ₩12.4 trillion won.

On the international front, KDB solidified its role as Korea's most esteemed link to the international capital markets. Having regained its "investment grade" credit rating during the first quarter, and with its recognition firmly rooted in international financial circles, KDB orchestrated a successful US\$1 billion global bond issue, becoming the first Korean financial institution since the eruption of the currency crisis to re-enter the overseas capital markets. The Bank also established important benchmarks in most major markets by successfully tapping the Samurai Bond, 144A bond, and Euro MTNs markets, as well as securing loans from bilateral and supernational sources. Thanks to these outstanding performances, KDB was selected as the "Best Asian Borrower" by *Euromoney* in June, 1999.

1999 was also a year of internal restructuring. KDB undertook a number of far reaching measures to streamline the Bank's organization to improve efficiency and strengthen its investment banking skills. In addition, strategic measures were taken for effectively dealing with non-performing loans and the restructuring of corporate clients.

In order to remain competitive in the rapidly changing financial industry, KDB continued to take initiatives to reform its management and operation systems in such areas as credit approval process, risk management, and adopting global standards. In keeping pace with the rapid trends of the information revolution, strategic priorities

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were set for enhancing the Bank's information infrastructure as well.

Backed up by new capital injections from the government, KDB was able to raise its paid-in capital to ₩4,972 billion, an increase of ₩800 billion over the previous year. With this enlarged capital base and our efforts to reduce non-performing asset levels, KDB's BIS ratio reached 17.59 percent as of the end of 1999, up from 11.32 percent in the previous year. In this regard, KDB is a good example of the successful restructuring which is occurring in the financial sector in Korea.

The year 2000 marks a critical period of transition for the Korean economy and KDB. How we cope with and adapt to the changing tides of the economic environment carries far reaching implications for this year and beyond. For the financial sector, recapitalization and cleaned-up balance sheets are not enough. Fundamental changes are required to respond to such challenging developments as global competition, securitization, universal banking, and internet banking. For the corporate sector, it is now time to put into practice the true meaning of creating value and raising efficiency after instilling financial soundness in the past two years.

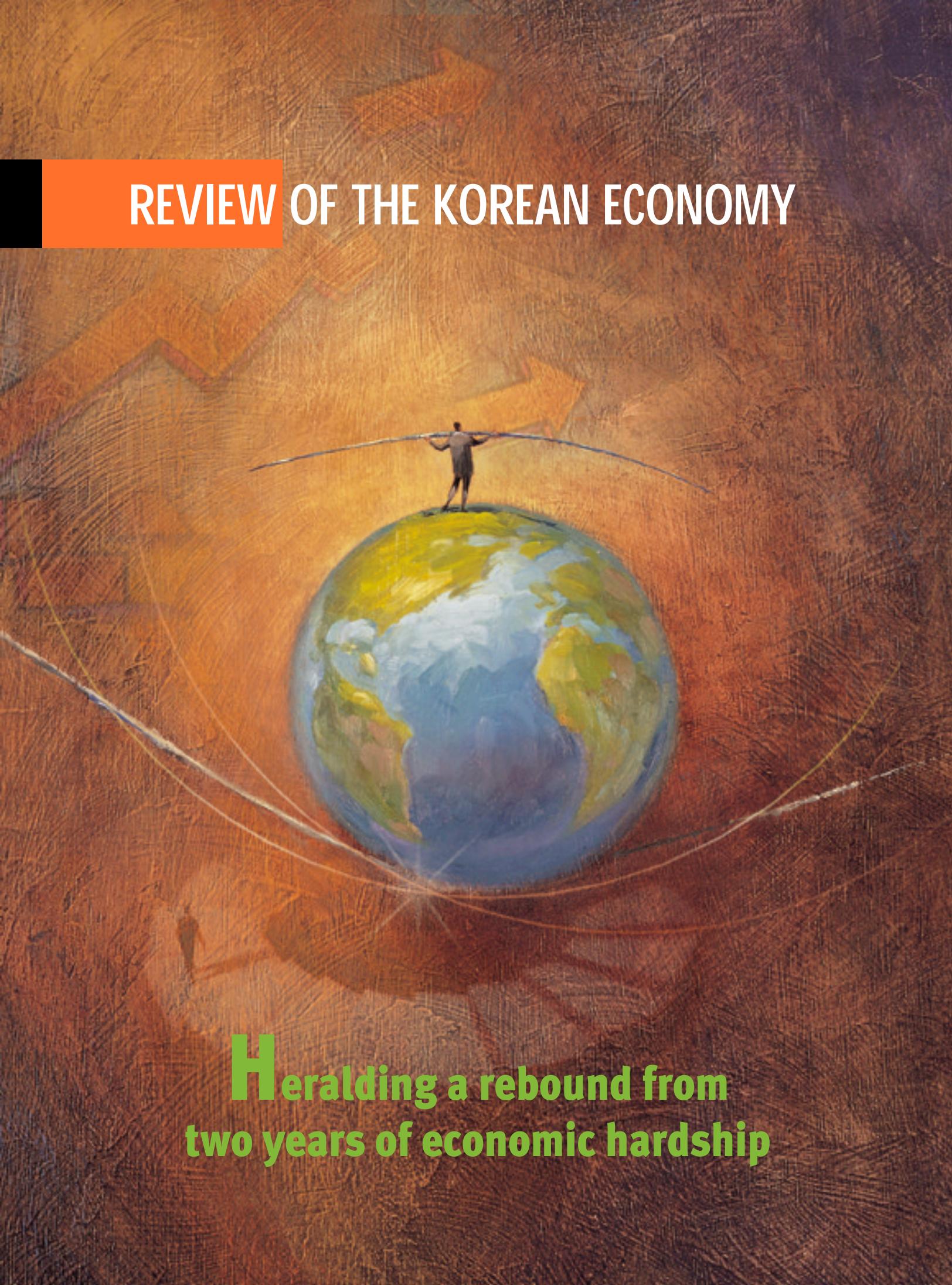
For KDB, this year will be the second phase of restructuring in preparation for becoming a first class investment bank. Our priorities for 2000 are clear : to become a prime international investment bank, to strengthen our profit-oriented operational performance based on sound risk management, to effectively deal with non-performing loans, and to stay focused on adjusting our business paradigm in response to the rapidly changing financial environment. To serve these ends, the Bank will continue to innovate its business operation systems, develop its human resources, and establish a knowledge-based management system.

Finally, we would like to extend our sincere gratitude to all our valued clients and associates for their steadfast support and kind cooperation which we trust will continue for years to come.



Governor **Keun-Young Lee**

REVIEW OF THE KOREAN ECONOMY



Heralding a rebound from
two years of economic hardship

R EVIEW OF THE KOREAN ECONOMY



Economic Performance

Last year, the Korean economy regained its robust growth, registering 10.7 percent GDP growth thanks to brisk exports and rising corporate facility investment. After pulling out of the foreign exchange crisis, the economy has been on a steep upward trend, far exceeding original growth forecasts. The faster than expected recovery of the Korean economy was largely attributed to the interest rate policy stance of favoring lower call market interest rates, along with the positive evaluation on structural reforms from the standpoint of overseas investors, the stabilization of the domestic foreign exchange market, and favorable changes in the overseas environment such as the economic recovery of ASEAN and a strong Japanese yen.

Looking at the last year's growth by component of expenditure, private consumption, which decreased sharply owing to the aftermath of the restructuring and severe recession in 1998, has shown rapid recovery since the beginning of the year. Household consumption increased at a brisk pace, thanks to the decrease in unemployment and the rise of household incomes. Government expenditure declined due to the decrease in personnel costs, brought about by the attrition of staff, and reduced spending on materials.

Facility investment showed a robust recovery, a 38.0 percent increase, compared with 1998, when it decreased by 38.8 percent in corporations' efforts to reduce their debt-equity ratios and to adjust their facility surplus to an optimum level. The significant increase in facility investment was largely owing to the resurgence of business investment confidence elicited by the speed of the recovery and the downward trend of interest rates.

Construction investment in 1999, however, contracted by 10.3 percent. The rate of increase of infrastructure investment fell because of the lackluster pace of construction of roads and harbor facilities. Building construction investment shrank sharply, dragged down by the sluggishness of both office and housing construction.

Exports last year grew 8.6 percent on customs clearance basis compared with 1998 thanks to good export performances in major export items, including semiconductors, computers, telecommunication facilities and automobiles, and the continuing growth in the US economy. In particular, since June last year, exports registered a double-digit increase rate thanks to the rapid rise in the yen value, and the improving Southeast Asian market. Imports last year grew 28.4 percent with increased domestic demand and the oil price rise. The trade account surplus, which posted US\$39 billion in 1998, greatly declined last year owing to a more rapid expansion in imports than in exports. The trade surplus in 1999 registered US\$23.9

billion, while the current account surplus amounted to US\$25 billion.

Despite the rapid economic recovery, the consumer price index posted its lowest increase rate of 0.8 percent last year, due to the Korean Won's rise against the US dollar, the government's strong inflation-containment policy, and increased competition among discount retailers.

Producer prices followed a downward trend in 1999, falling 2.1 percent on average due to the won appreciation and wage rate stabilization. The employment situation improved notably during the third quarter. The unemployment rate which had soared continuously since the IMF crisis and peaked in February 1999, registering 8.6 percent, moved downward after March thanks to economic recovery and the government employment policy.

Thus, the unemployment rate posted 4.8 percent at the end of 1999 after registering 4.4 percent in November 1999, its lowest rate since January 1998. However, the unemployment rate is still more than twice the level of the pre-IMF unemployment rate.

Thanks to continued reform efforts made by the financial and corporate sectors, accumulating foreign exchange reserves, and the overall economic recovery, Korea's sovereign rating was restored to investment grade level by Fitch-IBCA, S&P, and Moody's between January and February 1999. Furthermore, S&P raised Korea's sovereign rating from BBB-, the lowest level investment grade, to BBB in November 1999, while Moody's upgraded Korea's sovereign rating from Baa3 to Baa2 in December 1999.

Financial Markets

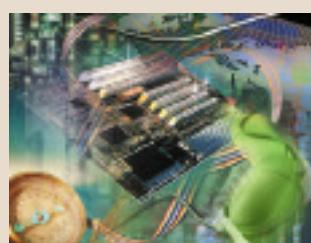
The stability of financial markets since the fourth quarter of 1998 continued last year, apart from the market unrest triggered by Daewoo's troubles. The restoration of stability in financial markets contributed to the recovery of the real economy along with the bullish stock market on the basis of lower interest rates.

Yields on three-year corporate bonds dropped from 11.9 percent at the end of the third quarter to 8.0 percent at the end of fourth quarter of 1998. From the start of 1999, this downward trend continued thanks to ample market liquidity. However, since the third quarter of last year, the market rates displayed an upward trend, mainly due to widespread

financial market apprehensions following the announcement of the Daewoo Group's restructuring plan. As a result of this, yields on three - year corporate bonds rose to 9.95 percent at the end of the third quarter of 1999, a jump from their 7.96 percent at the end of the second quarter. Long term market rates fell back in response to the purchase of funds by the Bond-Market-Stabilization-Fund. However, the rates edged back up again owing to the market's weakened demand for bonds brought about by the withdrawal of deposits from investment trust companies and the rapid economic upswing, which brought expectations of higher interest rates. At the end of December, the rate registered 9.95 percent.

The won/dollar exchange rate showed an appreciating trend due to the inflow of funds for the purchase of Korean corporate assets by foreign companies and the current account surplus. During the first half of the year, the exchange rate fluctuated in the range of 1,100~1,250 won per dollar. Entering the third quarter of the year, the rate showed movements over 1,200 won per dollar. But by the end of the year, the exchange rate stood at 1,145.4 won per dollar.

Korea's foreign reserves increased to US\$ 74 billion at the end of 1999, an increase of US\$ 25.5 billion from year-end 1998. Stock prices showed an upward trend as domestic and foreign investors bought stocks on lower market interest rates and optimistic expectations of economic growth since the first quarter of last year.



Last year, the Korean economy regained its robust growth, registering 10.7 percent GDP growth thanks to brisk exports and rising corporate facility investment.



KDB'S STRATEGIES IN A CHALLENGING ENVIRONMENT



Strengthening Risk Management

 In 1999 the Bank focused on establishing an organizational infrastructure for strengthening risk management.

The Asset and Liability Management Committee (ALCO), chaired by the Governor, was bolstered in its transparency and decision making function with the addition of two more non-standing directors from outside the Bank. A Risk Management Center (RMC) was established to oversee all risk-related operations, thereby completing a system that measures and manages all credit risk, market risk, interest rate risk and liquidity risk.

In particular, the Bank introduced an index-based risk management system that evaluates financial risks and sets guidelines accordingly. All risks measured by RMC are reported to the monthly meeting of ALCO which then makes all risk-related decisions based on the predictions of the economy, industry and financial markets.



Reengineering Loan Business Process

To bring efficiencies and transparency into its loan business process, the Bank has created bodies and implemented systems in the whole credit-related process ranging from marketing to monitoring, as follows:

Credit Risk Management Department is a fully independent unit responsible for setting credit policies and managing all credit risks associated with banking operations. Within this department an "Early Warning Team" was set up to pursue a more effective monitoring of loans. The Team supports the Bank's credit officers' loan reviewing activities, and identifies prospective problem loans.

As for new credit-related systems, the Bank has introduced the so-called "Four-eye Principle" and the CO(Credit Officer)/RM(Relationship Manager) system. The former is a decision checking system based on the separation of credit analysis and customer management, and the latter is to enhance the accuracy of credit evaluation.

Moreover, the Corporate Banking Division was reorganized into Corporate Banking Division and Small & Medium Corporate Banking Division. The reorganization was done to define customer groups based on client risk profiles and to effectively respond to conflicting risks and needs. In addition, the Bank established the Industry Technology Department which is responsible for more



accurate industrial risk analysis and technology evaluation.

Also created is a Credit Review Committee which is the top credit decision making body of the Bank. By creating the Committee, the Bank has unified credit decision making procedures above the division level.

Restructuring Internal Organization

In 1999, the Bank's internal organization went through an extensive restructuring, and the restructuring was carried out

along the following considerations:

- adoption of a division-based operation system
- clear separation of operational functions from back-office functions.
- bolstering of core back-office functions

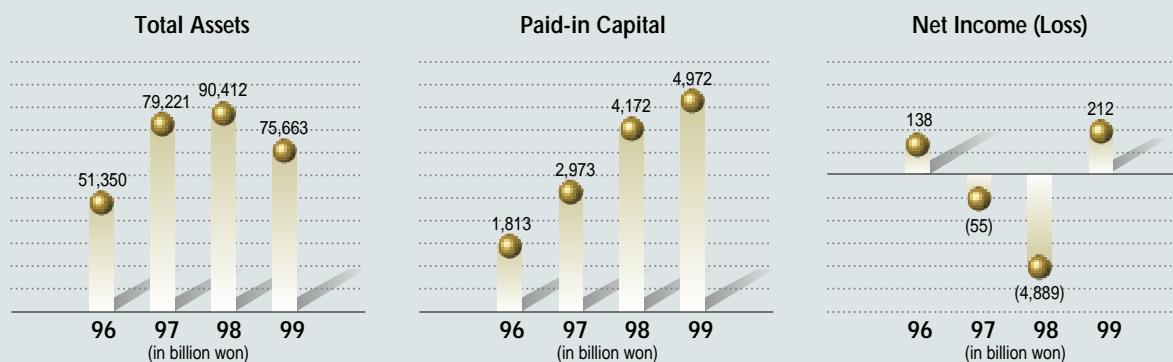
The core back-office functions that were given special attention were business strategy formulation, funding, risk management and work-out management.

In order to cope with the fast-changing market environment, the Bank newly created the Management Strategy and Funds Raising Departments within the Planning Division.

To make its credit evaluation process more transparent and efficient, the Bank formed a Credit Officers' Section within the Risk Management Division and a Credit Review Team in the Credit Risk Management Department. In addition, the Bank has consolidated all functions related to the credit evaluation of non-chaebol corporations under the control of the Bank's branches at the Small & Medium Corporate Banking Division.

Foreseeing the increase of mergers and acquisitions among venture firms, the Bank has established another investment banking department, thereby bolstering the investment part of the organization and creating more internal competition in its investment business.

Also created is the Classified Asset Management Division which oversees the business operations of corporate clients in Bank-led work-out programs.



Fostering a Progressive Corporate Culture and Enhancing Knowledge Management

Fostering a corporate culture in line with the KDB vision.
As part of its strategy of becoming a “world-class investment bank”, the Bank has been fostering a corporate culture worthy of its vision.

The Bank envisions all of its staff and employees being able to show independence, take responsibility for their actions and display professionalism in their work. Customer satisfaction will be the ultimate focus of KDB’s corporate culture and the organization will continue to be realigned towards this goal.

In addition, the Bank will continue to develop new channels through which changing customer needs as well as market elements can be effectively monitored.

Enhancing knowledge management

The Bank has set up a knowledge management system through which all banking-related data and information occurring within and without the Bank are compiled and made accessible to all employees. In this regard, the Bank’s web site has been thoroughly updated so as to facilitate its use as a strategic marketing channel.

Moreover, by taking part in the “Action Learning Program” of Knowledge Management run by Arthur Andersen, a highly



regarded management consulting firm, the Bank has probed types of problems it might face in its pursuit of knowledge management as well as ways to address them.

Increasing paid-in capital and improving BIS capital ratio

Increasing paid-in capital

The Bank’s paid-in capital was raised by ₩800 billion to ₩4,972 billion in 1999 through a government capital injection.

Of the amount raised, ₩200 billion was in the form of cash, a half of which was for funding the Bank’s operations and the other half for funding infrastructure-related projects. The other ₩600 billion was in capital stock, intended to enhance asset quality in connection to the Bank’s investment in Korea Investment Trust Company.

A capital injection by government is one of effective ways to raise financial institutions’ BIS capital ratio by which their credibility is measured. Moreover, it is a capitalization method with no hidden cost, which contributes not only to improving profitability but also to restoring financial health.

Improving BIS capital ratio

As of the end of 1999, the Bank’s total capital based on consolidated statements in terms of BIS standards stood at ₩9.6 trillion, 30.3 percent more than the year before. Risk-weighted assets, on the other hand, decreased 16.2 percent to ₩54.3 trillion. As a result, the BIS capital ratio increased 6.27 percent points over the year to 17.59 percent, comfortably exceeding the government-set ratio of 8 percent.

BIS Capital Adequacy Ratio
(in billion won,%)

Category	1999	1998	1997
Capital	9,559	7,338	5,935
- Tier 1 Capital	6,187	4,156	3,376
- Tier 2 Capital	3,372	3,182	2,559
Weighted risk assets	54,332	64,826	65,113
BIS Ratio	17.59%	11.32%	9.12%

REVIEW OF OPERATIONS

**Putting KDB's investment banking
business on a solid foundation**

I N T E R N A T I O N A L O P E R A T I O N S



During 1999, KDB solidified its role as Korea's most esteemed link to the international capital markets.

Having regained its "investment grade" credit rating during the first quarter, and its recognition firmly rooted in international financial circles, KDB orchestrated many successful issues such as global bond, Samurai Bond, 144A bond, and Euro MTNs. The Bank established important benchmarks in most major markets by becoming the first Korean financial institution since the eruption of the currency crisis to re-enter the overseas capital markets.

KDB also made significant strides in international investment banking compared to the previous year, by vigorously participating in international investment projects, extending loans in Korean firms' foreign investments, and resuming its participation in international syndicated loans. The Bank was also more active in its Investor Relations activities to improve foreign investors' sentiment towards KDB by strengthening its capability and function.

Overseas Funding

During 1999, the Bank raised a total of US\$ 2,451 million in the international capital markets, up 169 percent from the previous year.

In April, the Bank successfully issued US\$ 1 billion Global Bonds with a coupon rate of 7.125 percent. The bond issuance was significant in that it reopened the door not only for Korean issuers but also to other major Asian issuers to tap the international debt capital markets which had been closed to new issues following the Asian financial crisis in late 1997.

In November, the Bank, again for the first time for Korean issuers following the financial crisis, successfully issued Samurai Bonds of JPY 50 billion. The Bank increased the issuing amount to JPY 50 billion from the originally targeted JPY 30 billion in response to increased investor demand.

The Bank not only established important benchmarks in the major international capital markets in 1999, but it also took advantage of market opportunities to raise JPY 14.5 billion

through bilateral loans, US\$700 million through 144A issuance and US\$100 million through a Euro-MTN Programme to fulfill funding needs.

In addition, the Bank borrowed US\$1,694 million of public loans from the International Bank for Reconstruction and Development, the Asian Development Bank, the Export-Import Bank of the United States and the Japanese Bank for International Cooperation to support restructuring of the Korean economy hit by the financial crisis in 1997. Thanks to these focused fund-raising activities, the Bank was selected as the "Best Asian Sovereign Borrower" by Euromoney in June and was in a position to prepay outstanding debts of US\$ 2.6 billion, rolled over in 1998 during the financial crisis.

International Investment Banking

After the financial crisis which swept the country at the end of 1997, KDB has restructured itself on its own initiative to achieve its goal of becoming a prime international investment bank in the 21st century by enhancing its competitiveness and productivity.

In spite of the continued slowdown in Korean corporations' foreign investments and the implementation of the workout program on the Daewoo Group, KDB provided its Korean and non-Korean customers with US\$1,789 million in credit support, participating in 90 international investment projects, and recording a sharp increase of 50.1 percent over the previous year.

Loans extension for supporting Korean firms' foreign investments increased 40.2 percent over the amount in 1998, reaching US\$415 million. These favorable results are mainly attributed to the roll over of the maturing loans and to the provision of new loans to support stable operations of Korean corporations' overseas subsidiaries which suffered difficulties in funding in the international markets as a result of the Asian financial crisis.

Furthermore, KDB's other international financing activities also sharply expanded to US\$1,022 million, an increase of 88.9 percent, compared to the previous year. This increase was attributed mainly to US\$507 million of new loans and the

roll-over of maturing loans to commercial banks and merchant banking corporations in Korea and US\$412 million of lease financing including US\$375 million for Korean Air through a loan from the Export-Import Bank of the United States.

KDB's overseas offices participated in 34 international projects of Korean and non-Korean customers by undertaking US\$352 million in 1999, compared with undertaking US\$355 million in 37 projects in the previous year.

Among the above activities, the issuance of guarantees by KDB decreased to US\$85 million from US\$141 million in the previous year because of decreased demand for guarantees by Korean corporations, mainly due to the revised Foreign Exchange Transaction Regulations which set tight limits on Korean corporations' credit limits.

International Treasury

On April 1999, the Korean government enacted the Foreign Exchange Liberalization Act. This process abolished many restrictions and barriers in foreign exchange transactions.

With these changes, KDB proved its excellent capability to analyse the market and manage its FX position. KDB actively paved the way to new areas like Singapore USD/KRW Non-Deliverable Forward Market and Futures and Options Market. Also, KDB played an important role as a market leader in the domestic USD/KRW foreign exchange market with turnover of more than US\$350 billion in 1999.

In the international money market, KDB's trading volume increased to US\$150 billion, a 30.4 percent rise over the previous year. In spite of the nationwide foreign exchange liquidity problem due to the Asian financial crisis, the Bank could enhance its foreign currency liquidity through the



expansion of money market transactions with foreign counterparts.

In bond trading, as an established market leader, KDB employs sophisticated trading strategies in dealing in a variety of bonds. During 1999, the Bank traded US\$1.8 billion in bonds. In addition to being a market leader, the Bank played the role of a market maker in Korean papers and an influential investment institution in Asian papers by posting the prices of its bond holdings on Reuters and Bloomberg.

In the international custody business launched in 1997, the Bank significantly strengthened its capabilities in and commitment to the custody service, not only to help foreign customers invest in Korea but also to support the nationwide efforts to overcome the financial crisis. These activities, along with its creditworthiness, enabled the Bank to offer foreign investors the best custody service for successful investment in the Korean market.

Trade Finance

During the year, KDB continuously strengthened its position in the field of export and import finance. Total import credits amounted to US\$8.4 billion, up 18.4 percent from a year earlier and the volume of negotiated export bills increased by 107 percent to US\$4.0 billion.

Along with the nation's significant growth in import and export volume which increased by 28.4 percent and 8.6 percent respectively, extensive marketing activities were the main contributors for this performance.

Using its strong presence domestically and overseas, the Bank provided its various customers with structured trade financing facilities, including capital goods import finance, agricultural product import finance and domestic bankers acceptance.



Bank Relations

Correspondent Banking

As of the end of 1999, the Bank's correspondent network consisted of 1,026 financial institutions worldwide including 63 depository banks with 22 currencies in major financial centers. The total number decreased compared with that in 1998, reflecting the wave of merger and acquisitions among financial institutions. However, the Bank will continue its efforts to expand its presence worldwide through its correspondent network, which contributes to the reinforcement of international business.

Investor Relations

Recognizing the importance of providing its overseas bond investors with timely and credible information, KDB established an Investor Relations Team at the start of 1999 to eagerly communicate and meet with bond investors around the world. To make information about KDB more readily accessible, the Bank also created an Investor Relations section on its website, supplying updated information about the Bank and its financial performance.

The Bank's efforts in strengthening its relationship with the international credit rating agencies were well rewarded, resulting in the restoration of KDB's credit ratings to investment grade by all of the international rating agencies, including Moody's and S&Ps during the first quarter of 1999. These agencies further upgraded KDB's credit rating to Baa2/BBB in the last quarter of 1999.

Guest Observer Course

KDB hosts the Guest Observer Course(GOC) once a year to introduce KDB and Korea to participants from international financial institutions. Since the Guest Observer Course was first instituted in response to the growing attention on Korea's increasing role in the global economy, it has been one of the most important channels for introducing Korea and KDB to numerous financial institutions around the world. Since its inception in 1968, 1,006 participants from 349 financial institutions have attended the Course.

At the 52nd GOC held in October 1999, 19 guests from leading banks, investment companies, and credit rating agencies enjoyed this unique opportunity to learn about KDB, to observe the resurgence of the Korean economy and to build a new relationship among themselves.

*D*OMESTIC OPERATIONS



*S*In 1999 the total funds supplied by the Bank in loans and investments amounted to ₩13.6 trillion which represents a decline of 30.8 percent from the previous year.

The Bank's domestic operations focus primarily on providing promising SMEs, start-ups, and large corporations with long-term facilities financing and on funding public projects expanding the nation's infrastructure. The Bank also aims to expand investment resources for spurring the development of core technologies of the 21st Century's leading industries as well as rationalizing existing facilities. In addition, to help the domestic export industry become more competitive, the Bank provides the industry with funds for importing facility equipment.

On the other hand, the total funds raised by the Bank in 1999 stood at ₩16.9 trillion. Despite the unfavorable market environment due to the Daewoo crisis and the instability of the investment trust industry, the Bank stepped up its fund-raising efforts through the development of new products, the use of innovative marketing activities aimed at increasing deposits, and the collection of loans and investments.

Loans

Equipment capital loans increased by 22.1 percent over the previous year to ₩4,869 billion. However, the total figure reduces to ₩3,135 billion, a 21.4 percent decrease from 1998, when loans from IBRD and ADB, borrowings from the government, and special purpose funds are excluded. Despite an array of inducements, including interest rate reduction and development of new products, the continuing industry restructuring and the burden of debt reduction forced most businesses to put off their facilities investment plans. Working capital loans, however, remained just above the previous year's level as signs of a recovering economy led to an increase in demand for funds and trade financing.

Reviewing KDB's 1999 loan activities by industrial division, the Bank made ₩4,711 billion in industrial loans to the manufacturing sector, 52.9 percent of the total, while loans to the non-manufacturing sector totaled ₩4,195 billion, 47.1 percent of the total. To further break down the

New Loans and Investments by Industry

(in billion won)

	Loans			Investments	Total
	Equipment Capital	Working Capital	Subtotal		
Agriculture, Forestry & Fishing	-	-	-	-	-
Mining	54.5	419.8	474.3	-	474.3
Manufacturing	1,768.7	2,942.6	4,711.3	1,763.1	6,474.4
Electricity, Gas & Water	1,117.5	3.0	1,120.5	90.0	1,210.5
Construction	63.6	93.6	157.2	4.3	161.5
Wholesale & Retail Trade,	72.1	211.2	283.3	91.9	375.2
Restaurants & Hotels					
Transport, Storage & Communication	294.7	66.1	360.8	14.5	375.3
Financial and Services	1,325.1	283.6	1,608.7	2,328.9	3,937.6
Others	173.2	16.7	189.9	208.5	398.4
Total	4,869.4	4,036.6	8,906.0	4,501.2	13,407.2

Notes : 1) Borrowings from government, special purpose funds, loans from IBRD and ADB included

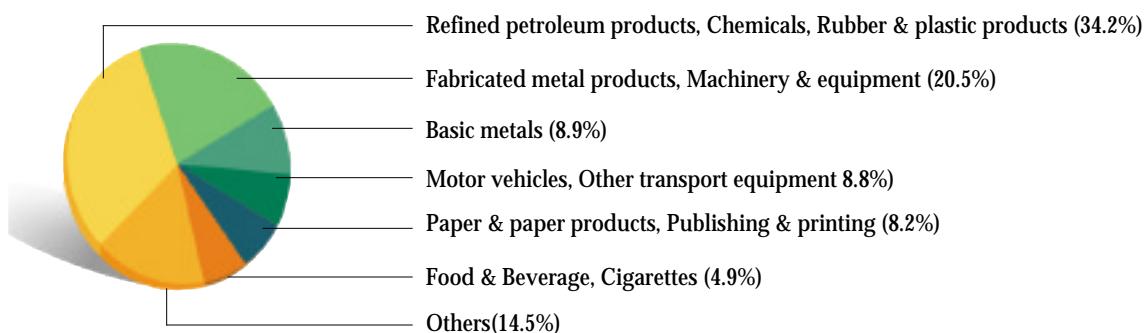
2) Securities tradings excluded

manufacturing industry, the petrochemical sector including refined petroleum products, chemicals, rubber & plastic products took up the largest portion of 34.2 percent, amounting to ₩1,611 billion, while the machinery sector including fabricated metal products, machinery & equipment

followed with 20.5 percent, amounting to ₩965 billion.

As for the non-manufacturing sector, loans to the financial and service sector including finance, insurance, real estate, and other service businesses registered the largest share of 38.4 percent, amounting to ₩1,609 billion.

New Loans in the Manufacturing Sector



Investments

Project Finance

KDB has maintained a leading position in the project financing market in Korea since 1994 when the government enacted a law to induce private investment into the infrastructure area. KDB's role consists principally of acting as financial advisor and arranger for major projects. For the past 5 years, KDB has advised on 36 projects and successfully completed the financing of 6 projects of ₩1.7 trillion.

In 1999, KDB financed ₩100 billion through unsecured 10 year long term infrastructure project bonds in the Korean capital market for Incheon International Airport Co-generation Power Plant Project. It was the first deal funded by long term bond issuance in Korea. Also KDB has been playing the most important role in establishing the infrastructure fund named "the Asia & Pacific Infrastructure Fund"(APIF). It is proposed that APIF be capitalized with US\$ 500 million to be subscribed by domestic or overseas sponsors and investors. This fund is to be invested in infrastructure projects and companies which are engaged in the development, ownership or operation of infrastructure facilities in various countries of Asia including Korea. More than 70 percent of the Fund will be invested in Korean Projects.

Equity Investment

The equity investment portfolio clearly reflects the Bank's

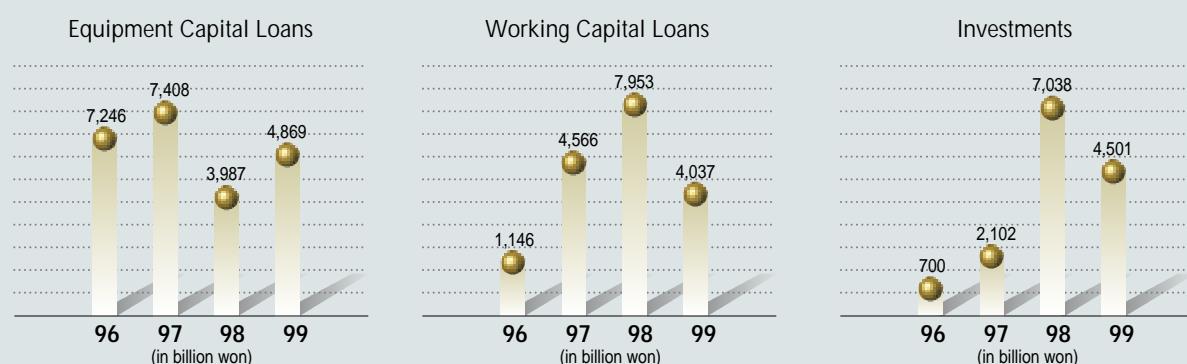
active involvement in the workout of businesses caught off guard by the financial crisis of late 1997. A large portion of the portfolio is made up of equities swapped for the Bank's loans made to those in a work-out program. Also reflected are the Bank's increased investment activities geared towards promising start-ups whose equities greatly increased in proportion. To breakdown the portfolio by investment vehicle, the portfolio consists of government-owned stocks (₩600 billion), debt-equity swaps (₩290.3 billion) and start-up and SME stocks (₩58.6 billion).

Capital Market Activities

In response to favorable market developments in 1999, including asset securitization, corporate restructuring, and private-funded infrastructure projects, the Bank offered lead management services for asset-backed securitization, SOC bond issuance, and convertible bond issuance. The new services were aggressively marketed through business ties with leading securities firms and improved relationships with institutional investors.



New Loans and Investments



The total bonds underwritten by KDB amounted to ₩1.9 trillion. The Bank's aggressive marketing strategy was instrumental in overcoming the unfavorable market environment due to the Daewoo crisis and unstable interest rates. The Bank managed to reduce associated risks by selling off most of its bond portfolio.

Considering its short business history in arranging corporate bond issues, this is firm proof of its excellent capability of satisfying corporate financing needs. Furthermore, KDB underwrote Korean Treasury bonds of ₩1.2 trillion in 1999 in a bid to position itself as a big player with the government bond market becoming more active and important. KDB earned a primary dealership to form a first-ever group of privileged dealers and thanks to this, became better prepared to conduct government bond business on a more advantageous foothold. KDB strategically intends to maximize the synergy effect by integrating its know-how accumulated in government, corporate and KDB bond businesses.

M&A

Utilizing its advantages of industry research, credit review, global network and a vast array of Korean business contacts, KDB provides comprehensive M&A and financial consulting services ranging from extensive analysis of profitability of projects and compatibility with clients' strategy to tax and

legal considerations.

In 1999, KDB demonstrated its capability by successfully completing a consultation for the financial restructuring of a large domestic conglomerate, which was the first case among domestic banks. Now KDB has business alliances with foreign leading M&A institutions including RECOF in Japan and proceeds to cross-border M&A transactions with those partners.

Mutual Fund Investment

In 1998, in step with the government's emergency rescue effort against the financial crisis, the Bank participated in establishing four corporate restructuring funds totaling ₩1.6 trillion in consortium with 22 financial institutions. These funds were designed to tide over promising businesses caught in a temporary liquidity bind.

As of the end of 1999, a total of ₩1.4 trillion was invested in 85 businesses suffering from a cash flow problem. Of the 85 recipients of operation capital, SMEs numbered 77 and received ₩1,047 billion or 77 percent of the total investments. Moreover, the Bank supported the government policy of fostering the then fledgling KOSDAQ market and channeled ₩398 billion, or 29.3 percent of the total figure, into KOSDAQ-listed firms, thereby contributing a great deal to the growth of the now robust OTC market.





Fund Raising

Industrial Finance Bonds

The domestic bond market in the first half of 1999 was in a very stable condition as the investment trust industry, spurred by robust sales of mutual funds, developed a huge appetite for bonds. But the market turned south and remained depressed through the year as the same industry, hit by the Daewoo crisis in July, started a massive sell-off of bonds to maintain their liquidity.

Amid such a challenging environment, the Bank maintained a stable sales base, thereby further bolstering its market position as the nation's top issuer of financial bonds. Facing the negative market, the Bank resorted to more aggressive marketing, innovating the bidding system and obtaining the highest credit standing of AAA for its Industrial Finance Bonds (IFB).

The IFBs issued in 1999 totaled ₩12.4 trillion, which represents a 3.7 percent decrease from the year before.

By maturity, bonds with a maturity of three years and more soared in proportion to the total, thereby further stabilizing the supply of usable funds.

Borrowings

In 1999, KDB borrowed a total of ₩295 billion from the government to fund government-designated projects. The figure represents a 19.1 percent increase over the previous

year. Meanwhile, the Bank repaid the government ₩237 billion for its borrowings in 1999.

The Bank also managed special purpose funds totalling ₩416 billion, 3.4 percent increase from the previous year. These funds were specially tailored to supporting small and medium-sized enterprises (SMEs), and SOC projects including information infrastructure, energy conservation, and tourism promotion, etc.

Deposits

During the year 1999, decreasing interest rates due to improved market liquidity and bullish stock exchange pushed deposits out of the banking industry and into the fast-recovering stock market. In response to such a movement of funds, the Bank readjusted its deposit target and focused on attracting long-term deposits from high-volume customers. Accordingly, the Bank adopted various measures designed to favor VIP customers, realigned its operation infrastructure to bolster its private banking operations, and introduced new products tailored to the needs of customers.

Reflecting the market unfavorable to the Bank, total deposits outstanding as of the end of 1999 amounted to ₩7.9 trillion, with local currency deposits amounting to ₩6.6 trillion and foreign currency deposits reaching ₩1.3 trillion. In addition to the stock market's growing position as a new avenue of investment, the redemption of various financial institutions' short-term deposits coming to maturity since the second half of 1998 also sapped the Bank's deposit-taking performance.

As for decrease in foreign currency deposits, reduction in deposits entrusted by the Bank of Korea and time deposits was the primary reason.





The trust business has contributed a great deal to reinforcing the Bank's customer base by offering high-yield products and innovative services based on internet banking system. The representative products include "Unit Type Money Trust" and "Mortgage-Bond Trust". At the end of 1999, total trust volume reached ₩2.3 trillion, down 22.9 percent over the previous year due to the ongoing financial structural reforms and overall sluggishness of trust business in Korea.

KDB has continued to positively use a discriminatory negotiation system to attract large-scale trust funds by providing flexible rates according to the market. Since KDB developed its Mortgaged-Bond Trust in 1998, the Bank has been designing a new field of "Property Trusts", a further step out of traditional trust business concentrating on money trusts in Korea.

The Bank developed the "Unit Type Money Trust" which adopted the standard price system reflecting all securities' profit and loss with reserves for insolvent assets. The Trust's volume reached ₩563 billion in 1999, covering 24.9 percent of all trust funds and KDB will continuously make efforts to develop

standard price - based funds such as the "Open Type Money Trust".

KDB manages trust funds in accordance with strict portfolio strategies that satisfy both the objectives of the customers and its own policies. The portfolio comprises of stocks, bonds, futures, options, loans and call loans. In 1999, investment in marketable securities reached ₩1.9 trillion, 55 percent of the total portfolio. KDB slightly decreased direct investments in bonds to a total of ₩820 billion, while it increased investments in "Bond Investment Trusts" of investment trust companies. These are high-yield products with relatively short maturity such as three or six months to hedge the fluctuation of the bond market. Due to the improved stock market in 1999, investments in stocks were increased to totaling ₩296 billion, up 453 percent over the previous year. ₩352 billion, 10.4 percent of total trust funds, was invested in the form of loans.

To cope with the rapidly changing circumstances, the Bank will induce advanced financial technology and expand the field of property funds as a part of its efforts for developing fee business as an investment bank.

R ESEARCH AND INFORMATION ACTIVITIES



Economic and Industrial Research

The priorities of research activities for 1999 were very clear : reinforce the research function centered on supporting the Bank's business units, double up its efforts to support the Bank's international investment banking business, sharpen its competitive edge in research of special regional economies such as China and North Korea, strengthen its role for providing vital management information, and improve its research infrastructure.

The Research Department backed up the Bank's operational units through issuing such publications or reports as "KDB Monthly Bulletin", "KDB Industry Report", "Industry and Economy Issue Analysis Papers", and "Industrial Products Information". To help loan departments review their credits, it also improved the industry credit rating system in terms of accuracy and credibility. It also supported the Bank's international investment banking businesses by developing such econometric models as "Yield Curve Model",

"Credit Spread Analysis Model", and "Quarterly Macro Economic Forecast Model". In preparation for the expected reunification of the two Koreas and in response to the emerging Chinese economy, it doubled up its research work in this region.

The Research Department supported the Bank's management by providing vital information regarding knowledge management and long-term growth strategy of KDB as well as issuing such periodical publications as "Business Survey Index" and "Survey of Facility Investment Plans". Seeking to analyse industries and corporations' business performance in real terms, it also publishes a yearly "Analysis of Financial Data", which provides essential financial data on corporations.

Industrial Technology Studies

With the advent of the Information Technology Age in the 21st Century, greater importance of technology feasibility

studies is being placed in the Bank's loan and investment decisions. Thus, in 1999 KDB newly established an Industrial Technology Department. The priorities of its operations for the year included strengthening the exclusive function of technology studies, developing technology reviewing methods, effectively supporting the Bank's lending operations, and establishing a comprehensive technology support system for operational units.

During the year, ITD undertook over 100 technology studies, primarily focused on small and medium sized enterprises including venture businesses with high technology and growth potential. It also strengthened its specialty for technology study by developing technology evaluation indicators. In order to provide technology information to related operational units, ITD publishes the monthly "Industrial Technology Information" which includes trends in technology development by industries, as well as related spot issues.

Information System

During the year, the Bank made efforts to develop a comprehensive information system that will pave the road for KDB to stride toward its goal of becoming a premier global investment bank in the 21st Century. KDB continued to take

the initiative in improving and expanding its information infrastructure. Since May 1999, KDB has proceeded to develop a new information system suitable for investment banking and to construct a data warehouse capable of providing various strategically determinant information to management regarding business risks and profit and loss management. Additionally, the Bank promoted efficiency in operating its information system by outsourcing its systems operation to Samsung SDS. This made it possible to maintain and improve the operation system in an efficient manner and to maximize the effect of utilizing human resources.

In the meantime, it is noteworthy that KDB successfully overcame the Y2K compliance issue without any glitches by adapting its software as well as by upgrading its main computer system. To cope with the rapid changes in the business environment and to effectively respond to rapid progress in e-business, KDB installed a high-speed network system. It also established a back-up center in preparation for unexpected disasters such as fire and flood. As a part of its efforts for solidifying its base for its Knowledge Management System, the Bank launched a groupware system and integrated its intranet and internet systems.



NON-CONSOLIDATED BALANCE SHEET (BANKING ACCOUNTS)

December 31, 1999

	In Millions of Korean Won	In Thousands of U.S. Dollars (Note 3)
ASSETS		
Cash and due from banks (Note 4)		
net of allowance for doubtful accounts of ₩38,449 million	₩ 6,827,472	US\$ 5,960,775
Trading securities (Note 5)	4,987,664	4,354,518
Investment securities (Note 5)	17,649,588	15,409,104
Loans (Note 6)		
net of provision for possible loan losses and present value discount of ₩ 3,201,167 million and ₩486,968 million, respectively	43,293,370	37,797,599
Premises and equipment, net (Note 7)	678,290	592,186
Other assets (Note 8)	2,227,110	1,944,395
Total assets	₩ 75,663,494	US\$ 66,058,577
LIABILITIES AND EQUITY		
Deposits (Note 9)	₩ 6,895,684	US\$ 6,020,328
Borrowings (Note 10)	20,641,346	18,021,081
Industrial finance bonds		
net of premium and discount on bonds of ₩1,786 million and ₩171,183 million (Note 11)	37,944,831	33,128,018
Provision for guarantees outstanding (Note 13)	529,718	462,474
Accrued severance benefits net of national pension fund contribution of ₩5,477 million	109,433	95,541
Other liabilities (Note 12)	3,303,250	2,883,927
Total liabilities	69,424,262	60,611,369
Commitments and Contingencies (Note 14)		
Equity (Note 15) :		
Paid-in capital	4,971,661	4,340,546
Capital surplus	34,754	30,342
Retained earnings	456,997	398,984
Capital adjustment	775,820	677,336
Total equity	6,239,232	5,447,208
Total liabilities and equity	₩ 75,663,494	US\$ 66,058,577

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

NON-CONSOLIDATED INCOME STATEMENT (BANKING ACCOUNTS)

for the year ended December 31, 1999

	In Millions of Korean Won	In Thousands of U.S. Dollars (Note 3)
Interest income :		
Interest on loans	₩ 4,053,484	US\$ 3,538,924
Interest on due from banks	402,553	351,452
Interest on trading securities	106,885	93,317
Interest on investment securities	491,038	428,705
Other interest income	16,560	14,458
	5,070,520	4,426,856
Interest expense :		
Interest on deposits	607,722	530,576
Interest on borrowings	1,319,292	1,151,818
Interest on bond payable	3,161,228	2,759,934
Other interest expenses	101,748	88,832
	5,189,990	4,531,160
Net interest loss	(119,470)	(104,304)
Provision for possible loan losses	731,703	638,819
	(851,173)	(743,123)
Non-interest revenue:		
Fees and commissions	180,465	157,557
Gains from trading securities	668,839	583,934
Gains from investment securities	1,118,293	976,334
Other (Note 16)	2,342,977	2,045,554
	4,310,574	3,763,379
Non-interest expense:		
Fees and commissions	36,528	31,891
Losses from trading securities	136,419	119,102
Losses from investment securities	355,449	310,328
General and administrative expenses (Note 17)	183,999	160,641
Other (Note 16)	2,469,731	2,156,217
	3,182,126	2,778,179
Operating income	277,275	242,077
Non-operating gain, net (Note 18)	1,631	1,424
Extraordinary gain, net	21,186	18,496
	300,092	261,997
Income before income taxes	88,374	77,155
Income taxes (Note 19)		
Net income	₩ 211,718	US\$ 184,842

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



NON-CONSOLIDATED STATEMENT OF APPROPRIATIONS OF RETAINED EARNINGS (BANKING ACCOUNTS)

for the year ended December 31, 1999
Date of appropriations : February 29, 2000

	In Millions of Korean Won	In Thousands of U.S. Dollars (Note 3)
	1999	1999
Retained earnings before appropriations :		
Retained earnings carried over from prior year	₩ -	US\$ -
Cumulative effect of accounting changes (Note 15)	245,279	214,143
Net income for the year	211,718	184,842
	456,997	398,985
Appropriations of retained earnings :		
Legal reserve	456,997	398,985
	456,997	398,985
Unappropriated retained earnings carried over forward to the subsequent year	₩ -	US\$ -

The accompanying notes are an integral part of these financial statement.

NON-CONSOLIDATED STATEMENT OF CASH FLOWS(BANKING ACCOUNTS)

for the year ended December 31, 1999

		In Millions of Korean Won	In Thousands of U.S. Dollars (Note 3)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	₩	211,718	US\$ 184,842
Adjustments to reconcile net income to net cash provided by operating activities:			
Gain on disposal of loans, net		(172,925)	(150,973)
Gain on trading securities, net		(519,811)	(453,825)
Gain on investment securities, net		(749,517)	(654,371)
Bad debt expenses		731,703	638,819
Depreciation		14,768	12,893
Retirement allowance		24,025	20,975
Loss on foreign currency transaction, net		132,509	115,688
Decrease in accrued income		77,641	67,785
Payment of severance benefits		(34,554)	(30,168)
Others, net		535,758	467,747
Net cash provided by operating activities		251,315	219,412
CASH FLOWS FROM INVESTING ACTIVITIES			
Net decrease in trading securities		3,380,604	2,951,462
Net decrease in loans		2,053,178	1,792,542
Net increase in investment securities		(1,345,567)	(1,174,757)
Net increase in premises and equipment		(45,866)	(40,044)
Others, net		(219,818)	(191,914)
Net cash provided by investing activities		3,822,531	3,337,289
CASH FLOWS FROM FINANCING ACTIVITIES			
Net decrease in deposits		(1,713,376)	(1,495,876)
Net decrease in borrowings		(2,418,860)	(2,111,804)
Net decrease in bonds issued		(1,300,941)	(1,135,796)
Increase in paid-in capital		800,000	698,446
Others, net		556,953	486,252
Net cash used in financing activities		(4,076,224)	(3,558,778)
Net decrease in cash		(2,378)	(2,077)
Cash, beginning of the year		81,930	71,530
Cash, end of the year (Note 4)	₩	79,552	US\$ 69,453

The accompanying notes are an integral part of these financial statement.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1999

1. The Bank:

The Korea Development Bank (the "Bank") was established in 1954 in accordance with the Korea Development Bank Act for the purpose of supplying and managing major industrial capital to develop Korean industry. The Bank operates through 35 local branches, 5 overseas branches and 5 overseas subsidiaries as of December 31, 1999. The Bank is engaged in the banking business under the Korea Development Bank Act and in the trust business according to the Trust Business Act and other related regulations.

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

2. Summary of Significant Accounting Policies:

The significant accounting policies followed by the Bank in the preparation of its financial statements are summarized below. The comparative financial statements as of December 31, 1998 are not presented in accordance with the transitional provisions of the revised financial accounting standards in the Republic of Korea.

Basis of Financial Statement Presentation

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

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

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

The preparation of financial statements in conformity with financial accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the non-consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Due to the inherent uncertainty involved in making estimates, actual results could differ from those estimates.

Recognition of Interest Income

The Bank recognizes interest income on loans and debt securities on an accrual basis. However, interest income on delinquent and dishonored loans, other than those subject to security deposits and guaranteed by financial institutions, is recognized on a cash basis. Such unaccrued interest income as of December 31, 1999 was ₩166,573 million.

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%
Substandard	20%
Doubtful	50%
Loss	100%

Securities

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

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

accordance with the following guidelines:

- *Trading securities*

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

- *Investment securities*

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

Investment securities which allow the Bank significant influence over the investee are valued using the equity method of accounting. The Bank considers that it has significant influence on the investees, in which the Bank holds more than 20% of interest. However, the Bank does not apply equity method for the following investments.

- Investees more than 50% of 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

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

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

Premises and Equipment and Related Depreciation

Premises and equipment used for business purposes are recorded at cost, except for those assets subject to upward revaluation in accordance with the Korean Asset Revaluation Law. Such revaluation presents facilities and buildings at their depreciated replacement cost and land at the prevailing market price, as of the effective date of revaluation. The revaluation increment, net of a 3% tax, is credited to capital surplus. Previously recorded accumulated depreciation was eliminated and a new basis for depreciation of the revalued assets was established.

Depreciation is computed using the declining balance method, except for buildings and structures, which are depreciated using the straight-line method, based on the estimated useful lives of the assets as described below:

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

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

Present Value Discount

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

Loans which are impaired due to restructuring of the borrower, court mediation or negotiation, are revalued using the adjusted

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

interest rate. The difference between book value and the readjusted value is offset against the provision for possible loan losses, and the remaining difference is recognized as bad debt expenses in the year incurred.

Bond Issuance Costs

In prior years, industrial finance bond issuance costs were deferred and amortized over the redemption period of the debenture using the straight-line method. In accordance with the revised generally accepted accounting principles in the Republic of Korea, the bond issuance costs are now deducted from the proceeds of the bonds issued. Bond issuance costs carried over from previous years were added to discounts on debentures and will be amortized as interest expense over the remaining redemption period using the straight-line method.

Foreign Currency Translation

Assets and liabilities denominated in foreign currencies are translated into Korean Won at basic exchange rates (1,145.4 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.

Actual payment of severance benefits for the year ended on December 31, 1999 was ₩34,563 million.

Accrued severance benefits were funded through a group severance insurance plan. The Bank accounts for the amounts funded under the plan as cash and due from banks. In accordance with the National Pension Act, a certain portion of accrued severance benefits was contributed to the National Pension Fund and deducted from accrued severance benefits in the accompanying balance sheet. The contributed amount for employees and directors shall be deducted from the Bank's payment of severance benefits on their retirement.

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% of guaranteed amounts for companies classified as "substandard," 50% for "doubtful" and 100% for "loss." The allowance is shown in the liability section.

Deferred Income Taxes

Commencing January 1, 1999, the Bank records deferred income taxes which arises from temporary differences between amount reported for financial reporting purposes and income tax purposes in accordance with the revised financial accounting standards generally accepted in the Republic of Korea. The Bank has retroactively adjusted the retained earnings carried from prior years and recorded ₩240,022 million of deferred income tax assets as of January 1, 1999 (see Note 19).

Bonds Purchased Under Resale Agreements and Bonds Sold Under Repurchase Agreements

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

Translation of Foreign Currency Financial Statements

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

Derivative Financial Instruments

Derivative financial instruments entered into for trading purposes are valued at current market prices. Resulting unrealized valuation gains or losses are reflected in current operations.

Derivative financial instruments used for hedging purposes are accounted for in a manner consistent with the accounting treatment appropriate for the transactions being hedged or associated with such contract. The instruments are valued at fair value when underlying transactions are valued at market, and resulting unrealized valuation gains or losses are recognized currently. Unrealized valuation gains or losses are recognized at the time of settlement when the underlying transactions are not required to be valued at market.

Compensation to Trust Accounts

If the income from trust operations is insufficient to generate the required rate of return, the deficiency may be either recovered from

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

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, respectively, in accordance with the relevant laws and regulations applicable to trust operations.

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. All 1999 amounts are expressed in U.S. Dollars at the rate of ₩1,145.4:US\$1, the basic rate on December 31, 1999. 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.

4. Cash and Due from Banks:

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

	Annual Interest Rate(%)	Millions of Won
Cash on hand in Won	-	₩ 77,758
Cash on hand in foreign currency	-	1,795
Due from banks in Won	0.00~8.00	153,150
Due from banks in foreign currency	0.00~8.30	6,633,218
		<hr/> 6,865,921
Less : Allowance for doubtful accounts		₩ (38,449)
		<hr/> ₩ 6,827,472

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

Bank	Annual Interest Rate(%)	Millions of Won
The Bank of Korea	-	₩ 65,706
National Livestock Cooperatives Federation	8.00	22,900
Others	0.00~3.00	64,544
		<hr/> 153,150

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

Bank	Annual Interest Rate(%)	Millions of Won
The Bank of Korea	5.78 ~ 7.84	₩ 25,555
The Export-Import Bank of Korea	6.26	2,608,707
Kookmin Bank	6.46 ~ 7.75	662,228
Industrial Bank of Korea	7.00 ~ 7.90	131,721
Tong Yang Investment Bank	7.8	442,011
Hana Bank	7.45 ~ 7.7	264,587
Shinhan Bank	7.12 ~ 7.75	286,350
Housing & Commercial Bank	7.35 ~ 7.75	103,086
Chase Manhattan Bank	0.00 ~ 4.50	585,667
Others	2.37 ~ 8.30	1,523,306
		<hr/> ₩ 6,633,218

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Restricted deposits included in due from banks at December 31, 1999 are as follows :

	Millions of Won
Reserve deposits with the Bank of Korea	₩ 86,616
Deposits for severance payment	22,900
China Construction Bank	2,291
Bank of Communications	1,841
Bank of Tokyo	5,727
Sanwa Bank	5,727
	₩ 125,102

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 Bank of Tokyo and Sanwa Bank are pledged as collateral.

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

Mature on or before December 31	Due from banks in Won	Due from banks in foreign currency	Total
2000	₩ 153,150	₩ 3,290,750	₩ 3,443,900
2001	-	80,178	80,178
2002	-	28,635	28,635
2003	-	315,393	315,393
2004	-	649,112	649,112
Thereafter	-	2,269,150	2,269,150
	₩ 153,150	₩ 6,633,218	₩ 6,786,368

5. Trading Securities and Investment Securities:

Trading securities at December 31, 1999 comprise the following:

	Annual Interest Rate (%)	Millions of Won
Marketable equity securities	-	₩ 638,244
Government and public bonds	6.97 ~ 11.83	114,890
Corporate bonds	2.00 ~ 12.00	253,221
Beneficiary certificates	6.00 ~ 12.90	3,285,139
Securities denominated in foreign currency	0.00 ~ 11.28	501,731
Other	7.65 ~ 16.00	194,439
		₩ 4,987,664

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Par value, acquisition cost and fair value of trading debt securities at December 31, 1999 are as follows :

				Millions of Won
	Par Value	Acquisition Cost	Fair value	
Government and public bonds	₩ 116,000	₩ 116,085	₩ 114,890	
Corporate bonds	264,090	258,201	253,221	
Securities in foreign currency	531,698	506,451	501,731	
	₩ 911,788	₩ 880,737	₩ 869,842	

Investment securities at December 31, 1999 comprise the following :

	Annual Interest Rate (%)	Millions of Won	
Investments in subsidiaries	-	₩	4,973,282
Investments in non-subsidiaries	-	₩	5,788,126
Government and public bonds	5.50~18.00	₩	1,776,003
Corporate bonds	6.00~17.50	₩	974,570
Investment securities denominated in foreign currency	2.00~7.69	₩	1,449,500
Other	1.00~20.00	₩	2,688,107
		₩	17,649,588

Investments in debt securities available-for-sale at December 31, 1999 comprise the following :

	Millions of Won			
	Par Value	Acquisition Cost	Amortized Cost	Market (Carrying)Value
Government and public bonds	₩ 280,585	₩ 280,375	₩ 280,525	₩ 273,634
Corporate bonds	1,048,463	1,014,489	1,003,341	974,570
Investment securities				
denominated in foreign currency	985,785	699,571	690,605	582,512
Other	2,363,493	2,332,275	2,361,257	2,314,656
	₩ 4,678,326	₩ 4,326,710	₩ 4,335,728	₩ 4,145,372

Investments in debt securities held-to-maturity at December 31, 1999 comprise the following :

	Millions of Won			
	Par Value	Acquisition Cost	Carrying Amount of Bonds	
Government and public bonds	₩ 1,502,369	₩ 1,502,369	₩	1,502,369
Investment securities in foreign currency	875,919	736,439	₩	866,988
Other	377,918	372,582	₩	373,451
	₩ 2,756,206	₩ 2,611,390	₩	2,742,808

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Investments in subsidiaries at December 31, 1999 comprise the following :

	Ownership (%)	Acquisition Cost	Book Value	Fair Value or Net Book Value (*)	
Investments using the equity method :					
The KDB Capital Corp.	86.72	₩ 378,014	₩ 328,754	₩ 364,475	
Korea Asset Management Corp.	30.77	40,000	43,006	42,965	
Korea General Chemical Corp.	98.99	94,082	122,271	122,271	
Korea Heavy Industries & Construction Co., Ltd.	43.76	228,000	755,412	755,412	
KDB (Deutschland) GmbH	100.00	25,194	23,206	23,206	
Other		859,809	1,108,061	1,118,833	
		1,625,099	2,380,710	2,427,162	
Investments not using the equity method :					
Kia Steel Co., Ltd.	51.20	84,445	42,222	42,222	
Korea National Tourism Organization	43.60	24,370	35,529	80,360	
Korea National Housing Corp.	28.30	1,300,618	1,300,618	1,444,691	
Korea Land Development Corp.	28.30	1,191,329	1,191,329	758,783	
Other		14,255	22,874	22,841	
		2,615,017	2,592,572	2,348,897	
		₩ 4,240,116	₩ 4,973,282	₩ 4,776,059	

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

Investments in non-subsidiaries at December 31, 1999 comprise the following :

	Ownership (%)	Acquisition Cost	Book Value	Fair Value or Net Book Value (*)	
Pohang Iron & Steel Co., Ltd.					
	9.84	₩ 530,236	₩ 1,186,303	₩ 1,186,303	
The Industrial Bank of Korea	14.91	400,000	283,008	283,008	
Korea Highway Corporation	16.80	1,430,184	1,430,184	1,430,184	
Korea Tobacco & Ginseng Corp.	8.12	260,000	389,496	389,496	
The Export-Import Bank of Korea	6.20	200,000	200,000	126,633	
Korea Water Resources Corp.	11.18	671,307	671,307	312,693	
Bond Market Stabilization Fund	-	792,419	808,077	808,077	
Others		852,354	819,751	786,739	
		₩ 5,136,500	₩ 5,788,126	₩ 5,323,133	

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Investment securities using the equity method at December 31, 1999 are summarized as follows :

						Millions of Won
	Beginning Book Value	Acquisition (Disposition)	Dividends	Valuation Gain or Loss	Capital Adjustment	Ending Book Value
The KDB Capital Corp.	₩ 42,920	₩304,048	₩ (3,969)	₩ (116,810)	₩102,565	₩328,754
Korea Asset Management Corp.	40,975	-	-	2,031	-	43,006
Korea General Chemical Corp.	108,564	1,023	(8,672)	21,895	(539)	122,271
Korea Heavy Industries &						
Construction Co., Ltd.	760,614	(762)	(4,560)	22,435	(22,315)	755,412
KDB (Deutschland) GmbH	21,640	-	-	(6,816)	8,382	23,206
Other	758,658	46,702	(13,422)	234,873	81,250	1,108,061
	₩1,733,371	₩351,011	₩(30,623)	₩157,608	₩169,343	₩2,380,710

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 straight-line method. The accumulated unamortized equity method adjustments are as follows :

	Equity Method Adjustment		Millions of Won
	Debit	Credit	
Beginning balance	₩ 2,349	₩ 707	
Increased	43,289	31,982	
Amortized	(9,742)	(6,464)	
Ending balance	₩ 35,896	₩ 26,225	

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

	Foreign Currency (In thousands)		Millions of Won
Securities available-for-sale	BEF	736	₩ 21
	CHF	21,077	15,119
	DEM	22,308	13,123
	IDR	3,906	63
	JPY	1,290,469	14,477
	MYR	16,684	5,029
	THB	31,864	976
	USD	465,853	533,704
			₩ 582,512
Securities held-to-maturity	CHF	8,211	₩ 5,890
	DEM	5,061	2,977
	JPY	11,676,264	130,989
	USD	634,828	727,132
			₩ 866,988

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

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

	Millions of Won	Percentage(%)
By Country		
The Republic of Korea	₩ 22,185,874	98.01
The Philippines	110,866	0.49
Thailand	100,297	0.44
Indonesia	75,564	0.33
Other	164,651	0.73
	₩ 22,637,252	100.00
 By Issuer		
Korea Highway Corporation	₩ 1,430,184	6.32
Korea Asset Management Corporation	1,338,900	5.91
Korea National Housing Corp.	1,300,618	5.75
Pohang Iron & Steel Co., Ltd.	1,213,178	5.36
Korea Land Development Corp.	1,191,329	5.26
Korea Electric Power Corporation	918,175	4.06
Other	15,244,868	67.34
	₩ 22,637,252	100.00
 By Industry		
Banking and insurance	₩ 8,914,294	39.38
Construction	4,933,261	21.79
Manufacturing	4,797,765	21.19
Public administration and national defense	1,614,313	7.13
Electric, gas and water supply industry	1,013,238	4.48
Other	1,364,381	6.03
	₩ 22,637,252	100.00
 6. Loans:		
Loans at December 31, 1999 comprise the following:		
	Millions of Won	
Loans in Won	₩ 20,150,673	
Loans in foreign currency	20,685,826	
Notes purchased	857,511	
Bills purchased	1,697,674	
Advances for customers	448,819	
Bonds purchased under repurchase agreements	42,322	
Call loans	437,995	
Domestic import usance bills	1,290,050	
Debentures accepted by private subscription	1,275,206	
Other	95,429	
	46,981,505	
Less : Provision for possible loan losses	(3,201,167)	
Present value discount account	(486,968)	
	₩ 43,293,370	

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

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

(1) Loans in Won

	Annual Interest Rate (%)	Millions of Won
Loans for working capital :		
Industrial fund loans	6.2 ~ 15.2	₩ 4,845,654
Government fund loans	7.8 ~ 8.3	323,098
Banking institution loans	5.2	435,310
Other	6.2~15.8	455,566
		<hr/> 6,059,628
Loans for facilities :		
Industrial fund loans	6.2 ~ 15.2	10,867,803
Government fund loans	7.8 ~ 8.3	1,643,339
Other	1.0 ~ 9.5	1,579,903
		<hr/> 14,091,045
		₩ 20,150,673

(2) Loans in foreign currency

	Annual Interest Rate (%)	Millions of Won
Loans for working capital :		
Local currency loans denominated in foreign currencies	7.2 ~ 10.4	₩ 821,655
Foreign currency loans	3ML+0.9~4.2	1,963,180
Other	6ML+2.8~4.5	3,262
		<hr/> 2,788,097
Loans for facilities :		
Local currency loans denominated in foreign currencies	7.2 ~ 10.4	7,070,402
Foreign currency loans	3ML+0.9~4.2	2,921,580
Offshore loans in foreign currencies	6ML+0.3~5.0	3,396,105
ADB loans	6ML+0.4	1,151,158
IBRD loans	6ML+3.0~4.5	3,356,198
Other	6ML+2.8	2,286
		<hr/> 17,897,729
		₩ 20,685,826

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

The maturity of loans in Won and foreign currency at December 31, 1999 are as follows :

Matured on or before December 31						Millions of won
	Loans for working capital in Won	Loans for facility in Korea Won	Loans for working capital in foreign currency	Loans for facility in foreign currency	Total	
2000	₩ 622,373	₩ 563,094	₩ 331,597	₩ 1,681,960	₩ 3,199,024	
2001	2,451,087	2,087,110	677,897	2,944,757	8,160,851	
2002	624,085	2,218,796	510,732	2,362,471	5,716,084	
2003	935,973	2,291,682	430,487	2,322,570	5,980,712	
2004	184,879	1,841,526	360,504	1,818,632	4,205,541	
Thereafter	1,241,231	5,088,837	476,880	6,767,339	13,574,287	
	₩ 6,059,628	₩ 14,091,045	₩ 2,788,097	₩ 17,897,729	₩ 40,836,499	

Changes in the provision for possible loan losses during the year ended December 31, 1999 are as follows :

						Millions of Won
	Due from banks in foreign currency	Loans	Other assets	Total		
Balance at beginning of year	₩ 65,221	₩ 2,807,959	₩ 208,820	₩	3,082,000	
Changes in overseas branch due to foreign currency translation	-	(2,660)	-		(2,660)	
Transfer from loan acquisition	-	504,955	-		504,955	
Current write-offs	-	(494,402)	(44,886)		(539,288)	
Write-offs due to loan restructuring	-	(395,245)	-		(395,245)	
Current provision provided	(26,772)	758,475	-		731,703	
Other	-	22,085	-		22,085	
	₩ 38,449	₩ 3,201,167	₩ 163,934	₩	3,403,550	

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

						Millions of Won
	Loans					
Loans in Won and foreign currency and notes purchased					₩	2,418,097
Bills purchased					₩	210,667
Advances for customers					₩	254,738
Call loans					₩	69,983
Domestic import usance bills					₩	33,625
Debentures accepted by private subscription					₩	213,862
Other loans					₩	195
Due from banks in foreign currency					₩	38,449
Other assets					₩	163,934
					₩	3,403,550

The provision ratios to total loans at December 31, 1999, 1998 and 1997 are 6.81%, 4.97% and 1.52%, respectively.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Restructured loans for 1998 and 1999 due to court receivership, court mediation or other financial restructuring process are as follows :

	Millions of Won
Changes in contractual terms	₩ 1,352,227
Exemption	418,889
Conversion to equity investment	209,025
Conversion to convertible bonds	592,243
Total	₩ 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. Loans restructured by changes in contractual terms are as follows :

	Period of Restructuring			Millions of won
	1998 and before	1999	Total	
Original amount before restructuring	₩ 1,705,885	₩ 1,055,702	₩ 2,761,587	
Present value	1,411,737	850,783	2,262,520	
Present value discount	294,148	204,919	499,067	
Increase(*)			67,951	
Decrease(Amortization)			(80,050)	
Present value discount at year-end			486,968	
Outstanding original amount at year-end			2,430,217	
Present value as of December 31, 1999			₩ 1,943,249	

(*) Increase due to readjustment of loans in 1999 after restructured in 1998.

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

Certain customers of the Bank are in the process of restructuring loans with their creditor banks. The Bank's exposure as of December 31, 1999 to Daewoo group companies and customers under work-out programs are as follow :

	Daewoo Group	Work-out Debtors	Millions of Won
Loans(*)	₩ 3,325,763	₩ 2,523,334	
Provision for possible loss(*)	855,996	878,088	

(*) including guarantees outstanding.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

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

	Millions of Won	Percentage(%)
By nation :		
The Republic of Korea	₩ 40,145,978	98.31
Indonesia	273,129	0.67
Japan	108,383	0.27
China	83,054	0.20
USA	72,893	0.18
Other	153,062	0.37
	₩ 40,836,499	100.00
By customer :		
Korea Electric Power Corp.	₩ 5,303,530	12.99
Small & Medium Industry Promotion Corp.	2,601,701	6.37
Korea Deposit Insurance Corp.	1,145,400	2.80
KDB Capital Corp.	913,831	2.24
Korea Highway Corp.	566,718	1.39
Korea Asset Management Corp.	500,919	1.23
Other	29,804,400	72.98
	₩ 40,836,499	100.00
By industry :		
Manufacturing	₩ 18,701,995	45.80
Banking and Insurance	9,592,529	23.49
Electric, gas and water supply industry	6,059,343	14.84
Transportation and communication	3,168,237	7.76
Construction	1,029,106	2.52
Other	2,285,289	5.59
	₩ 40,836,499	100.00

7. Premises and Equipment:

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

	Acquisition Cost or Revaluation	Accumulated Depreciation	Net Book Value	Millions of Won
Land				
Buildings and structures	₩ 422,375	₩ -	₩ 422,375	
Machinery	164,367	13,443	150,924	
Vehicles	38,588	26,865	11,723	
Construction in progress	1,129	862	267	
Other	87,726	-	87,726	
	18,191	12,916	5,275	
	₩ 732,376	₩ 54,086	₩ 678,290	

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

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 ₩679,486 million, net of a revaluation tax payment of ₩11,288 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, 1999, the government-posted prices of the Bank's land are ₩300,125 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.

8. Other Assets:

Other assets at December 31, 1999 comprise the following :

	Millions of Won
Prepaid expenses	₩ 743,410
Receivables	113,516
Accrued income	597,794
Intangible assets	12,848
Deferred tax asset	152,401
Other	771,654
	<hr/>
Loss : Provision for possible losses	2,391,623
Present value discount	(163,934)
	(579)
	<hr/>
	₩ 2,227,110

9. Deposits:

Deposits at December 31, 1999 comprise the following:

	Annual Interest Rate (%)	Millions of Won
Won currency deposits :		
Demand deposits		
Checking deposits	-	₩ 7,412
Temporary deposits	-	131,483
Passbook deposits	1.0	35,016
		<hr/>
		173,911
Time & savings deposits		
Time deposits	3.0~10.5	2,632,424
Installment savings deposits	7.0~10.5	132,208
Savings deposits for corporate	0.0~3.0	831,950
Savings deposits	2.0~6.0	177,916
Long-term savings for household	11.5~12.0	45,371
Other	3.0~11.0	6,177
		<hr/>
		3,826,046
		<hr/>
		₩ 3,999,957

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

	Annual Interest Rate (%)	Millions of Won
Foreign currency deposits :		
Demand deposits		
Checking deposits	-	₩ 5,289
Passbook deposits	1.0	70,837
Temporary deposits	-	914
Other	5.22~5.77	32,916
		<hr/> 109,956
Savings deposits		
Time deposits	0.79~5.58	246,369
		<hr/> 356,325
Negotiable certificates of deposits	5.75~6.75	₩ 2,539,402
		<hr/> 6,895,684

The maturities of time & savings deposits in won and foreign currency at December 31, 1999 are as follows :

	Millions of Won			
Matured on or before December 31	Time Deposits	Savings Deposits	Time Deposits in Foreign Currency	Total
2000	₩ 2,424,991	₩ 91,065	₩ 246,369	₩ 2,762,425
2001	132,134	32,598	-	164,732
2002	75,299	8,545	-	83,844
	<hr/> ₩ 2,632,424	<hr/> 132,208	<hr/> ₩ 246,369	<hr/> 3,011,001

10. Borrowings:

Borrowings as of December 31, 1999 comprise the following :

	Annual Interest Rate (%)	Millions of Won
Won currency borrowings		
Ministry of Finance and Economy	2.0~10.0	₩ 2,658,589
Industrial Bank of Korea	5.5~9.0	232,424
Small & Medium Industry Promotion Fund	8.0~9.0	376,201
Ministry of Culture and Tourism	4.5	287,307
Korea Energy Management Corporation	4.5~7.0	311,326
Local governments	5.45~7.45	126,202
Other	0.0~11.5	258,764
		<hr/> 4,250,813

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

	Annual Interest Rate (%)	Millions of Won
Foreign currency borrowings		
Small & Medium Industry Promotion Fund	6.86	5,442
KFW (Germany)	Libor+2.0	34,621
ADB	Libor+0.40	3,441,481
IBRD	Libor+0.75~1.0	7,445,100
The Japan Bank of International Cooperation("JBIC")	2.0~2.1	292,630
The Bank of Korea	5.0~7.5	1,145,856
Other	2.33~7.31	3,212,205
		15,577,335
Other borrowings		
Bonds sold under repurchase agreement		618,762
Notes sold		154,051
Call money		40,385
		813,198
	₩	20,641,346

The repayment of ₩771,919, ₩56,668, and ₩781 million included in the borrowings above are guaranteed by the Korean Government, Export Insurance Corporation in Germany and Export Insurance Corporation in Switzerland, respectively.

The maturities of borrowings in won and foreign currency at December 31, 1999 are as follows :

Matured on or before December 31	Won Currency Borrowings	Foreign Currency Borrowings	Total	Millions of Won
2000	₩ 410,082	₩ 2,522,907	₩ 2,932,989	
2001	442,423	593,900	1,036,323	
2002	512,662	336,826	849,488	
2003	494,286	828,035	1,322,321	
2004	601,479	3,527,755	4,129,234	
Thereafter	1,789,881	7,767,912	9,557,793	
	₩ 4,250,813	₩ 15,577,335	₩ 19,828,148	

The subordinated debt included in borrowings at December 31, 1999 comprises the following :

Type	Annual Interest Rate (%)	Millions of Won	Condition of Borrowings
Government fund	5.0~10.0	₩ 2,658,083	Installment reimbursement
AID relending facilities	2.00	506	"
ADB relending facilities	Libor+0.40	3,441,481	Lump sum reimbursement
IBRD relending facilities	Libor+0.75~1.00	7,445,100	Installment reimbursement
		₩ 13,545,170	

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

11. Industrial Finance Bonds :

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

	Annual Interest Rate (%)	Millions of Won
IFBI in Won	1.00~22.6	₩ 22,864,522
IFBI in foreign currency	1.88~9.62	11,561,509
Offshore IFBI in foreign currency	1.00~10.00	3,688,197
		₩ 38,114,228
Premiums on IFBI		1,786
Discounts on IFBI		(171,183)
		₩37,944,831

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

When existing bonds are refinanced or guarantees are executed, the limit is temporarily not applied. The amount of issued bonds guaranteed by the Korean Government is ₩801,785 million as of December 31, 1999.

The maturities of IFBI at December 31, 1999 are as follows :

Matured on or before December 31	IFBI in Won	IFBI in Foreign Currency	Offshore IFBI in Foreign Currency	Total	Millions of Won
2000	₩ 10,092,237	₩ 2,982,234	₩ 245,478	₩ 13,319,949	
2001	3,692,984	1,563,558	913,157	6,169,699	
2002	5,692,019	3,087,300	1,326,030	10,105,349	
2003	1,494,540	547,501	197,009	2,239,050	
2004	1,870,253	1,834,626	525,815	4,230,694	
Thereafter	22,489	1,546,290	480,708	2,049,487	
	₩ 22,864,522	₩ 11,561,509	₩ 3,688,197	₩ 38,114,228	

12. Other Liabilities :

Other liabilities at December 31, 1999 comprise the following :

	Millions of Won
Trust account debit	₩ 237,921
Payables	256,871
Accrued expenses	1,495,469
Advanced income	214,282
Guarantee deposits	51,874
Advance received on IFBI	203,399
Provisions for possible losses from disposed loans	706,348
Other	137,086
	₩ 3,303,250

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

13. Guarantees Outstanding:

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

			Millions of Won
	Guarantees Amount	Provision for Possible Loss	Provision Ratio (%)
Acceptances	₩ 3,437,826	₩ 137,325	4.0
Guarantees on local borrowings	2,802,057	237,755	8.5
Guarantees on indebtedness in foreign currency	3,523,624	154,577	4.4
Letters of guarantee for importers	36,229	61	0.2
	₩ 9,799,736	₩ 529,718	5.4

14. Commitments and Contingencies:

As of December 31, 1999, the Bank has outstanding commitments related to commercial letters of credit and other guarantees (excluding the guarantees described in Note 13) amounting to ₩1,386,655 million.

As of December 31, 1999, the Bank has derivative financial instruments as follows:

	Millions of Won
Contracts on interest	₩ 27,197,784
Contracts on currency	36,189,434
	₩ 63,387,218

For the year ended December 31, 1999, the Bank recognized unrealized gains and losses from derivative financial instruments of ₩307,986 million and ₩228,455 million, respectively.

In addition to the above derivative financial instruments, as of December 31, 1999, the Bank has unpaid spot exchanges bought and sold amounting to ₩748,871 million and ₩731,593 million, respectively.

The Bank has entered into agreements with foreign banks for certain syndicated loans. The total amount available under such loans is US\$ 241,456 thousand, of which US\$ 141,855 thousand has not been withdrawn by borrowers as of December 31, 1999.

During 1998, the Bank sold with recourse ₩3,084,141 million of non-performing loans classified as substandard or below to the Korea Asset Management Corporation for proceeds of ₩1,339,629 million. The resulting loss was recorded as a loss on disposition of loans during 1998. During 1999, the Bank recognized gains from the settlement of such loans in the amount of ₩702,801 million. As of December 31, 1999, ₩1,020,767 million of the loans sold to the Korea Asset Management Corporation are outstanding. As of December 31, 1999, the Bank recorded a provision for possible losses from unsettled disposed loans amounting to ₩706,348 as other liabilities (see Note 12).

As discussed in Note 6 to the financial statements, the Bank has outstanding loans to affiliates of Daewoo Group and other customers under corporate restructuring. The actual losses from these loans may differ from management's current estimation.

The Bank entered into an agreement with the JBIC (Japan Bank for International Cooperation) in 1999 relating to ₩292,630 million of loans to be used for designated purposes. As of December 31, 1999, the Bank has local loans denominated in foreign currency

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

and foreign currency loans amounting ₩291,965 million and ₩665 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. Recently, economic conditions in the Republic of Korea have improved as evidenced by an increased trade surplus, increases in foreign exchange reserves, record levels of foreign investment and economic growth, lower inflation and interest rates and stabilized foreign exchange rates. Notwithstanding the current recovery, significant uncertainties still exist related to the economy in Korea and in the Asia Pacific region. The accompanying financial statements reflect management's current assessment of the impact to date of the economic situation on the financial position of the Bank. Actual results may differ materially from management's current assessment.

15. Equity:

Paid-in Capital

The government increased the paid-in capital of the Bank by ₩800,000 during 1999, consisting of a ₩200,000 cash contribution and ₩600,000 of contributed securities of other banks. Paid-in capital of the Bank at December 31, 1999 is ₩4,971,661 million.

Capital Reserves

In accordance with a resolution of the board of directors on October 27, 1998, the Bank decreased its paid-in capital by ₩4,218,800 million, of which ₩4,184,046 million was used to offset accumulated deficit and the remaining amount of ₩34,754 million was credited to capital reserve.

Legal Reserve

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

Offset of Accumulated Deficit

In accordance with the Korea Development Bank Act, the Bank offsets accumulated deficit with reserves. If reserves are insufficient to eliminate the accumulated deficit, the Government should complement the deficiency. Legal reserves of ₩54,594 million were used to offset accumulated deficit with approval of the Government on February 19, 1998. Capital surplus of ₩4,879,924 million and legal reserves of ₩9,522 million were used to offset accumulated deficit with the approval of the Government on February 27, 1999.

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. 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
Provision for guarantees outstanding	₩ (301,701)
Losses from restructured impaired loans	(171,773)
Deferred income tax assets	240,022
Gains on valuation of investment by equity method	490,527
Loss on valuation of Stock Market Stabilization Fund	(8,105)
Reversal of provision for valuation losses on investments	56,811
Impairment losses on valuation of NPL Management Fund	(60,010)
Other	(492)
	₩ 245,279

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Capital adjustment

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

	Millions of Won		
	Investments on Equity Securities	Investments in Debt Securities	Total
January 1, 1999	₩ 76,147	₩ -	₩ 76,147
Decrease resulted from disposal	(11,663)	-	(11,663)
Net gains or losses on valuation in 1999	765,096	(53,760)	711,336
	₩ 829,580	₩ (53,760)	₩ 775,820

16. Other Non-Interest Revenue (Expense) :

Other non-interest revenue (expense) for the year ended December 31, 1999 comprises the following :

	Millions of Won	
	Revenue	Expense
Other Non-Interest Revenue		
Gain on foreign currency transaction	₩ 1,302,266	
Gain on disposal of loans	702,801	
Gain from derivatives transaction	66,371	
Gain on valuation of derivatives	241,657	
Other	29,882	
	₩ 2,342,977	
Other Non-Interest Expense		
Loss on foreign currency transaction	₩ 1,351,766	
Loss on disposal of loans	529,876	
Loss from derivative transactions	47,994	
Loss on valuation of derivatives	180,466	
Education tax	34,133	
Deposit insurance expenses	13,140	
Provision for possible losses on guarantees outstanding	228,017	
Donations	47,054	
Other	37,285	
	₩ 2,469,731	

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

17. General and Administrative Expenses:

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

	Millions of Won
Salaries	₩ 83,062
Retirement allowance	24,025
Employee benefits	16,525
Rent	4,486
Depreciation	14,045
Taxes and dues	9,488
Printing	2,442
Travel	2,700
Commission	7,161
Other	20,065
	₩ 183,999

18. Non-operating Gain :

Non-operating gains and losses for the year ended December 31, 1999 comprise the following :

	Millions of Won
Gain on disposal of fixed assets	₩ 1,788
Loss on disposal of fixed assets	(2,451)
Rent	1,556
Other	738
	₩ 1,631

19. Income Tax Expenses:

The statutory income tax rate applicable to the Bank, including resident tax surcharges, is approximately 30.8%. The effective tax rate is approximately 29.45% for the year ended December 31, 1999.

Income tax expense for the year ended December 31, 1999 comprises the following :

	Millions of Won
Income taxes payable	₩ -
Deferred income taxes	87,882
Income taxes for overseas branches	492
	₩ 88,374

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

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

	Millions of Won
Income before income tax expenses	₩ 300,092
Computed tax at the expected statutory rate	<u>92,428</u>
Temporary differences (tax effect) :	
Gain on valuation of trading securities	4,412
Provision for possible loan losses	(637,232)
Provision for severance benefits	(4,070)
Loss on settlement of non-performing loans disposed	104,046
Loss on investments by equity method	19,298
Write-offs of loans	116,474
Provision for guarantees outstanding	70,229
Impairment loss on investment securities	96,472
Present value discount account	97,080
Other	53,584
	<u>(79,707)</u>
Permanent differences (tax effect) :	
Dividends received deduction	(4,974)
Other	426
	<u>(4,548)</u>
Tax effect of taxable income	8,173
Tax effect of operating loss carryforward	<u>(8,173)</u>
Income taxes payable	₩ -

Changes in temporary differences for the year ended December 31, 1999 are as follows :

	Beginning balance	Decrease	Increase	Ending balance	Millions of Won
Accrued severance benefits	₩ 96,168	₩ 28,182	₩ 14,966	₩ 82,952	
Acquisition of stocks resulted from					
transferring capital surplus to common stocks	94,808	941	41,689	135,556	
Loss on valuation of investment securities	76,048	56,811	-	19,237	
Gain on valuation of trading securities	(385,454)	(168,331)	(154,005)	(371,128)	
Impairment Loss on investment equity securities	399,022	-	209,004	608,026	
Impairment Loss on investment debt securities	221,805	32,379	136,596	326,022	
Present value discount account	171,773	80,051	395,246	486,968	
Write-offs of loans	(378,162)	(378,162)	-	-	
Provision for possible loan losses	2,068,935	2,068,935	-	-	
Provision for guarantees-outstanding	301,701	-	228,017	529,718	
Loss on settlement of non-performing loans disposed	368,536	-	337,812	706,348	
Loss on investment valuation by equity method	(491,566)	(62,657)	-	(428,909)	
Other	(366,229)	(44,602)	145,434	(176,193)	
	2,177,385	1,613,547	1,354,759	1,918,597	
Operating loss carryforward	2,651,868	26,535	-	2,625,333	
	<u>₩ 4,829,253</u>	<u>₩ 1,640,082</u>	<u>₩ 1,354,759</u>	<u>₩ 4,543,930</u>	
Deferred tax assets	₩ 1,487,410	₩ 505,145	₩ 417,266	₩ 1,399,531	

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

The Bank recorded ₩240,022 million out of total future tax benefits of ₩1,487,410 million as beginning deferred tax assets. The Bank considered future deductibility of accumulated deficit from future taxable income.

20. Assets and Liabilities Denominated in Foreign Currencies:

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

	Thousands of U.S. Dollars (*)	Millions of Won
(Assets)		
Foreign exchange	US\$ 1,567	₩ 1,794
Due from bank	5,791,181	6,633,218
Trading securities	438,040	501,731
Investment securities	1,265,497	1,449,500
Bills bought	1,482,167	1,697,674
Call loans	163,989	187,833
Loans	18,059,914	20,685,826
Other assets	2,069,613	2,370,536
	<hr/> US\$ 29,271,968	<hr/> ₩ 33,528,112
(Liabilities)		
Deposits	US\$ 727,017	₩ 832,726
Call money	35,259	40,385
Bonds sold under repurchase agreement	239,893	274,774
Borrowings	13,599,908	15,577,334
Industrial finance bonds issued	13,282,102	15,213,319
Other	129,539	148,374
	<hr/> US\$ 28,013,718	<hr/> ₩ 32,086,912

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

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

21. Related Party Transactions :

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

	Millions of Won	
	Loans	Deposits
Korea Heavy Industries & Construction Co., Ltd.	₩ 170,201	₩ -
The KDB Capital Co., Ltd.	913,831	-
KDB (Deutschland) GmbH	68,678	68,495
Kia Steel Co., Ltd.	524,252	-
Korea Asset Management Corp.	500,919	-
Other	283,895	14,639
	₩ 2,461,776	₩ 83,134

BALANCE SHEET(TRUST ACCOUNTS)

December 31, 1999

		In Millions of Korean Won	In Thousands of U.S. Dollars
ASSETS (Note 2)			
Loans	₩	352,821	US\$ 308,033
Securities		1,851,441	1,616,414
Properties in trust		39,000	34,049
Due from banking accounts		237,921	207,719
Accrued income		24,738	21,598
Other assets		30,729	26,828
	₩	2,536,650	US\$ 2,214,641
LIABILITIES (Note 2)			
Money trusts	₩	2,260,972	US\$ 1,973,959
Other trusts		39,000	34,049
Provision for future trust losses		2,313	2,019
Provision for possible loan losses		78,949	68,927
Accrued trust dividends		152,600	133,229
Other liabilities		2,816	2,458
	₩	2,536,650	US\$ 2,214,641

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

STATEMENT OF OPERATIONS (TRUST ACCOUNTS)

for the year ended December 31, 1999

	In Millions of Korean Won	In Thousands of U.S. Dollars
REVENUE:		
Interest on loans	₩ 61,406	US\$ 53,611
Interest on call loans	856	747
Interest on securities	203,121	177,336
Other interest income	1,040	908
	<hr/> 266,423	<hr/> 232,602
Gain on derivatives transactions	5,085	4,439
Gain on securities transactions	170,897	149,203
Transfer from the Bank's banking accounts	13,137	11,470
Other income	48,265	42,138
	<hr/> 503,807	<hr/> 439,852
EXPENSES:		
Commission expenses	3,899	3,404
Loss on derivatives transactions	6,478	5,656
Loss on securities transactions	158,112	138,040
Trust fees to the Bank	26,496	23,132
Provision for possible loan losses	3,783	3,303
Other expenses	6,106	5,331
	<hr/> 204,874	<hr/> 178,866
Dividend of trust profit to beneficiaries	₩ 298,933	US\$ 260,986

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

NOTES TO FINANCIAL STATEMENTS (TRUST ACCOUNTS)

1. Summary of Significant Accounting Policies:

Accounting for Trust Accounts

Under the Trust Business Act, the Bank's trust funds held as fiduciary are accounted for and reported separately from the Bank's banking accounts. The significant accounting policies applied in the preparation of the accompanying financial statements of the Bank's trust accounts are summarized as follows :

- Revenues and Expenses of Trust Accounts

Trust accounts comprise trust operating revenues and expenses, trust fees to the Bank, and dividends of trust profit to the beneficiaries of the trust accounts. The trust fees to the Bank are recognized as income of the banking accounts of the Bank.

- Interest Income Recognition

Interest income on loans and investment securities of the Bank's trust accounts are recognized using the same method as the banking accounts of the Bank.

- Due From Banking Accounts

The Bank's trust account deposits certain amounts for drawing of unspecified money trusts. Such deposits are recorded as due from banking accounts. Interest on these deposits is computed and recorded daily.

- Investment Securities

Securities held by the Bank's trust accounts are stated at market determined using the same method as the banking accounts of the Bank. However, debt securities held by the funds organized before November 13, 1998 are stated at cost in accordance with the transitional provisions of Trust Business Act and related regulations.

- Trust Fees

The Bank's banking accounts receive trust fees from the trust accounts for its management of trust assets and operations, and are entitled to receive special trust fees for certain trust accounts in accordance with the relevant laws and regulations applicable to trust operations.

- Compensation from the Bank

Certain money trust agreements provide that the Bank guarantees a minimum rate of return. If the income from trust operations is insufficient to generate the required rate of return, the deficiency may be either recovered from previously established provisions for future trust losses or compensated by the Bank's banking accounts. Such compensation is accounted for as other expenses of the banking accounts and other incomes of the trust accounts, respectively, in accordance with the relevant laws and regulations applicable to trust operations. The Bank's banking accounts compensated 33,415 million won for the loss of certain trust accounts in 1999.

- Provision for Future Trust Losses

The Bank's trust accounts are required to set up a special allowance, not to exceed 5% of annual revenues until the total allowance equals 3% of the related money trust balance.

- Provision for Possible Loan Losses

The Bank provides provisions for possible loan losses determined using the same method as the banking accounts of the Bank. However, the Bank provides for possible loan losses in an amount of 2%~20% of loans granted to customers under corporate restructuring.

NOTES TO FINANCIAL STATEMENTS (TRUST ACCOUNTS)

2. Trust Accounts:

Nature of Money Trust Accounts

The details of trust accounts are as follows:

Trusts	Trust terms		
	Maturity (years)	Dividend rate	Repayment guarantees
Money Trusts			
General unspecified money trusts(*)	over 1.6	Fixed	Principal and rate of return
Installment money trusts (fixed)(*)	over 1.6	Fixed	Principal and rate of return
Installment money trusts (Co-mingled and managed jointly)	over 1.6	Floating	-
Development trusts(*)	2,3 and 5	Fixed	Principal and rate of return
Non-tax household trusts	3 ~ 5	Floating	-
Household money trusts	1.6	Floating	-
Corporation money trusts	1.6	Floating	-
Old-age living pension trusts	over 5	Floating	Principal
Individual pension trusts	over 10	Floating	Principal
Labor preferential trusts	3 ~ 5	Floating	-
New installment trusts	over 1.0	Floating	-
Retirement trusts	retirement	Floating	Principal
Specified money trusts	over 1.6	Floating	-
Unit type trusts	over 1.0	Floating	-

(*) New sales have been suspended.

In addition to the above money trusts, the Bank runs collateralized debenture trusts.

The followings are condensed balance sheets and income statements of Trusts Account by category at December 31, 1999.

Condensed Balance Sheets

Millions of Won

	Trust terms			Total
	Guaranteed principal or rate of return trust	Non-Guaranteed trusts		
(Assets)				
Loans	₩ 103,912	₩ 248,909	₩	352,821
Investment in securities	578,006	1,273,435	₩	1,851,441
Others	80,785	251,603	₩	332,388
Total	₩ 762,073	₩ 1,773,947	₩	2,536,650
(Liabilities)				
Money and other trusts	₩ 577,164	₩ 1,722,808	₩	2,299,972
Provision for future trust losses	2,031	282	₩	2,313
Provision for possible loan losses	74,375	4,574	₩	78,949
Accrued trust dividends	108,224	44,376	₩	152,600
Other	909	1,907	₩	2,816
Total	₩ 762,703	₩ 1,773,947	₩	2,536,650

NOTES TO FINANCIAL STATEMENTS (TRUST ACCOUNTS)

Condensed Statements of Operations

Millions of Won

	Trust terms Trusts			Total	
	Guaranteed principal or rate of return trust	Non-Guaranteed trusts			
(Revenue)					
Interest income	₩ 99,795	₩ 166,628	₩	266,423	
Gains on securities	101,020	69,877		170,897	
Other	52,586	13,901		66,487	
Total	₩ 253,401	₩ 250,406	₩	503,807	
(Expenses)					
Commissions paid	₩ 2,554	₩ 1,345	₩	3,899	
Loss on securities	108,079	50,033		158,112	
Loss on disposed loans	-	-		-	
Taxes and dues	2,024	1,663		3,687	
Trust fees to the Bank	717	25,779		26,496	
Provisions for possible loan losses	547	3,236		3,783	
Other expenses	7,560	1,337		8,897	
	121,481	83,393		204,874	
Dividends of trust profit to beneficiaries	₩ 131,920	₩ 167,013	₩	298,933	

Investments in Securities

Investments in securities at December 31, 1999 are as follows:

	Annual Interest Rate (%)	Millions of Won	
Government bonds	8.07~10.32	₩	31,163
Financial bonds			116,887
Monetary stabilization bonds	6.25~19.00		(78,427)
Other financial bonds	7.30~19.20		(38,460)
Corporate bonds	7.59~27.00		820,332
Equity investments	-		296,408
Beneficiary certificates	-		488,830
Commercial paper	10.38~11.52		89,954
Negotiable Certificate of Deposit	6.35		7,867
		₩	1,851,441

Trust fees

The Bank's banking accounts receive trust fees ranging from 0.4% to 4.2% of trusted assets for its management services and are entitled to receive special trust fees up to 2% from certain trusts in accordance with the relevant laws and regulations applicable to trust operations.

REPORT OF INDEPENDENT ACCOUNTANTS

SAMIL ACCOUNTING CORPORATION

PRICEWATERHOUSECOOPERS

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To the Board of Directors The Korea Development Bank

We have audited the accompanying non-consolidated balance sheet of The Korea Development Bank (the "Bank") as of December 31, 1999, and the related statements of income, appropriations of retained earnings and cash flows for the year then ended, expressed in Korean Won. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of December 31, 1999, and the results of its operations, the appropriations of its retained earnings and its cash flows for the year then ended in accordance with financial accounting standards generally accepted in the Republic of Korea.

As discussed in Note 2 to the financial statements, the Bank changed its method of classification for possible loan losses to a method which reflects borrowers' future debt servicing ability (forward looking criteria) during 1999.

Without qualifying our opinion, we draw attention to Note 14 to the financial statements. The operations of the Bank have been significantly affected, and may continue to be affected for the foreseeable future, by the general adverse economic conditions in the Republic of Korea and in the Asia Pacific region. Under these adverse economic conditions, certain customers of the Bank are in the process of restructuring loans with their creditor banks. As discussed in the notes 6 and 14 to the financial statements the Bank provided loans of ₩2,523,334 million and ₩3,325,763 million on December 31, 1999 for work-out companies and Daewoo Group companies, respectively. The Bank provided ₩878,088 million and ₩855,996 million for possible loan losses with regard to the above customers. Actual results of the credit loss from the loans to the customers could differ from the provisions reserved.

The amounts expressed in U.S. Dollars are provided solely for the convenience of the reader and have been translated on the basis set forth in Note 3 to the financial statements.

The accompanying financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Korea. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in Korea.

Seoul, Korea
January 29, 2000

Samil Accounting Corporation



To the Korea Development Bank

We have audited the financial statements of The Korea Development Bank as of December 31, 1999. We have also audited the accompanying financial statements of The Korea Development Bank Trust Accounts as of December 31, 1999. We conducted our audit in accordance with auditing standards generally accepted in the Republic of Korea. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

In our opinion, the accompanying financial statements of trust accounts presents fairly, in all material respects, the financial position of trust accounts as of December 31, 1999, and the results of their operations for the year then ended in conformity with the Trust Business Act and related regulations.

Attachment :

- Balance Sheet of Trust Accounts
- Statement of Operations of Trust Accounts
- Notes to the Financial Statement

Samil Accounting Corporation

January 29, 2000

AUDITOR'S STATEMENT

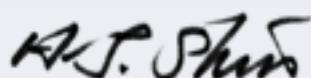
In my capacity as duly appointed Auditor of The Korea Development Bank, I have examined the non-consolidated balance sheet of Banking Accounts of The Korea Development Bank as of December 31, 1999 and the related non-consolidated statements of income, appropriations of retained earnings and cash flows of The Korea Development Bank for the year then ended, and I have examined the non-consolidated balance sheet of the Trust Accounts of The Korea Development Bank as of December 31, 1999 and the related non-consolidated statements of operations for the year then ended.

My examination was made in accordance with generally accepted auditing principles in the Republic of Korea and accordingly included such tests of the accounting records and such other auditing procedures as I considered necessary in the circumstances.

In my opinion, the aforementioned non-consolidated financial statements referred to above, together with the notes relating thereto, present fairly the financial position of Banking Accounts for The Korea Development Bank as of December 31, 1999, and the results of its operations, appropriations of retained earnings and its cash flows for the year then ended, and the financial position of Trust Accounts of The Korea Development as of December 31, 1999, and the results of its operations for the year then ended, in conformity with Korean laws and accounting principles generally accepted and applied in the Republic of Korea.

Accounting standards and disclosure rules are strengthened from the fiscal year 1999 according to the "Memorandum on the Economic Program" between Korean Government and IMF. The comparative financial statements as of December 31, 1998 are not presented in accordance with the transitional provisions of the revised financial accounting standards in the Republic of Korea.

March 2000



Ho-Joo Shin
Auditor

CONSOLIDATED BALANCE SHEET

December 31, 1999

	In Millions of Korean Won	In Thousands of U.S. Dollars (Note 3)
ASSETS		
Cash and due from banks (Note 4)		
net of allowance for doubtful accounts		
of ₩38,449 million	₩ 7,097,498	US\$ 6,196,523
Trading securities (Note 5)	7,202,891	6,288,538
Investment securities (Note 5)	17,317,995	15,119,604
Loans (Note 6)		
net of provision for possible loan losses		
and present value discount of		
₩3,756,802 million and		
₩494,420 million, respectively	44,862,352	39,167,411
Premises and equipment, net (Note 7)	737,236	643,649
Operating lease assets, net of accumulated		
depreciation of ₩1,127,760 million	575,380	502,340
Consolidation adjustment	35,145	30,684
Other assets (Note 8)	2,754,378	2,404,730
Total assets	₩ 80,582,875	US\$ 70,353,479
LIABILITIES AND EQUITY		
Deposits (Note 9)	₩ 7,083,133	US\$ 6,183,982
Borrowings (Note 10)	22,747,562	19,859,929
Debentures (Note 11)		
net of premium and discount on bonds of		
₩1,786 million and ₩177,548 million	39,069,524	34,109,939
Provision for guarantees outstanding (Note 12)	529,718	462,474
Accrued severance benefits net of		
national pension fund contribution of ₩5,595 million	111,214	97,096
Other liabilities (Note 13)	3,691,103	3,222,545
Total liabilities	73,232,254	63,935,965
Minority interests in consolidated subsidiaries	1,056,115	922,049
Commitments and Contingencies (Note 14)		
Equity :		
Paid-in capital (Note 15)	4,971,661	4,340,545
Capital surplus (Note 16)	34,754	30,342
Retained earnings (Note 17)	488,136	426,171
Capital adjustment (Note 18)	799,955	698,407
Total equity	6,294,506	5,495,465
Total Liabilities, Minority Interests and Equity	₩ 80,582,875	US\$ 70,353,479

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

CONSOLIDATED INCOME STATEMENT

for the year ended December 31, 1999

	In Millions of Korean Won	In Thousands of U.S. Dollars (Note 3)
Interest income :		
Interest on loans	₩ 4,079,509	US\$ 3,561,646
Interest on due from banks	409,767	357,750
Interest on trading securities	286,189	249,859
Interest on investment securities	500,748	437,182
Other interest income	47,358	41,346
	5,323,571	4,647,783
Interest expense :		
Interest on deposits	710,782	620,554
Interest on borrowings	1,532,541	1,337,996
Interest on bond payable	3,334,418	2,911,138
Other interest expenses	100,079	87,375
	5,677,820	4,957,063
Net interest loss	(354,249)	(309,280)
Provision for possible loan losses	941,567	822,042
Net interest loss after provisioning for possible loan losses	(1,295,816)	(1,131,322)
Non-interest revenue:		
Fees and commissions	187,575	163,764
Gains from trading securities	1,210,245	1,056,613
Gains from investment securities	1,279,945	1,117,466
Gains on foreign currency transaction	1,521,719	1,328,548
Other (Note 19)	2,052,147	1,791,642
	6,251,631	5,458,033
Non-interest expense:		
Fees and commissions	42,991	37,534
Losses from trading securities	297,317	259,575
Losses from investment securities	353,186	308,351
Losses on foreign currency transaction	1,483,225	1,294,941
General and administrative expenses (Note 20)	256,321	223,783
Other (Note 19)	1,794,538	1,566,734
	4,227,578	3,690,918

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

CONSOLIDATED INCOME STATEMENT

for the year ended December 31, 1999

	In Millions of Korean Won	In Thousands of U.S. Dollars (Note 3)
Operating income	728,237	635,793
Non-operating loss, net	(8,990)	(7,849)
Extraordinary loss, net	(64,361)	(56,191)
Income before income taxes	654,886	571,753
Income taxes (Note 21)	99,979	87,287
Net income before amortization of consolidation adjustments	554,907	484,466
Minority interest in earnings of consolidated subsidiaries, net	(204,604)	(178,631)
Amortization of consolidation adjustments, net	(8,786)	(7,671)
Net income	₩ 341,517	US\$ 298,164

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

CONSOLIDATED STATEMENTS OF CAPITAL SURPLUS AND RETAINED EARNINGS

for the year ended December 31, 1999

	In Millions of Korean Won	In Thousands of U.S. Dollars (Note 3)
. Consolidated capital surplus :		
Balance at beginning of the year	₩ 290,105	US\$ 253,278
Reclassification to capital adjustments (Note 18)	(260,332)	(227,285)
Changes of equity ownership ratio	4,981	4,349
Balance at end of the year (Note 16)	34,754	30,342
. Consolidated retained earnings :		
Balance at beginning of the year	(90,730)	(79,212)
Net income	341,517	298,164
Cumulative effect of accounting changes (Note 17)	245,278	214,142
Changes of equity ownership ratio	(4,769)	(4,164)
Other	(3,160)	(2,759)
Balance at end of the year (Note 17)	488,136	426,171
. Consolidated capital surplus and retained earnings, end of the year	₩ 522,890	US\$ 456,513

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

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended December 31, 1999

	In Millions of Korean Won	In Thousands of U.S. Dollars (Note 3)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	₩ 341,517	US\$ 298,164
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on disposal of loans, net	(166,314)	(145,202)
Gain on trading securities, net	(899,023)	(784,899)
Gain on investment securities, net	(902,546)	(787,975)
Bad debt expenses	941,567	822,042
Depreciation	17,408	15,198
Decrease in advance customers	611,861	534,190
Decrease in accrued expense	(655,335)	(572,145)
Payment of severance benefits	(18,439)	(16,098)
Others, net	899,874	785,642
Net cash provided by operating activities	170,570	148,917
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in trading securities	4,267,472	3,725,748
Decrease in loans	4,561,923	3,982,821
Increase in investment securities	(334,160)	(291,741)
Increase in premises and equipment	(43,044)	(37,580)
Others, net	(1,020,221)	(890,711)
Net cash provided by investing activities	7,431,970	6,488,537
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in deposits	(2,658,478)	(2,321,004)
Decrease in borrowings	(5,146,848)	(4,493,494)
Decrease in bonds issued	(1,795,797)	(1,567,834)
Increase in paid-in capital	800,000	698,446
Others, net	1,198,448	1,046,314
Net cash used in financing activities	(7,602,675)	(6,637,572)
Net decrease in cash	(135)	(118)
Cash, beginning of the year	80,483	70,266
Cash, end of the year (Note 4)	₩ 80,348	US\$ 70,148

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1999

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, 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, 1999. 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, 1999 is as follows:

		Invested amount (Millions of Won)	Ownership ratio
Domestic subsidiaries			
KDB Capital Corp (formerly, Korea Industrial Leasing Co., Ltd.)	₩	378,014	86.7%
Seoul Debt Restructuring Fund		262,800	43.8%
Arirang Restructuring Fund		145,800	43.7%
Mukoonghwa Restructuring Fund		145,700	43.7%
Sanub Finance Corp.		20,000	100.0%
		952,314	
Foreign subsidiaries			
KDB Asia (HK) Ltd.	US\$	60	100.0%
KDB Ireland Ltd.	US\$	20	100.0%
KDB Lease (Japan) Ltd.	JP ¥	650	65.0%
Metropolitan Industrial Leasing Co., Ltd.	THB	98	49.0%
Others	US\$	10	-
	₩	118,902	
	₩	1,071,216	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Condensed balance sheet and statement of operations of consolidated subsidiaries as of December 31, 1999 and for the year then ended are as follows:

Condensed Balance Sheet (*)

	Millions of Won					
	KDB Capital Corporation	Restructuring Funds (**)	Trust Accounts	Foreign Subsidiaries	Total	
Cash and due from banks	₩ 104,353	₩ 400,053	₩ -	₩ 52,815	₩ 557,221	
Securities	917,080	1,319,852	578,005	196,103	3,011,040	
Loans	940,547	-	29,537	427,870	1,397,954	
Premises and equipment	2,527,566	-	-	1,757	2,529,323	
Other assets	503,003	29,911	80,786	22,340	636,040	
Total assets	₩ 4,992,549	₩ 1,749,816	₩ 688,328	₩ 700,885	₩ 8,131,578	
Deposits	₩ 6,423	₩ -	₩ 577,164	₩ 2,388	₩ 585,975	
Borrowings and debentures	4,394,961	-	-	618,603	5,013,564	
Other liabilities	292,860	51,357	109,133	28,394	481,744	
Total liabilities	4,694,244	51,357	686,297	649,385	6,081,283	
Common stock	457,864	1,266,700	-	75,634	1,800,198	
Capital surplus	10,345	-	-	-	10,345	
Retained earnings (deficit)	(370,477)	431,759	2,031	(50,646)	12,667	
Capital adjustment	200,573	-	-	26,512	227,085	
Total shareholders' equity	298,305	1,698,459	2,031	51,500	2,050,295	
Total liabilities and shareholders' equity	₩ 4,992,549	₩ 1,749,816	₩ 688,328	₩ 700,885	₩ 8,131,578	

Condensed Statement of Operations (*)

	Millions of Won					
	KDB Capital Corporation	Restructuring Funds (**)	Trust Accounts	Foreign Subsidiaries	Total	
Operating revenue	₩ 1,479,429	₩ 530,895	₩ 253,400	₩ 94,712	₩ 2,358,436	
Operating expenses	1,558,033	87,786	252,683	116,397	2,014,899	
Operating income (loss)	(78,604)	443,109	717	(21,685)	343,537	
Non-operating income	1,679	-	-	-	1,679	
Non-operating expenses	(12,298)	-	-	(1)	(12,299)	
Extraordinary loss	(85,474)	-	(717)	-	(86,191)	
Income taxes	(65)	(11,350)	-	(190)	(11,605)	
Net income (loss)	₩ (174,762)	₩ 431,759	₩ -	₩ (21,876)	₩ 235,121	

(*) Condensed balance sheet and statement of operations are based on the consolidated subsidiaries' financial statements before consolidation adjustment.

(**) Restructuring funds include Seoul Debt, Arirang and Mukoonghwa restructuring fund.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Subsidiaries	Incorporated date	Outstanding Capital (in Millions)		Major business
KDB Capital Corp.	December 1972	₩	457,864	Leasing industrial machinery, equipment, aircrafts, ship, automobiles and investing in and providing finance to venture capital companies.
Restructuring Funds	September 1998	₩	1,266,700	Financing and investing for restructuring of domestic companies.
Sanub Finance Corp.	September 1995	₩	20,000	Customer installment financing, factoring and lending capital.
KDB Asia (HK) Ltd.	January 1986	US\$	60	Providing finance to Korean companies. Investment in securities. Conducting international securities operation.
KDB Ireland Ltd.	June 1997	US\$	20	Supporting to introduce commercial loan for Korean companies. Investing in securities
KDB Lease (Japan) Ltd.	September 1991	JP¥	1,000	Leasing aircrafts, ships and machinery, etc.

The following companies, which were consolidated in 1998, are excluded from consolidation in 1999.

Companies	Reason of Exclusion
Korea Technology Finance Corp.	Merged into KDB Capital Corp.
Korea Management & Credit Rating Corp.	Decrease in ownership
KDB Bank (UK) Ltd.	Under liquidation
KDB (Deutschland) GmbH	
KDB International (Singapore) Ltd.	
Sanub Rental Corp.	
KILC Yokogawa Rental Corp.	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Equity-Method Investees

The brief explanation of the primary business activities of the equity-method investees is as follows:

Subsidiaries	Incorporated Date		Outstanding Capital (in Millions)	Major Business
Korea Heavy Industries & Construction Co., Ltd.	September 1962	₩	521,000	Manufacturing and selling of machinery, industrial plant engineering.
Korea General Chemical Corp.	April 1973	₩	87,811	Manufacturing and selling of basic chemicals including chemical material of water supply & drainage treatment.
Korea National Tourism Organization	June 1962	₩	32,391	Conducting business incidental to promote tourism.
Korea National Housing Corp.	July 1962	₩	3,547,733	Housing construction, supply, management and redevelopment of housing unit.
Korea Land Development Corp.	March 1979	₩	1,706,600	Acquiring, managing , developing and supplying of land
Korea Asset Management Corp.	November 1997	₩	120,000	Purchasing non-performing loans from financial institutions and disposing of the loans through various financing programs
Hankang Restructuring Fund	September 1998	₩	333,300	Financing and investing for restructuring of domestic companies
KDB Bank (UK) Ltd.	December 1972	GBP	32	Providing finance to Korean companies. Investing in securities
KDB (Deutschland) GmbH	September 1990	DEM	54	Conducting international securities operation.

Pohang Iron & Steel Co., Ltd. and Korea Highway Corporation is excluded as equity-method investee for 1999 due to the decrease in ownership ratio.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Financial statements for the twelve months ended December 31, 1999 were used for consolidation of KDB Capital Corp., Seoul Debt Restructuring Fund, Arirang Restructuring Fund and Mukoonghwa Restructuring Fund which have a fiscal year end of March 31.

Principles of Consolidation

The Bank records differences between the investment account and corresponding capital account of subsidiaries as a consolidation adjustment, which is amortized over five years using the straight-line method. The differential between the investment account and corresponding capital account for equity-method investee companies at the date of acquisition of the investment is amortized over five years using the straight-line method. Such amortization is included in determination of equity in earnings (losses) of equity-method investees.

All significant intercompany transactions and balances among the consolidated companies have been eliminated in consolidation (see Note 22).

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 as of December 31, 1999 was ₩179,595 million.

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%
Substandard	20%
Doubtful	50%
Loss	100%

Consolidated subsidiaries provide allowances for loan losses according to the relevant laws and regulations applicable in their respective jurisdictions, or based on the aggregate estimated collectability of the loans and receivables. But, for the consolidation financial statements, consolidated subsidiaries adjust to the Bank's method described as above. The effect of this adjustment was to increase a provision of ₩76,037 million comparing to the method adopted by consolidated subsidiaries.

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 equity.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Investment securities which allow the Bank significant influence over the investee are valued using the equity method of accounting. The Bank considers that it has significant influence on investees in which the Bank holds more than a 20% interest. However, the Bank does not apply equity method for investees under court receivership or bankruptcy or for which total assets are less than 7,000 million won.

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

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

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 over the estimated useful lives of the related assets, except for buildings and structures, which are depreciated using the straight-line method.

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.

Present Value Discounts

When the Bank disposes of foreclosed land and buildings under long-term installment contracts, the resulting long-term installment 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.

Bond Issuance Costs

In prior years, bond issuance costs were deferred and amortized over the redemption period of the debenture using the straight-line method. In accordance with the revised generally accepted accounting principles in the Republic of Korea, the bond issuance costs are now deducted from the proceeds of the bonds issued. Bond issuance costs carried over from previous years were added to discounts on debentures and will be amortized as interest expense over the remaining redemption period using the straight-line method.

Foreign Currency Translation

Assets and liabilities denominated in foreign currencies are translated into Korean Won at basic exchange rates (1,145.4 Won/US\$) on the balance sheet date. Resulting exchange gains or losses are reflected in current operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

The Bank's actual payments for severance benefits for the year ended on December 31, 1999 was ₩34,563 million.

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). In accordance with the National Pension Act, a certain portion of accrued severance benefits was contributed to the National Pension Fund and deducted from accrued severance benefits in the accompanying balance sheet. The contributed amount for employees and directors shall be deducted from the payment of severance benefits on their retirement.

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% of guaranteed amounts for companies classified as "substandard," 50% for "doubtful" and 100% for "loss." The allowance is shown in the liability section.

Deferred Income Taxes

Commencing January 1, 1999, the Bank records deferred income taxes which arises from temporary differences between the amount reported for financial reporting purposes and income tax purposes in accordance with the revised financial accounting standards generally accepted in the Republic of Korea. The Bank has retroactively adjusted the retained earnings carried from prior years and recorded ₩240,022 million of deferred income tax assets as of January 1, 1999.

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 and current year-to-date average exchange rate for income statements. Resulting differences are accounted for as overseas business translation debit or credit in capital adjustment.

Derivative Financial Instruments

Derivative financial instruments entered into for trading purposes are valued at current market prices. Resulting unrealized valuation gains or losses are reflected in current operations.

Derivative financial instruments used for hedging purposes are accounted for in a manner consistent with the accounting treatment appropriate for the transactions being hedged or associated with such contracts. The instruments are valued at fair value when underlying transactions are valued at market, and resulting unrealized valuation gains or losses are recognized currently. Unrealized valuation gains or losses are recognized at the time of settlement when the underlying transactions are not required to be valued at market.

3. 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 ₩1,145.4 : US\$ 1, the basic rate on December 31, 1999. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Cash and Due from Banks:

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

	Annuall interest rate (%)	Millions of Won
Cash on hand in Won	-	₩ 77,776
Cash on hand in foreign currency	-	2,572
Due from banks in Won	0.00~8.00	347,288
Due from banks in foreign currency	0.00~8.30	6,708,311
		<hr/>
Less : Allowance for doubtful accounts		7,135,947
		(38,449)
		<hr/>
		₩ 7,097,498

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

Bank	Annuall interest rate (%)	Millions of Won
The Bank of Korea	-	₩ 65,706
National Livestock Cooperatives Federation	8.00	22,900
Others	0.00~3.00	258,682
		<hr/>
		₩ 347,288

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

Bank	Annuall interest rate (%)	Millions of Won
The Bank of Korea	5.78 ~ 7.84	₩ 25,555
The Export-Import Bank of Korea	6.26	2,608,707
Kookmin Bank	6.46 ~ 7.75	662,228
Industrial Bank of Korea	7.00 ~ 7.90	131,721
Tong Yang Investment Bank	7.8	442,011
Hana Bank	7.45 ~ 7.7	271,459
Shinhan Bank	7.12 ~ 7.75	293,174
Housing & Commercial Bank	7.35 ~ 7.75	103,086
Chase Manhattan Bank	0.00 ~ 4.50	586,928
Others	2.37 ~ 8.30	1,583,442
		<hr/>
		₩ 6,708,311

Restricted deposits included in due from banks at December 31, 1999 are as follows :

	Millions of Won
Reserve deposits with the Bank of Korea	₩ 86,616
Deposits for severance payment	22,900
China Construction Bank	2,291
Bank of Communications	1,841
Bank of Tokyo	5,727
Sanwa Bank	5,727
Others	10,306
	<hr/>
	₩ 135,408

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 Bank of Tokyo and Sanwa Bank are pledged as collateral.

The maturity of amounts due from banks at December 31, 1999 are as follows :

Matured on or before December 31	Due from banks in Won	Due from banks in foreign currency	Millions of Won	
				Total
2000	₩ 346,870	₩ 3,365,843	₩	3,712,713
2001	418	80,178		80,596
2002	-	28,635		28,635
2003	-	315,393		315,393
2004	-	649,112		649,112
Thereafter	-	2,269,150		2,269,150
	₩ 347,288	₩ 6,708,311	₩	7,055,599

5. Trading Securities and Investment Securities:

Trading securities at December 31, 1999 comprise the following :

	Millions of Won	
	₩	
Marketable equity securities	₩ 1,219,453	
Government and public bonds	128,461	
Corporate bonds	1,126,002	
Beneficiary certificates	3,683,803	
Securities denominated in foreign currency	425,859	
Other	619,313	
	₩	7,202,891

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

	Millions of Won		
	The Bank	Subsidiaries	Total
Equity investment	₩ 9,767,583	₩ 500,298	₩ 10,267,881
Government and public bonds	1,776,003	61	1,776,064
Corporate bonds	974,570	66,926	1,041,496
Investment securities denominated in foreign currency	1,449,500	93,734	1,543,234
Other	2,688,107	1,213	2,689,320
	₩ 16,655,763	₩ 662,232	₩ 17,317,995

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Equity investments of the Bank as of December 31, 1999 comprise the following :

Investee	Ownership (%)	Millions of Won				
		Acquisition cost	Book value		Fair value or net book value	
Investments using the equity method :						
KDB Bank (UK) Ltd.	100.00	₩ 37,666	₩ 46,564	₩ 46,564		
Hankang Restructuring Fund	23.01	145,700	194,235	179,211		
Kia Steel Co., Ltd.	51.20	84,445	117,804	42,222		
Korea National Tourism Organization	43.60	24,370	99,035	80,360		
Korea National Housing Corp.	27.97	1,300,618	1,434,114	1,444,691		
Korea Land Development Corp.	28.30	1,161,904	1,048,571	758,783		
Korea Asset Management Corp.	30.77	40,000	43,006	42,965		
Korea General Chemical Corp.	98.99	94,082	122,271	122,271		
Korea Heavy Industries & Construction Co., Ltd.	43.76	228,000	755,412	755,412		
KDB (Deutschland) GmbH	100.00	25,194	23,206	23,206		
Other	-	46,509	72,365	98,161		
		3,188,488	3,956,583	3,593,846		
Investments not using the equity method :						
Pohang Iron & Steel Co., Ltd.	9.84	530,236	1,186,303	1,186,303		
The Industrial Bank of Korea	14.91	400,000	283,008	283,008		
Korea Highway Corporation	16.80	1,430,100	1,430,184	1,430,184		
Korea Tobacco & Ginseng Corp.	8.12	260,000	389,496	389,496		
The Export-Import Bank of Korea	6.20	200,000	200,000	126,633		
Korea Water Resources Corp.	11.18	671,307	671,307	312,693		
Bond Market Stabilization Fund	7.85	792,419	808,077	808,077		
Other	-	866,609	842,625	809,580		
		5,150,671	5,811,000	5,345,974		
	₩	8,339,159	₩ 9,767,583	₩ 8,939,820		

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

	Beginning book value	Acquisition (disposition)	Dividends	Valuation gain or loss	Millions of Won	
					Capital adjustment	Ending book value
KDB Bank (UK) Ltd.	₩ 14,363	₩ -	₩ -	₩ 385	₩ 31,816	₩ 46,564
Hankang Restructuring Fund	145,700	-	(2,331)	50,866	-	194,235
Kia Steel Co., Ltd.	-	84,445	-	33,359	-	117,804
KDB (Deutschland) GmbH	21,640	-	-	(6,816)	8,382	23,206
Korea National Tourism Organization	88,390	-	(141)	10,786	-	99,035
Korea National Housing Corp.	1,373,250	-	-	60,864	-	1,434,114
Korea Land Development Corp.	1,081,991	-	-	(33,406)	(14)	1,048,571
Korea Asset Management Corp.	40,975	-	-	2,031	-	43,006
Korea General Chemical Corp.	108,564	1,023	(8,672)	21,895	(539)	122,271
Korea Heavy Industries & Construction Co., Ltd.	760,614	(762)	(4,560)	22,435	(22,315)	755,412
Other	27,481	16,652	(763)	6,062	22,933	72,365
	₩ 3,662,968	₩ 101,358	₩ (16,467)	₩ 168,461	₩ 40,263	₩ 3,956,583

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Investments in debt securities available-for-sale of the Bank at December 31, 1999 comprise the following :

					Millions of Won
	Par value	Acquisition cost	Amortized cost	Market (carrying) value	
Government and public bonds	₩ 280,585	₩ 280,375	₩ 280,525	₩ 273,634	
Corporate bonds	1,048,463	1,014,489	1,003,341	974,570	
Investment securities denominated in foreign currency	985,785	699,571	690,605	582,512	
Other	2,363,493	2,332,275	2,361,257	2,314,656	
	₩ 4,678,326	₩ 4,326,710	₩ 4,335,728	₩ 4,145,372	

Investments in debt securities held-to-maturity of the Bank at December 31, 1999 comprise the following :

				Millions of Won
	Par value	Acquisition cost	Book value	
Government and public bonds	₩ 1,502,369	₩ 1,502,369	₩ 1,502,369	
Investment securities in foreign currency	875,919	736,439	866,988	
Other	377,918	372,582	373,451	
	₩ 2,756,206	₩ 2,611,390	₩ 2,742,808	

Investment securities denominated in foreign currency of the Bank at December 31, 1999 comprise the following :

	Foreign currency (In thousands)	Millions of Won	
Securities available-for-sale			
BEF	736	₩	21
CHF	21,077	₩	15,119
DEM	22,308	₩	13,123
IDR	3,906	₩	63
JPY	1,290,469	₩	14,477
MYR	16,684	₩	5,029
THB	31,864	₩	976
USD	465,853	₩	533,704
		₩	582,512
Securities held-to-maturity			
CHF	8,211	₩	5,890
DEM	5,061	₩	2,977
JPY	11,676,264	₩	130,989
USD	634,828	₩	727,132
		₩	866,988

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Loans:

Loans at December 31, 1999 comprise the following :

	Millions of Won
Loans in Won	₩ 20,479,604
Loans in foreign currency	19,988,214
Notes purchased	859,924
Bills purchased	1,697,674
Advances for customers	659,220
Bonds purchased under repurchase agreements	36,306
Call loans	437,833
Domestic import usance bills	1,381,661
Debentures accepted by private subscription	1,281,813
Other	2,291,325
Less : Provision for possible loan losses	49,113,574
Present value discount account	(3,756,802)
	(494,420)
	₩ 44,862,352

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

	Millions of Won		
	The Bank	Subsidiaries	Total
Loans in Won			
Loans for working capital	₩ 6,059,628	₩ 315,179	₩ 6,374,807
Loans for facilities	14,091,045	271,603	14,362,648
Inter-company loans	(257,851)	-	(257,851)
	₩ 19,892,822	₩ 586,782	₩ 20,479,604
Loans in foreign currency			
Loans for working capital	₩ 2,788,097	₩ 300,167	₩ 3,088,264
Loans for facilities	17,897,729	471,269	18,368,998
Inter-company loans	(1,456,535)	(12,513)	(1,469,048)
	₩ 19,229,291	₩ 758,923	₩ 19,988,214

The loans in Won and foreign currency of the Bank at December 31, 1999 are as follows :

	Millions of Won					
	Loans in Won			Loans in foreign currency		
Matured in	Loans for working capital	Loans for facilities	Loans for working capital	Loans for facilities	Total	
2000	₩ 622,373	₩ 563,094	₩ 331,597	₩ 1,681,960	₩ 3,199,024	
2001	2,451,087	2,087,110	677,897	2,944,757	8,160,851	
2002	624,085	2,218,796	510,732	2,362,471	5,716,084	
2003	935,973	2,291,682	430,487	2,322,570	5,980,712	
2004	184,879	1,841,526	360,504	1,818,632	4,205,541	
Thereafter	1,241,231	5,088,837	476,880	6,767,339	13,574,287	
	₩ 6,059,628	₩ 14,091,045	₩ 2,788,097	₩ 17,897,729	₩ 40,836,499	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Bank's restructured loans for 1998 and 1999 due to court receivership, court mediation or other financial restructuring process are as follows :

	Millions of Won
Changes in contractual terms	₩ 1,352,227
Exemption	418,889
Conversion to equity investment	209,025
Conversion to convertible bonds	592,243
Total	₩ 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, 1999 to Daewoo group companies and customers under work-out programs are as follows :

	Millions of Won	
	Daewoo group	Work-out debtors
Loans(*)	₩ 3,357,580	₩ 2,828,829
Provision for possible loss(*)	886,774	898,286

(*) including guarantees outstanding.

7. Premises and Equipment:

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

	Acquisition cost or revaluation	Accumulated depreciation	Net book value
Land	₩ 455,482	₩ -	₩ 455,482
Buildings and structures	196,488	22,567	173,921
Machinery	47,219	34,010	13,209
Vehicles	2,026	1,593	433
Construction in progress	87,726	-	87,726
Others	23,801	17,336	6,465
	₩ 812,742	₩ 75,506	₩ 737,236

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 ₩679,486 million, net of a revaluation tax payment of ₩11,288 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, 1999, book value and the government-posted prices of domestic land of the Bank and its subsidiaries are ₩454,896 million and ₩300,125 million, respectively.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Other Assets:

Other assets at December 31, 1999 comprise the following :

	Millions of Won
Prepaid expenses	₩ 747,751
Receivables	157,669
Accrued income	1,032,391
Intangible assets	25,638
Deferred tax asset	238,268
Other	1,013,982
	<hr/>
Less : Provision for possible losses	3,215,699
Present value discount	(456,560)
	<hr/>
	(4,761)
	<hr/>
	₩ 2,754,378

9. Deposits:

Deposits at December 31, 1999 comprise the following:

	Annual interest rate (%)	Millions of Won
Won currency deposits :		
Demand deposits	1.0	₩ 180,168
Time & savings deposits	0.0~12.0	4,017,694
		<hr/>
Foreign currency deposits :		
Checking deposits	-	5,289
Passbook deposits	1.0	71,004
Time deposits	0.79~5.58	235,746
Temporary deposits	-	914
Off-shore deposits	5.22~5.77	32,916
		<hr/>
Negotiable certificates of deposits		
	5.75~6.75	2,539,402
		<hr/>
		₩ 7,083,133

10. Borrowings:

Borrowings at December 31, 1999 comprise the following :

	Annual interest rate (%)	Millions of Won
Won currency		
Borrowings from Korean Government	2.0~10.0	₩ 2,751,770
Others	0~11.5	1,731,843
		<hr/>
		4,483,613
Foreign currency		
Borrowings from Korean Government	LIBOR+0.8~1.1	10,886,581
Off-shore borrowings	2.3~7.1	1,428,335
Others	3.9~7.3	5,002,216
		<hr/>
		17,317,132
Other borrowings		
Bonds sold under respurchase agreements		627,381
Notes sold		154,051
Call money		165,385
		<hr/>
		946,817
		<hr/>
		₩ 22,747,562

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The repayment of ₩771,919, ₩56,668, and ₩781 million included in the borrowings above are guaranteed by the Korean Government, Export Insurance Corporation in Germany and Export Insurance Corporation in Switzerland, respectively.

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

Type	Annual interest rate (%)		Millions of Won	Condition of borrowings
Government fund	5.0~10.0	₩	2,658,083	Installment reimbursement
AID relending facilities	2.00		506	
ADB relending facilities	Libor+0.40		3,441,481	Lump-sum reimbursement
IBRD relending facilities	Libor+0.75~1.00		7,445,100	Installment reimbursement
		₩	13,545,170	

11. Debentures:

Debentures at December 31, 1999 comprise the following :

	Annual interest rate (%)		Millions of Won
Industrial finance bonds issued ("IFBI") in Won	1.0~22.6	₩	22,864,522
IFBI in foreign currency	1.9~9.6		11,544,349
Off-shore IFBI in foreign currency	1.0~10.0		3,688,197
Others	8.7~23.0		1,148,218
			39,245,286
Premiums on Debentures			1,786
Discounts on Debentures			(177,548)
		₩	39,069,524

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 ₩801,785 million as of December 31, 1999.

12. Guarantees Outstanding:

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

	Guarantees amount		Provision for possible loss	Millions of Won	Provision ratio (%)
Acceptances	₩ 3,437,826	₩	137,325		4.0
Guarantees on local borrowings	2,802,057		237,755		8.5
Guarantees on indebtedness in foreign currency	3,523,624		154,577		4.4
Letters of guarantee for importers	36,229		61		0.2
	₩ 9,799,736	₩	529,718		5.4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Other Liabilities:

Other liabilities at December 31, 1999 comprise the following :

	Millions of Won
Trust account debit	₩ 172,672
Payables	265,158
Accrued expenses	1,686,225
Advanced income	239,872
Advance received on IFBI	203,399
Provisions for possible losses from disposed loans	706,348
Other	417,429
	₩ 3,691,103

14. Commitments and Contingencies:

As of December 31, 1999, the Bank has outstanding commitments related to commercial letters of credit and other guarantees (excluding the guarantees described in Note 12) amounting to ₩1,386,655 million.

As of December 31, 1999, the Bank and subsidiaries has derivative financial instruments as follows:

	Millions of Won
Contracts on interest	₩ 27,118,620
Contracts on currency	33,356,910
	₩ 60,475,530

For the year ended December 31, 1999, the Bank recognized unrealized gains and losses from derivative financial instruments of ₩321,056 million and ₩240,266 million, respectively.

In addition to the above derivative financial instruments, as of December 31, 1999, the Bank has unpaid spot exchanges bought and sold amounting to ₩748,871 million and ₩731,593 million, respectively.

The Bank has entered into agreements with foreign banks for certain syndicated loans. The total amount under such loans is US\$ 241,456 thousand, of which US\$ 141,855 thousand has not been withdrawn by borrowers as of December 31, 1999.

During 1998, the Bank sold with recourse ₩3,084,141 million of non-performing loans classified as substandard or below to the Korea Asset Management Corporation for proceeds of ₩1,339,629 million. The resulting loss was recorded as a loss on disposition of loans during 1998. During 1999, the Bank recognized gains from the settlement of such loans in the amount of ₩702,801 million. As of December 31, 1999, ₩1,020,767 million of the loans sold to the Korea Asset Management Corporation are outstanding. As of December 31, 1999, the Bank recorded a provision for possible losses from unsettled disposed loans amounting to ₩706,348 as other liabilities.

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.

The Bank entered into an agreement with the JBIC (Japan Bank for International Cooperation) in 1999 relating to ₩292,630 millions of loans to be used for designated purposes. As of December 31, 1999, the Bank has local loans denominated in foreign currency and foreign currency loans amounting ₩291,965 million and ₩665 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. Recently, economic conditions in the Republic of Korea have improved as evidenced by an increased trade surplus, increases in foreign exchange reserves, record levels of foreign investment and economic growth, lower inflation and interest rates and stabilized foreign exchange rates. Notwithstanding the current recovery, 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. Paid-in Capital:

The government increased the paid-in capital of the Bank by ₩800,000 during 1999, consisting of a ₩200,000 cash contribution and ₩600,000 of contributed securities of other banks. Paid-in capital of the Bank at December 31, 1999 is ₩4,971,661 million.

16. Capital Surplus:

Capital Reserves

In accordance with the resolution of the board of directors on October 27, 1998, the bank decreased its paid-in capital of ₩4,218,800 million, of which ₩4,184,046 million was used to offset accumulated deficit and the remaining amount of ₩34,754 million was credited to capital reserve.

KDB Capital Corporation decreased its paid-in capital of ₩31,378 million, which were used to offset accumulated deficit in accordance with the approval of the shareholders' meeting on January 6, 1999.

17. Retained Earnings:

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

	Millions of Won
Legal reserve	₩ 524,766
Other	(36,630)
	₩ 488,136

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 ₩54,594 million were used to offset accumulated deficit with approval of the Government on February 19, 1998. Capital surplus of ₩4,879,924 million and legal reserves of ₩9,522 million were used to offset accumulated deficit with the approval of the Government on February 27, 1999.

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. 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
Provision for guarantees outstanding	₩ (301,701)
Losses from restructured impaired loans	(171,773)
Deferred income tax assets	240,022
Gains on valuation of investment by equity method	490,527
Loss on valuation of Stock Market Stabilization Fund	(8,105)
Reversal of provision for valuation losses on investments	56,811
Impairment losses on valuation of NPL Management Fund	(60,010)
Other	(493)
	₩ 245,278

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18. Capital adjustments :

Capital adjustments at December 31, 1999 comprise the following :

	Millions of Won
Valuation gain on investment securities	₩ 831,969
Translation adjustments	35,845
Other	(67,859)
	₩ 799,955

Unrealized gains and losses on investment securities (except for equity-method investments) are reported as a capital adjustment.

In accordance with the revised financial accounting standards the Bank reclassified the changes of capital surplus of equity method investees from capital surplus to capital adjustments.

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 and current year-to-date average exchange rate for income statements. Resulting differences are accounted for as overseas business translation debit or credit in capital adjustment.

19. Other Operating Revenues (Expenses):

Other operating revenues (expenses) for the year ended December 31, 1999 comprise the following:

	Millions of Won
Other operating revenues	
Gains on disposal of loans	₩ 704,152
Trust accounts management fees	25,779
Gains from derivatives transaction	72,709
Gains on valuation of derivatives	248,348
Other	1,001,159
	₩ 2,052,147
Other operating expenses	
Loss on disposal of loans	₩ 537,838
Provision for possible loss on guarantees outstanding	228,017
Loss from derivatives transaction	54,747
Loss on valuation of derivatives	185,519
Other	788,417
	₩ 1,794,538

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

20. General and Administrative Expenses:

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

	Millions of Won
Salaries	₩ 94,472
Retirement allowance	25,841
Depreciation	17,408
Rent	6,186
Fees	52,365
Other	60,049
	₩ 256,321

21. Income Tax Expenses:

The statutory income tax rate applicable to the Bank, including resident tax surcharges, is approximately 30.8%. The effective tax rate is approximately 29.5% for the year ended December 31, 1999.

Income tax expense for the year ended December 31, 1999 comprises the following :

	Millions of Won
Income taxes payable of domestic subsidiaries	₩ 11,350
Deferred income taxes of the Bank	87,882
Income taxes for overseas branches and foreign subsidiaries	747
	₩ 99,979

The Bank recorded ₩240,022 million out of total future tax benefits of ₩1,487,410 million as beginning deferred tax assets. The Bank considered future deductibility of accumulated deficit from future taxable income.

22. Intercompany Transactions and Account Balances:

Significant transactions made in the ordinary course of business during 1999 among the Bank and its subsidiaries balances at December 31, 1999, which have been eliminated in the accompanying consolidated financial statements, are summarized as follows:

	Millions of Won
Intercompany interest	₩ 299,631
Intercompany loans / borrowings	1,726,899
Other assets	420,777

REPORT OF INDEPENDENT ACCOUNTANTS

SAMIL ACCOUNTING CORPORATION

PRICEWATERHOUSECOOPERS

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To the Board of Directors The Korea Development Bank

We have audited the accompanying consolidated balance sheet of the Korea Development Bank (the "Bank") and its subsidiaries as of December 31, 1999 and the related consolidated statements of income, capital surplus and retained earnings and cash flows for the year then ended, expressed in Korean Won. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Bank and its subsidiaries as of December 31, 1999, and the consolidated results of their operations, the consolidated changes in their capital surplus and retained earnings and consolidated cash flows for the year then ended in accordance with financial accounting standards generally accepted in the Republic of Korea.

As discussed in Note 2 to the consolidated financial statements, the Bank changed its method of classification for possible loan losses to a method which reflects borrowers' future debt servicing ability (forward looking criteria) during 1999.

Without qualifying our opinion, we draw attention to Note 14 to the consolidated financial statements. The operations of the Bank and its subsidiaries have been significantly affected, and may continue to be affected for the foreseeable future, by the general adverse economic conditions in the Republic of Korea and in the Asia Pacific region. Under these adverse economic conditions, certain customers of the Bank are in the process of restructuring loans with their creditor banks. As discussed in the notes 6 and 14 to the consolidated financial statements, as of December 31, 1999 the Bank and its subsidiaries have provided loans of ₩2,828,829 million and ₩3,357,580 million to work-out companies and Daewoo Group companies, respectively. The Bank and its subsidiaries have provided ₩898,286 million and ₩886,774 million for possible loan losses with regard to the above customers. Actual results of the credit loss from the loans to the customers could differ from the provisions reserved.

The amounts expressed in U.S. Dollars are provided solely for the convenience of the reader and have been translated on the basis set forth in Note 3 to the consolidated financial statements.

The accompanying consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Korea. The standards, procedures and practices used to audit such financial statements are those generally accepted and applied in Korea.

Seoul, Korea
March 10, 2000

Samil Accounting Corporation

AUDITOR'S STATEMENT

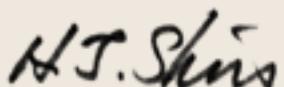
In my capacity as duly appointed Auditor of The Korea Development Bank, I have examined the consolidated balance sheet of The Korea Development Bank and its subsidiaries as of December 31, 1999 and the related consolidated statements of income, capital surplus and retained earnings and cash flows for the year then ended.

My examination was made in accordance with generally accepted auditing principles in the Republic of Korea and accordingly included such tests of the accounting records and such other auditing procedures as I considered necessary in the circumstances.

In my opinion, the aforementioned consolidated financial statements referred to above, together with the notes relating thereto, present fairly the financial position of The Korea Development Bank and its subsidiaries as of December 31, 1999, and the results of its operations, cash flows and the consolidated changes in their capital surplus and retained earnings for the year then ended, in conformity with Korean laws and accounting principles generally accepted and applied in the Republic of Korea.

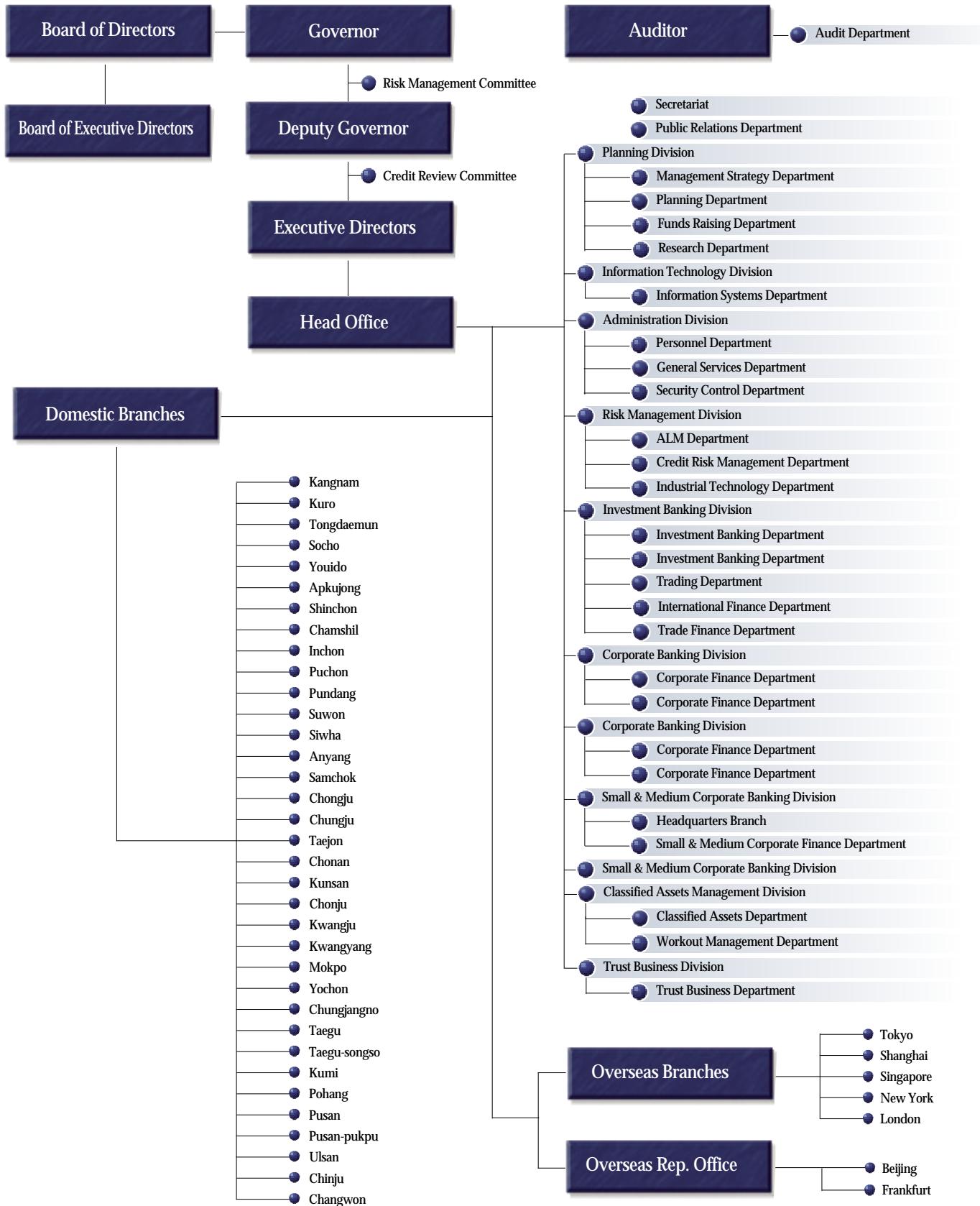
Accounting standards and disclosure rules are strengthened from the fiscal year 1999 according to the "Memorandum on the Economic Program" between Korean Government and IMF. The comparative financial statements as of December 31, 1998 are not presented in accordance with the transitional provisions of the revised financial accounting standards in the Republic of Korea.

March 2000



Ho-Joo Shin
Auditor

ORGANIZATION CHART



*M*EMBERS OF BOARD OF EXE. DIRECTORS AND AUDITOR



Governor	Executive Directors
Keun-Young Lee	Kyung-Deuk Lee
	Jae-Sil Kim
Deputy Governor	Ho Yoon
Chull-Joe Chung	Duck-Soo Kim
	Kyou-Won Oh
Auditor	Sang-Bae Park
Ho-Joo Shin	

Standing: Left to Right

Mr. K. W. Oh, Mr. H. Yoon, Mr. K. D. Lee, Mr. J. S. Kim,
Mr. D. S. Kim, Mr. S. B. Park

Sitting: Left to Right

Mr. C. J. Chung, Mr. K. Y. Lee, Mr. H. J. Shin

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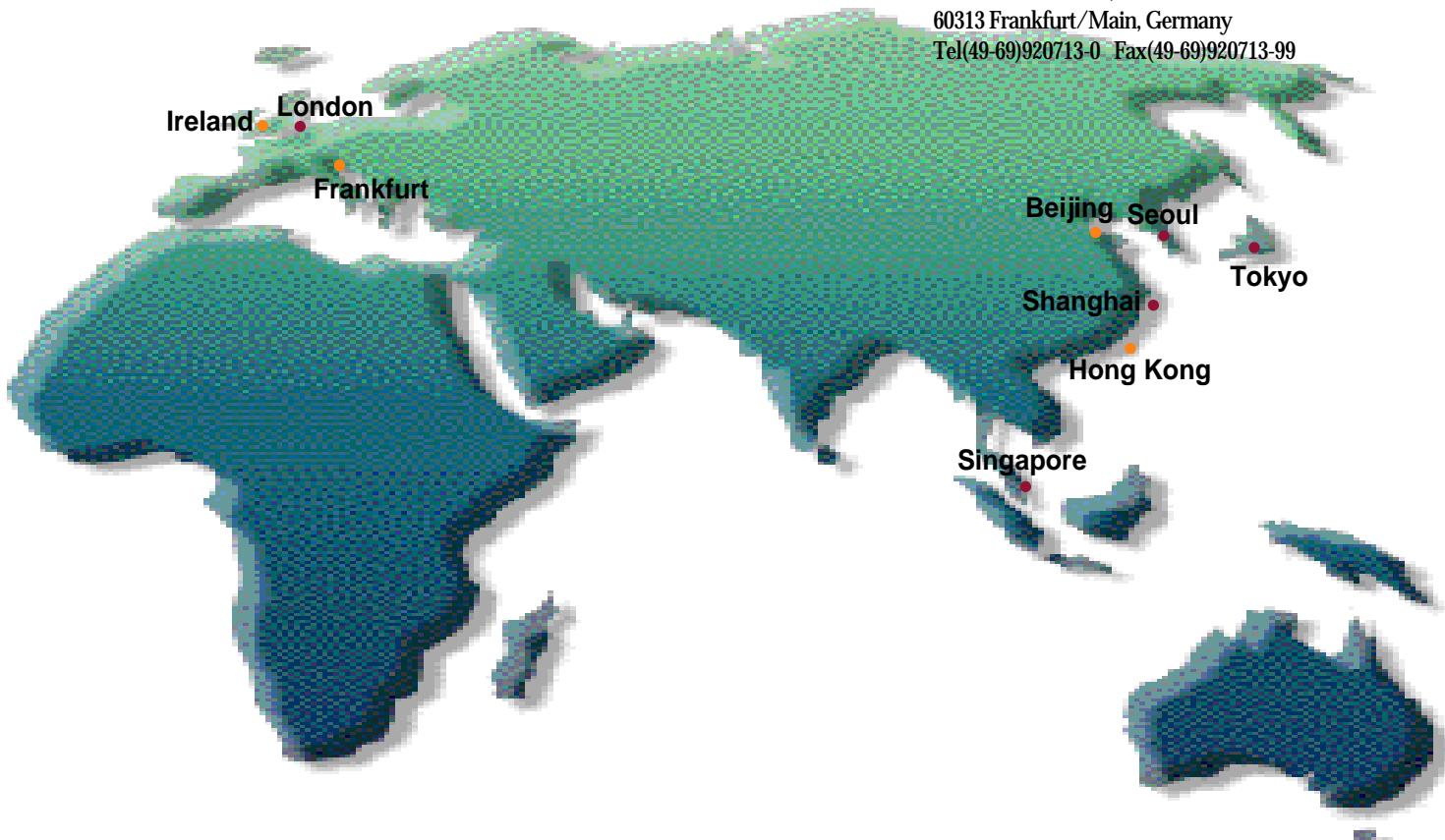
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