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KDB

Annual Report 2002



KDB's Vision

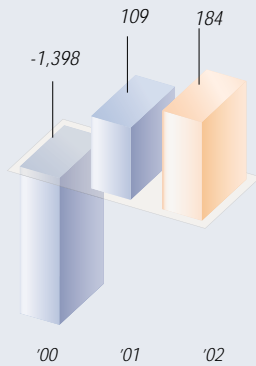
The goal of KDB is to be a leading bank operating mainly in Northeast Asia by 2011. As the first step to achieving this long-term vision, KDB is aiming to be at the forefront of corporate banking in the domestic financial market by 2005.

Operationally, KDB will provide universal banking services in the region by reinforcing key sectors of Investment Banking, Global Banking and the newly adopted Corporate Restructuring & Consulting business on top of Corporate Banking.

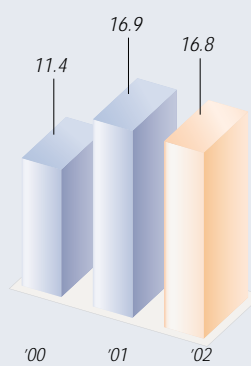
In line with government policies, KDB, as a government-owned bank, will play a major role in enhancing the nation's economic growth potential, establishing a low-cost, high-return economic system and advancing the financial industry.

2002 Highlights

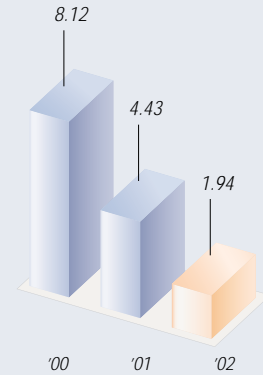
NET INCOME (LOSS) (Billions of Won)



BIS RATIO (%)



NPL RATIO (%)



Evolving into a *Leading Bank*

PROFIT

Net income for the year ending December 2002 rose 68.8% to W184 billion. The increase stemmed largely from dividend income generated by investment securities, as well as from disposal of securities and gains on valuation (in particular from investments in KEPCO and Daewoo Shipbuilding and Marine Engineering under the equity method). On the operating side, however, net interest income decreased by 40.4% to W133 billion.

CAPITAL ADEQUACY

A capital injection of W3,050 billion by the Korean government in 2001 strengthened the Bank's capital base. As of the end of December 2002, its paid-in capital stood at W7,162 billion. Retained earnings rose to W294 billion as of the end of 2002, up from W109 billion at the end of December 2001, resulting in total capital of W6,941 billion. With a strengthened capital base, the Bank's capital adequacy ratio stood at 16.8% at the end of December 2002.

ASSET QUALITY

In 2002, nonperforming loans (NPLs) accounted for 1.94% of total credit extended by KDB. The figure, which was a significant improvement compared to the 4.43% recorded at the end of the previous year, was the result of the Bank's concerted efforts to dispose of bad assets combined with expertise in bad asset management and corporate restructuring.

Financial Highlights



in Asia and Beyond

CORPORATE RESTRUCTURING

On April 30, 2002, KDB, General Motors (GM) and Daewoo Motor reached a final and definitive agreement for the establishment of a new automobile company at the selling price of US\$1.8 billion. On October 17, 2002, the year-long sales agreement came to a conclusion with the launch of GM Daewoo Auto and Technology (GMDAT).

(Unit: Billion Won)

	2001	2002
Income Statement Data:		
Net interest income	223	133
Non-interest income	5,175	4,695
Non-interest expense	4,724	5,373
Operating income	675	-545
Non-operating income, net	-559	731
Income tax	7	2
Net income	109	184
Balance Sheet Data:		
Total assets	82,003	78,782
Loans	47,271	44,917
Total Liabilities	75,070	71,842
Borrowings	21,353	24,459
Debentures	36,554	33,600
Total equity	6,933	6,941
Paid-in-capital	7,162	7,162

Governor's Message



Improving the Bank's Financial Structure & Profitability

The year 2002 saw the Korean economy lay to rest the uncertainty of the recent past and turn an important corner in its quest for growth. All major economic indices were favorable, while a fifth consecutive year of trade account surplus helped secure ample foreign currency reserves. Moreover, performance in the corporate and banking sectors improved sharply as they completed the final stages of their restructuring. As a result of these positive developments, Korea's sovereign credit rating recovered to a level it enjoyed before the 1997 financial crisis.

At The Korea Development Bank, we have worked diligently to improve our financial structure. With the disposal of the majority of our nonperforming loans, we have re-established our position as one of the most financially sound Korean banks and paved the way for greater profitability. In addition, we have enhanced our risk analysis and management functions which, combined with a strong performance in bonds and stocks, boosted net profit for the year to 184 billion won.

By increasing loans to SMEs and regional businesses, we continued to promote industrial development and contribute to the nation's economic stability

In 2002, we extended loans and investments worth W13.8 trillion to Korean companies in both traditional and emerging industries. Moreover, loans to small and medium-sized enterprises (SMEs) as well as regional businesses were augmented, contributing to balanced economic development throughout the country. We also endeavored to ease the financial burden on corporations by reducing the cost of foreign capital and floating-rate loans. Furthermore, we led the way in domestic corporate restructuring, most notably by successfully brokering the sale of Daewoo Motor. Overall, our activities made a significant contribution to improving the nation's economic stability and enhancing its global credibility.

Amid general sluggishness in primary markets both at home and abroad, we successfully lead- and co-lead-managed a number of direct corporate financing transactions whilst also stepping up our merger and acquisition consulting activities. As a result, we maintained a strong position in the areas of corporate bond issuance, corporate bond underwriting, project finance, and financial engineering.

During the year, we raised W15.7 trillion in domestic and overseas markets through issuance of Industrial Finance Bonds and timely collection on investments and loans. Funding through issuance of Industrial Finance Bonds, our major domestic funding instrument, contributed significantly to achieving our annual target of W12 trillion supported by an innovative sales strategy. Deposits, meanwhile, amounted to W9.6 trillion at the end of 2002, largely as a result of brisk inflow of short-term money.

As the nation's representative borrower of overseas funds, we helped to expand corporate facility investment by making high-quality overseas capital available to the local economy. Last year, we issued Global Bonds carrying the lowest interest rate since the Asian financial crisis of 1997 and Samurai Bonds with the lowest interest rate since our entry into the Japanese market.

In improving our competitiveness, we focused on developing a client-oriented business environment. This includes departmental reorganization, process innovation, and product development, each aimed at better meeting the diversifying needs of our customers. Moreover, we continued to refine our management system and reinforced our online infrastructure to remain at the forefront of an industry increasingly shaped by advanced technology. Furthermore, while we made progress in strengthening the competitiveness of our core businesses, we also streamlined administrative functions and improved management efficiency.

A competitive business structure, globalization of core businesses and advancement of its management systems will allow KDB to play a pivotal role in transforming Korea into a Northeast Asian hub.



This year will see us take the first step towards our long-term goal of becoming a leading bank in the Northeast Asian region. Having laid a solid financial foundation through our recent restructuring efforts, we intend to consolidate our position as Korea's leading corporate and investment bank and extend our reputation beyond domestic borders. To achieve these goals, we will focus on several areas.

First, we will expand our business activities and strengthen our capabilities in corporate finance by developing exclusive long-term partnerships with clients. At the same time, we will continue to work toward building a financial infrastructure that will facilitate a more efficient economy and take the lead in the development of the domestic financial industry.

Second, we will focus on strengthening our four core business areas of corporate finance, emphasizing 'Relationship Banking,' investment finance, international finance, corporate restructuring and consulting.

Finally, we will continue to improve our management and administrative systems through innovation and by instilling a customer-oriented culture driven by a motivated and creative mindset throughout our organization.

On behalf of everyone at KDB, I would like to extend my sincere thanks to our valued clients and associates for their continued cooperation and unwavering support, which will encourage and inspire us in the years to come.

April 2003

A handwritten signature in black ink that reads "Jichang Yoo". The signature is written in a cursive, flowing style.

JICHANG YOO

Governor

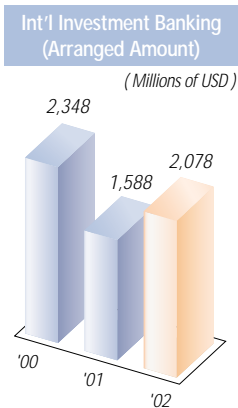


Leading Bank in Northeast Asia

International Banking



A Leader in International Banking



INTERNATIONAL INVESTMENT BANKING

Increasing uncertainty in the global and domestic economy led to worsening investment sentiment at Korean companies in 2002, resulting in weakened demand for overseas funding. Intense competition among domestic and international financial institutions also aggravated the business environment in the international investment banking area. Despite this backdrop, KDB maintained its leading position in arranging overseas funding for Korean companies and financial institutions.

During the year, the Bank arranged 34 international syndicated loan transactions and securities issuances worth US\$2,078 million, of which US\$548 million was used to bolster its interest

income sources. In addition, KDB extended off-shore loans and guarantee services to facilitate the purchase of industrial equipment and the implementation of industrial projects by overseas subsidiaries and branches of Korean companies. In 2002, the Bank provided its clients with US\$758 million in credit support, comprising US\$603 million in bilateral loans and US\$155 million in guarantee services.

In recognition of these achievements, in a league table published by the weekly financial journal Basis Point, KDB placed first among Korea loan arrangers. KDB is committed to consolidating its position as the nation's leading international investment banker.

INTERNATIONAL TREASURY

The Bank has long been a market maker in the local and international foreign exchange markets. It quotes competitive prices in all tradable currencies as well as the Korean won and acts as a primary provider of liquidity. In 2002, KDB became the first Korean bank to establish a Korean won FX desk in London. It plans to establish an FX desk in New York in 2003 to realize 24-hour trading.

Despite various challenges such as weak demand for overseas funding and intense competition, KDB maintained its leading position in arranging overseas funding for Korean companies and financial institutions

During 2002, the Bank traded US\$90 billion in the international money market. KDB enhanced its foreign currency liquidity by expanding its money market line from US\$1.3 billion to US\$1.7 billion and utilizing US\$6 billion from the CP Programme.

In 2002, the Bank increased the value of its bond trading to US\$5.8 billion from US\$5.2 billion in the previous year, emerging as a market leader in Korean bonds as well as an influential trader in Asian bonds. KDB is currently expanding its investment banking to include the U.S. and Eurozone credit markets.

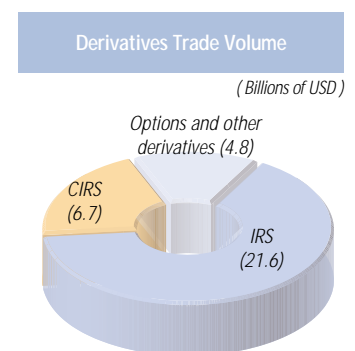
In 2002, the Bank also offered foreign exchange risk management services. In response to market demand, KDB provided comprehensive risk management advice based on its expertise in market analysis and FX position management. As a result, its total trading volume increased to US\$25 billion.

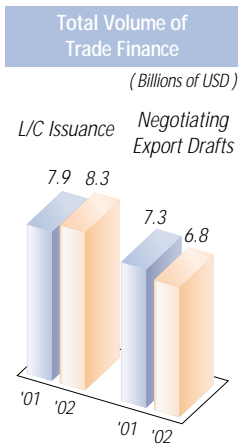
KDB has improved its transparency and soundness by enhancing risk management analysis and internal auditing. In addition, it upgraded management capability in market risk, credit risk, and operational risk by introducing a variety of monitoring and measurement systems, including Value at Risk (VaR) and credit limit controls.

DERIVATIVES

KDB has been the most active leader in the derivatives market in Korea. The Bank has evolved from conducting transactions in foreign currency products to introducing derivative products into the Korean won market and, ultimately, playing a leading role in the market.

The Bank conducts diverse transactions, including making markets, trading in the interbank markets, and dealing with corporate clients. KDB's IRS (interest rate swap) trading volume amounted to US\$21.6 billion with CIRS (currency and interest rate swap) totaling US\$6.7 billion in 2002. It also traded US\$4.8 billion in options and other derivatives. As a result, KDB held a 19% share of the overall market, making it the leading player in the derivatives market.





KDB is also actively engaged in product development and structured deals. It develops and introduces tradable products as well as hybrid and tailored products for internal purposes and for its corporate clients. The asset-backed financing team at KDB meets customers' asset-related structured financing needs.

TRADE FINANCE

Trade finance has been one of the Bank's main areas of business since the 1997 Asian financial crisis. In 2002, the Bank provided financing worth US\$6.8 billion to export companies. The figure was a 6.8% reduction over the previous year, largely due to surplus cash flow at large Korean corporations—the Bank's main clients—and weakened demand during the year. In import credit financing, letter of credit issuances amounted to US\$8.3 billion, an increase of 5.1% over the previous year.

Based on its competitive pricing and outstanding service, the Bank intends to continue strengthening its market position in a variety of areas related to trade financing.

BANK RELATIONS

- *Guest Observer Course*

The annual Guest Observer Course (GOC), created in response to Korea's increasing role in the global economy, serves as an introduction to KDB and the Korean economy. Since its inception in 1968, 1,049 financiers from leading financial institutions around the world have participated in the course. At the 55th GOC, held in October 2002, 20 representatives from a number of leading financial institutions had the opportunity to learn more

about KDB and the dynamic resurgence of the Korean economy over the past few years.

- *Correspondent Banking*

KDB is well prepared to meet the increasingly diverse and sophisticated needs of clients as they seek to extend the scope of their global business operations. Over the past several years, KDB has established correspondent banking relations with more than 1,000 financial institutions worldwide. With this extensive international network, the Bank will continue to assist clients in reducing risk in global trade and provide them with up-to-date information on global market conditions.

- *Investor Relations*

In response to the needs of the investment community, KDB has actively carried out investor relations (IR) activities. Among a number of initiatives in 2002, the most notable was the Bank's first non-deal roadshow for major investors. On March 18-22, Bank representatives met with 42 analysts and fund managers from 16 financial institutions in Singapore, Hong Kong and Tokyo.

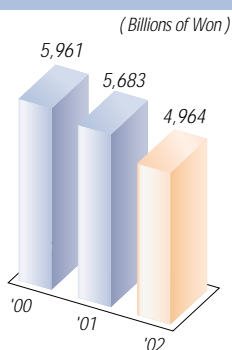


Corporate Banking



Customized Solutions through "Relationship Banking"

Equipment Capital Loans



EQUIPMENT CAPITAL LOANS

In 2002, equipment capital loans decreased 12.7% over the previous year to W4,964 billion, largely due to lower demand from the public sector. Equipment capital loans excluding borrowings from the government stood at W4,376 billion, down 14.7% from the previous year.

Despite weakening investor confidence resulting from the global and domestic economic slump, equipment investment funding to the private sector rose 41.5% year-on-year. Funding to conglomerates was up 18.5% over the previous year, reaching W2,242 billion, and funding to small and

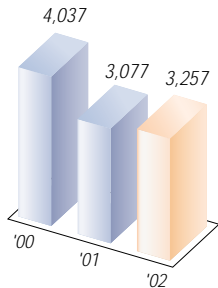
medium-sized businesses increased 24.6% year-on-year to W1,481 billion. Funding to the public sector, however, amounted to W654 billion, down 68.1% from the previous year.

WORKING CAPITAL LOANS

Working capital loans increased 5.8% to W3,257 billion won compared to the year before. Uncertainties in the financial market, foreign currency-denominated trade bill discounts and a general trend of expanding company operations resulted in an increased supply of CD working capital loans, particularly to SMEs.

Working Capital Loans

(Billions of Won)



Working capital loans extended to large conglomerates shrank by 33.8% to W617 billion from the year before, while loans provided to SMEs increased 8.2% year-on-year to W884 billion. Meanwhile, workout-related working capital loans decreased 49.8% to W379 billion as corporate restructuring continued to make significant progress.

LOAN PORTFOLIO BY INDUSTRY

The manufacturing industry accounted for 64.9%, or W8,819 billion of the Bank's loan portfolio, with

W4,944 billion in loans to the non-manufacturing sector accounting for the remaining 35.1%. Within the manufacturing industry, the Chemicals, Petroleum, Rubber & Plastics sectors accounted for 17.0%, while the Electronic Components and Non-metal Minerals sectors accounted for 10.6% and 10.4%, respectively. In the non-manufacturing industry, the Transportation, Storage and Communications sectors accounted for the largest proportion at 12.0%, followed by the Electricity, Gas and Water sectors, which made up 10.2% of the total.

New Loans & Investments by Industry

(Unit: Billion Won)

	Equipment Capital	Working Capital	Sub-total Loans	Investments	Total
Agriculture, Forestry & Fisheries	5.7	1.6	7.3	-	7.3
Mining	0.8	0.7	1.5	-	1.5
Manufacturing	2,542.7	2,791.2	5,333.9	3,485.2	8,819.1
Electricity, Gas & Water	836.5	0.8	837.3	-	837.3
Construction	32.3	37.4	69.7	272.1	341.8
Wholesale & Retail Trade, Restaurants & Hotels	276.1	115.1	391.2	376.6	767.8
Transport, Storage & Communication	798.4	188.0	986.4	573.4	1,559.8
Finance, Insurance, Real Estate & Services	471.1	122.6	593.7	835.2	1,428.9
Total	4,963.6	3,257.4	8,221.0	5,542.5	13,763.5

Notes : 1) Borrowings from the government and special purpose funds are included in the table

2) Tied loans from IBRD and ADB are included in equipment capital of the finance industry

New Loans in the Manufacturing Sector



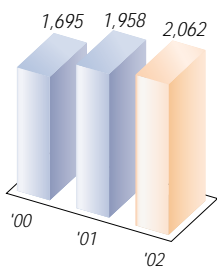
Investment Banking



Unrivalled Expertise from Project Finance to M&A

Project Finance
(Arranged Amount)

(Billions of Won)



PROJECT FINANCE

KDB has maintained a dominant position in the domestic project financing market since 1994, when the Korean government enacted a law inducing private participation in such projects. Over the past eight years, KDB has served as an advisor on 70 projects and successfully completed the financing of 23 projects worth W7,435 billion. Through its continued efforts to diversify avenues of funding and meet client needs, the Bank has acquired an 80% share of the Korean project financing market.

In addition to a sharp decline in the number of projects over the previous year, competition within the market intensified as commercial banks and insurance companies entered the market in search of profitable growth. Despite the challenges, successful marketing and innovative product development helped KDB maintain its market dominance and participate in a number of major projects.

During 2002, the Bank provided 10 new financial advisory services and arranged financing worth a total of W2,062 billion for six other projects. They

included W600 billion in financing for the Seoul Gangnam Bypass, the largest infrastructure project undertaken in 2002, and structured financing of W262 billion for the Meiya Yulchon Combined-cycle Power Plant, the country's first greenfield independent power production (IPP) project.

Over the past eight years, KDB has successfully completed the financing of 23 projects worth W7,435 billion, acquiring an 80% share of the Korean project financing market

CAPITAL MARKET ACTIVITIES

KDB continued to play a pivotal role in the capital market thanks to its superior placing capability and structuring expertise despite unfavorable market conditions. In 2002, KDB lead-managed and underwrote domestic corporate bond issuances totaling W7.1 trillion won. The figure accounted for 12.7% of the market value and resulted in the Bank's claiming the second largest share of the underwriting market among domestic securities companies.

KDB was active in underwriting a broad range of bonds during the year. They included straight corporate bonds denominated in Korean won and foreign currencies, SOC (social overhead capital) bonds linked with project financing, and other structured bonds. The Bank also led the asset-backed securities (ABS) market in Korea by successfully identifying the needs of a broad range of clients and diversifying their underlying assets. Furthermore, the Bank contributed to the development of the junk bond market by arranging

issuance of several primary CBOs (collateralized bond obligations) and market value CBOs targeting companies at credit risk. It also lead-managed cross-border ABS issuance for a major domestic corporation. Finally, KDB arranged several Arirang Bond issuances aimed at broadening the customer base of foreign companies and governments of emerging market countries. These are bonds issued in Korea by overseas subsidiaries of Korean companies.

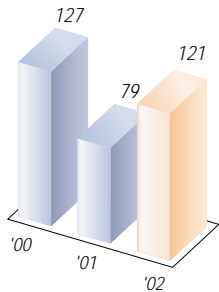


EQUITY INVESTMENTS

The Bank has played a major role in the development of emerging industries in Korea through venture capital investment since 1998, when the Korean economy faced the greatest period of financial uncertainty in its recent history. Over the past few years, its investments have facilitated the growth of hi-tech industry sectors such as broadband internet infrastructure, mobile telecommunications, and information technology (IT) industries.

Equity Investments in Venture and SMEs

(Billions of Won)



In 2002, new investments in venture companies and SMEs soared to W121 billion from the previous year's W79 billion, despite unfavorable KOSDAQ market conditions. Hi-tech companies in the early stages of developing IT products and services accounted for the majority of investments.

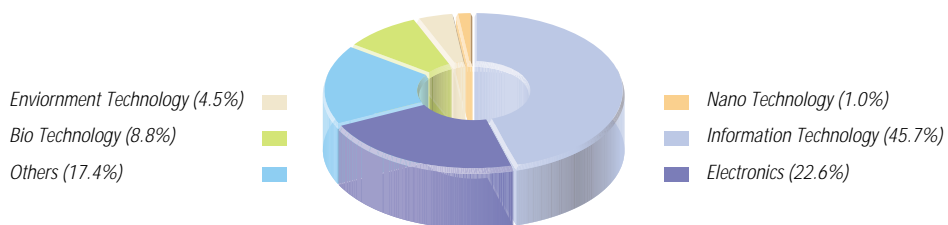
The Bank's expertise in the field of M&A enabled it to provide comprehensive services to domestic corporations as well as facilitate cross-border transactions

MERGERS & ACQUISITIONS

KDB offers comprehensive M&A services to meet the various needs of its clients, from financing to management consulting. Besides domestic transactions, KDB provides advisory services for cross-border M&A transactions through its global network and in alliance with world-renowned financial institutions.

In 2002, KDB demonstrated its expertise by providing consulting services for various M&A transactions that included the spin-off of Namsun Aluminum Co., Ltd. and Kohap Co. The Bank also accomplished the equity sale of Hwanyoung Steel Industry, which was in court receivership, to Korea Iron & Steel. Moreover, KDB participated in privatization by arranging the sale of equity in the Industrial Complex Combined Heat & Power Plant Corporation, a subsidiary of the Korea Industrial Complex Corporation, to the STX consortium. It also supported the government's policy of raising efficiency at public sector companies by providing advisory services to the Korea Gas Corporation and the Korea Electric Power Corporation.

New Investments by Industry

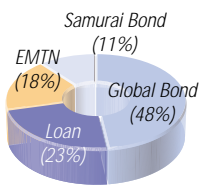


Funding Activities



Korea's Prime Borrower and Funding Vehicle

Overseas Funding Source



OVERSEAS FUNDING

As the nation's prime borrower and funding vehicle, KDB set benchmarks in various currencies throughout 2002. The Bank sought to optimize its overseas allocations by diversifying its bond issuances and loan borrowings.

During 2002, the Bank raised US\$2,202 million in funds overseas, up 31.6% over the previous year, by issuing Global Bonds, Samurai Bonds and Floating Rate Notes (FRNs), as well as syndicated loans, as it sought opportunities to lower funding costs.

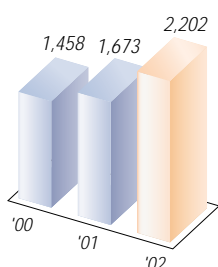
In March, the Bank raised HK\$780 (US\$100) million via a competitively priced one-year floating-

rate medium-term note (MTN). Five other Korean banks followed KDB's lead and took advantage of the competitive rate of the HK dollar-denominated FRN. With Moody's upgrade of both Korea's sovereign credit rating and KDB's credit rating to A3 in March, the Bank was able to raise US\$300 million at 95 basis points over US Treasury by reopening in April a 5.25% coupon Global Bond due in 2006. This marked a significant improvement on the original US\$500 million benchmark issued in November 2001.

In the second half of 2002, the Bank re-entered the Samurai Bond and syndicated loan market. The Bank's 20th Samurai Bond, a JPY30 billion bond due in 2007, has a coupon rate of 0.91%, a

Overseas Funding Amount

(Millions of USD)



record low for a Korean borrower. Setting a new short-term benchmark for the Bank and other Korean bank borrowers, the US\$400 million off-shore syndicated loan was the most tightly priced loan deal in Korea since the Asian financial crisis.

In November, KDB issued a US\$750 million dual-tranche bond. This was the Bank's first Global Bond issuance since regaining its single-A credit rating status. The 10-year tranche also marked the bank's first long-dated benchmark since 1996.

raising industrial purpose funds domestically. An effective sales strategy in 2002 allowed the Bank to achieve 100% of its initial procurement plan. As a result, IFB issuances reached W12 trillion in 2002, up 20% from the W10 trillion recorded in the previous year. Of the total, IFBs with a maturity of up to one year accounted for 61.3%; those with a two-year maturity 4.2%; and those with a maturity of three years or more 34.5%.

At the close of its funding activities for 2002, KDB had succeeded in lowering its funding costs, setting new benchmarks, and establishing a dollar yield curve

At the close of its funding activities for 2002, KDB had succeeded in lowering its funding costs, setting new benchmarks, and establishing a dollar yield curve. KDB reaffirmed its status with a number of accolades, including the title Borrower of the Year from the financial journal, International Financing Review.

- Borrowings

In 2002, KDB borrowed W619 billion in public funds to support improvements in industrial productivity and the tourism and energy industries. The Bank also borrowed W57 billion in government funds to subsidize hospitals, passenger and freight terminals, waterworks construction, and various other projects.

- Deposits

Despite a continuous fall in interest rates in 2002, a growing flight-to-quality trend resulted in an influx of funds into bank deposits in response to economic and political uncertainties.

DOMESTIC FUNDING**- Industrial Finance Bonds (IFBs)**

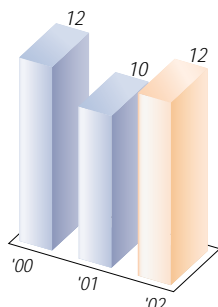
In 2002, continued deregulation of the domestic bond market was accompanied by a prolonged downturn in market interest rates. Amid the downward trend of interest rates, an increase in household loans contributed to a significant increase in bond issuance by banks.

IFBs, which carry the highest credit rating (AAA) of any Korean bond, are KDB's main vehicle for

The introduction of various types of fixed deposit products, such as revolving-term and index-linked deposits that guarantee security and profits for customers, saw deposits rise in 2002. As of the end of the year, the Bank's Korean won deposit balance registered W9.6 trillion, an 8% increase over the previous year. Deposits in foreign currencies amounted to W510 billion. To ensure efficient use of holding bonds, the Bank also promoted sales of repurchase agreements, which increased by W674 billion over the previous year to W1.6 trillion.

Won-denominated IFB Issues

(Trillions of Won)



Risk Management



Sounder Financials through Enhanced Risk Management

CREDIT RISK MANAGEMENT

KDB places utmost importance on managing credit risk. The Bank closely examines credit risk from both a micro perspective, which concerns the credit risk of individual customers, and a macro perspective, which considers loan portfolio risk.

Micro risk management is carried out using the Credit Officer (CO) and Relationship Manager (RM) systems that were implemented in 1999. Under the system, COs and RMs operate independently of one another to provide a system of mutual checks and balances. The system maximizes the advantages and efficiency of role spe-

cialization and significantly contributes to enhanced asset quality. In an effort to monitor customer credit status more accurately, the Bank has also improved follow-up management functions. Through vigilant monitoring and strict evaluation procedures, KDB has been able to facilitate corporate restructuring more effectively and arrive at a more accurate picture of customers' credit status.

Macro risk management focuses on three areas. First, the Bank manages its loan portfolios through a system of credit ratings. It carefully assesses the rating profile of portfolios to avoid excessive exposure to businesses with lower credit ratings.

Second, the Bank avoids a concentration of exposure to specific businesses and business sectors by setting credit limits for single borrowers, as well as analyzing and monitoring portfolios by industry type. Third, the Bank guards against industry-specific risk. Using the industrial rating and signal system implemented in 1999, the Bank has standardized the process of risk analysis for low-rated and high-risk industries, taking measures to improve their portfolios where necessary.

KDB's ongoing implementation of systemized processes has enhanced its risk management and created a strong risk management culture based on independent evaluation, monitoring, and review procedures

MARKET RISK MANAGEMENT

KDB has adopted the concepts of VaR and Stop Loss for market risk management. Taking into consideration strategic factors such as corporate planning and the BIS capital ratio, the Bank sets a total VaR limit for marketable securities every year. Moreover, each trading department has been separated into three parts—front office, middle office and back office—to ensure a checks and balances function within the organization. The Bank's market risk management is expected to improve, with the completion of a computerized Total Risk Management System (TRMS) in 2002.

LIQUIDITY RISK MANAGEMENT

KDB observes all liquidity ratio guidelines set by financial authorities and has adopted a liquidity management system to monitor daily maturity gaps and all required limits. The system enables the Bank to maintain adequate funds, taking into consideration economic opportunity costs, to redeem all liabilities that are due and comply with all guidelines. The Bank regards liquidity risk



management as one of the most important factors in improving market confidence, as well as in ensuring stable capital for the Bank.

Liquidity risk is effectively managed by integrating procedures within units. For example, the Risk Management Center measures liquidity ratios, and the Treasury Center conducts planning and implements cash flow management.

RISK MANAGEMENT SYSTEM

In December 2000, KDB announced plans to set up a Bank-wide risk management system aimed at producing innovative improvements in risk management processes. The system was adopted in May 2001 based on the recommendations and findings of the Business Process Innovation Project, enabling complete management of credit and market risk, assets and liabilities, and the risk data mart in December 2002.

Research & Information Activities



Concentrated Research into the Most Relevant Issues

ECONOMIC & INDUSTRIAL RESEARCH

One of KDB's main areas of research involves formulating strategies for enhancing the Bank's competitiveness in the 21st century. In 'The Role of The Korea Development Bank in Changing Economic and Industrial Paradigms in the 21st Century' and 'Forecasts for Changes in the Banking Environment in 2003,' the Bank provides information about its development strategies.

KDB has also strengthened its corporate banking activities through research and reports such as 'New Industry Policies and KDB's Response to China's Entry into the WTO,' 'Analysis of Domestic Industries and their Competitiveness,' 'Korea's Industries,' and 'Survey of Facility

Investment Plans.' Moreover, the Bank provides timely information through briefing sessions on analysis of industrial issues, and financing tools.

Research into 'Recent Trends in Korea's Structured Note Market and Market Activation,' 'Long-term Japanese Economic Stagnation and Its Implications,' and 'Korea's Strategies for Upping the Pace in China's IT Market' contributed to enhancing the quality of the Bank's international investments. In addition, KDB publishes the Weekly Capital Market and conducts research on mid- and long-term strategies for economic exchange between South and North Korea. KDB's research reports can be downloaded from the Bank's website at www.kdb.co.kr.

INDUSTRIAL TECHNOLOGY RESEARCH

In 2002, KDB sponsored more than 300 studies into high technology and submitted more than 540 recommendations to various credit review committees, simultaneously enhancing its own credit analysis capabilities and follow-up management procedures.

KDB is a leading source of economic, financial, and industrial information. In 2002, it extended the scope of its research to encompass the increasingly important field of industrial technology

Assessing technological risk has become increasingly important with the growing role of technology in corporate management. KDB has responded by providing data for credit analysis of high-risk industries, as well as analysis of traditional industries and the recently highlighted 6T industries. The establishment of the Technology Evaluation Center has significantly enhanced KDB's reputation in this field and boosted fee-based income from industrial technology research. Through active participation in large SOC projects, the Bank continues to contribute to I.E. (independent engineering) businesses, particularly from the development of real estate investment trust.

The Bank has also stepped up efforts to acquire state-of-the-art technology. In particular, KDB promotes training for experts in industrial technology analysis, conducts research in collaboration with other domestic research institutes at the Daedeok Research Complex (Korea's leading research facility), and recently formed an industrial technology advisory committee.

INFORMATION TECHNOLOGY

The Bank has successfully completed the first phase of its internet banking system based on uninterrupted operation of a next-generation information system and the creation of a daily account-settlement system. To expand its e-business infrastructure, the bank recently began developing the second phase of the system, which focuses on corporate banking such as B2B (business to business) services and internet Industrial Financial Bonds. At present, the Bank is implementing a management system that encompasses five sectors: total risk management, profit management, performance management, business planning and budget, and customer relations management.

Since the 9.11 terrorist attacks in the U.S., the Bank has promoted the reimplementation of a real-time mirroring-mode disaster recovery system. As a result, KDB became the first financial institution with a disaster recovery system able to recover all data within 3 hours. This capability has provided the momentum for realizing a non-stop banking system.

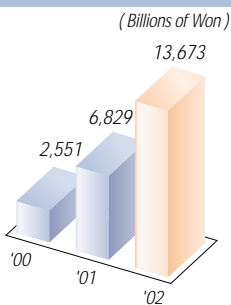
KDB has upgraded its IT infrastructure by improving its information system for new products, activating a user-friendly feedback system, training IT experts, and expanding computer resources to maximize work efficiency. As a result, KDB was named among the 30 most promising digital knowledge management companies by the Ministry of Information and Communication.

Trust Business



The Most Profitable Trust Business in Korea

Total Trust Asset Volume



The trust market in 2002 was beset by unfavorable influences such as increasing uncertainty in the global and domestic economy, a large flow of liquidity into real estate due to low interest rates, and increased price fluctuation. Despite the poor environment, the value of trusts held by the Bank in 2002 reached W13,673 billion, a remarkable increase of 100.2% year-on-year. Moreover, profits from the trust business rose 15.3% over the previous year to W29.4 billion.

KDB achieved these impressive results by responding rapidly to changes in the market. It developed differentiated products to meet customer needs, marketed products such as real

estate trusts and tax-free high-return trusts in a timely manner, strengthened marketing of products such as tailored money trusts to major customers, and expanded retirement trusts and pension products.

By creating new products and utilizing diverse financial techniques, KDB became the most profitable financial institution in the trust business and effectively activated the market. Moreover, to protect investors, the Bank has enhanced its internal management system by implementing a compliance officer system, systematizing its risk management structure and separating its operations division.



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Management's Discussion & Analysis

EXECUTIVE SUMMARY

The Korea Development Bank ("KDB" or "the Bank") offers a full range of financial services to industrial and commercial customers in various capacities.

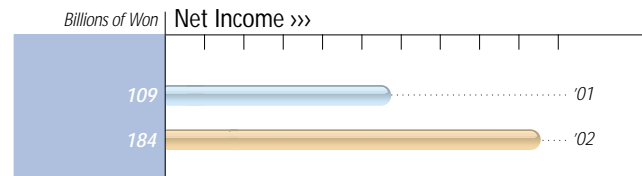
- A leader in investment banking
- A primary vehicle for overseas funding
- A premier provider of equipment capital and working capital to various manufacturing sectors

The year 2002 proved to be a remarkable and challenging year for the Bank. KDB's operating results for the year reflected the significant negative impact of macroeconomic conditions. However, the Bank diversified its income sources, particularly to non-interest income, and posted a substantial earnings growth. Foremost among the Bank's achievements in 2002 was the successful corporate restructuring of Daewoo Motor. In addition, the Bank made significant progress in its effort to reduce non-performing loans (NPLs). In 2002, the NPL ratio improved dramatically to 1.94% from 4.43% in 2001.

ANALYSIS OF OPERATING RESULTS

Net income surged 68.8% yoy to W184 billion in 2002 from W109 billion the previous year. The substantial improvement

was primarily attributable to dividend income from investment securities and gain on disposal of investment securities. In addition, gain on valuation of investment securities such as KEPCO and Daewoo Shipbuilding and Marine Engineering under the equity method also contributed to income.



1. NET INTEREST INCOME

In 2002, net interest income dropped 40.4% yoy to W133 billion compared to W223 billion a year earlier. Both interest income and interest expense diminished. Interest income fell to W3,312 billion in 2002, down 27.7% yoy from W4,583 billion in 2001. Lower interest rates and sluggish loan demand combined to drag down interest on loans by W1,087 billion, or 29.9% yoy, to W2,548 billion in 2002. At the same time, interest expenses dropped 27.1% yoy to W3,179 billion in 2002 from W4,360 billion the previous year. Interest on borrowings and debentures fell 27.9% yoy to W2,719 billion in 2002, mainly attributable to lower funding cost.

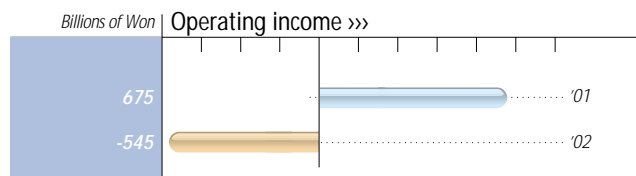
(Unit: Billion Won)

	2001			2002		
	Avg. Balance	Interest Avg. Rate (%)		AVG. Balance	Interest AVG. Rate (%)	
Total interest-earning assets	(62,332)			(58,919)		
Cash and due from banks	3,819	226	5.92	2,321	62	2.67
Securities	10,752	706	6.57	12,392	668	5.39
Loans	47,685	3,635	7.62	44,082	2,548	5.78
Others	76	16	21.05	124	34	27.42
Interest income		4,583	7.35		3,312	5.62
Total interest-bearing liabilities	(67,975)			(65,835)		
Deposits	9,193	532	5.79	8,900	405	4.55
Borrowings	21,672	1,174	5.42	20,630	671	3.25
Debentures	36,740	2,598	7.07	36,055	2,048	5.68
Others	370	56	15.14	250	55	22.00
Interest expense		4,360	6.41		3,179	4.83
Net interest income		223	0.94		133	0.79

Management's Discussion & Analysis

2. NON-INTEREST INCOME AND EXPENSE

The Bank posted an operating loss of W545 billion in 2002 compared to operating income of W675 billion the year before. The deterioration in operating profitability was due primarily to a change in accounting methods. New accounting principles require that write-off expenses be recorded as non-interest expense. Loss on disposal of loans, which is the difference between the final selling price and book value of loans after write-off, can be recorded as non-operating expense only in the case of a final sale of the loan.



KDB recorded write-off expenses as non-interest expense, not as non-operating expense. Accordingly, in 2002, non-interest expense jumped 13.7% yoy to W5,373 billion compared to W4,724 billion a year ago, whereas non-interest income declined 9.3% yoy to W4,695 billion in 2002. The net non-interest balance shrank by W1,130 billion to record net non-interest expense of W678 billion in 2002 compared to net non-interest income of W452 billion the previous year.

(Unit: Billion Won)

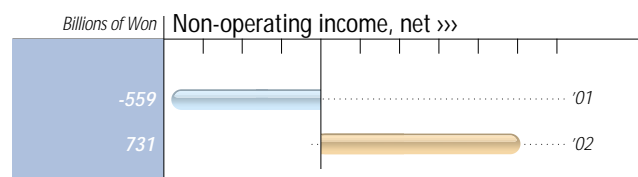
	2001	2002
Fees and commissions	311	273
Gain on trading securities	135	88
Gain on derivative financial instruments	3,599	3,610
Gain on foreign currency transactions	392	322
Gain on valuation of hedge items	427	254
Others	310	148
Non-interest income	5,175	4,695
Fees and commissions	36	34
Loss on trading securities	73	53
Loss on derivative financial instruments	3,592	3,567
Loss on foreign currency transactions	351	451
Loss on valuation of hedge items	273	272
General and administrative expense	241	266
Others	158	729
Non-interest expense	4,724	5,373
Non-interest income, net	452	(678)

3. NON-OPERATING INCOME, NET

In 2002, the Bank saw a remarkable improvement in its net non-operating balance, which rose by W1,290 billion over the previous year. The Bank's net non-operating balance showed net non-operating income of W731 billion in 2002 from net non-operating loss of W559 billion a year earlier. As mentioned previously, an accounting change erased nearly all loss on disposal of loans from the income statement.

(Unit: Billion Won)

	2001	2002
Gain on disposal of loans	497	58
Gain on investment securities	819	1,192
Others	28	15
Non-operating income	1,344	1,264
Loss on disposal of loans	1,571	50
Loss on investment securities	312	466
Others	19	17
Non-operating expense	1,903	534
Non-operating income, net	(559)	731



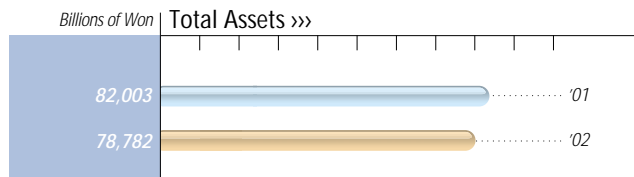
Management's Discussion & Analysis

BALANCE SHEET ANALYSIS

In 2002, the Bank took action relating to both the asset and liability sides of the balance sheet to defensively position itself for a low interest rate environment. While assets were reallocated, the Bank adjusted its funding structure to shorten maturities on liabilities.

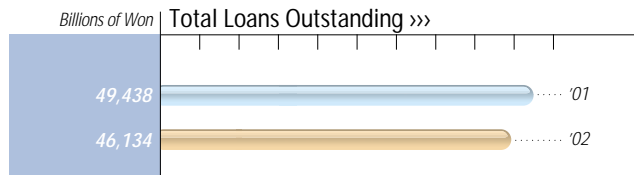
1. ASSETS

As of December 31, 2002, the Bank's total assets edged down 3.9% yoy to W78,782 billion. The primary reason for the decline was sluggish economic activity and the resulting weak loan demand during the year.



Loan Portfolio

Because demand for equipment capital and working capital was lackluster, total loans outstanding fell 6.7% yoy to W46,134 billion at the end of 2002 compared to W49,438 billion at year-end 2001.



In particular, core loans outstanding, excluding other loans, amounted to W30,508 billion at the end of 2002, down 14.5%

	(Unit: Billion Won)	
	2001	2002
Total Loans outstanding	49,438	46,134
Core loans	35,691	30,508
Loans in Won	17,457	14,389
Loans in foreign currency	18,234	16,119
Other loans (*)	13,747	15,626

* Other Loans : Notes purchased, bills purchased, advances for customers, bonds purchased under repurchase agreements, call loans, domestic import usance bills, debentures accepted by private subscription, etc.

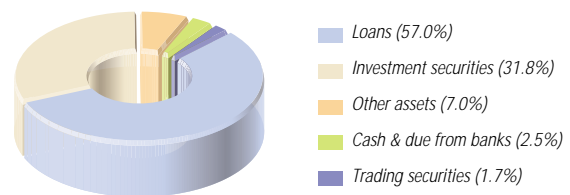
	(Unit: Billion Won)		
	2001	2002	%of total
By currency			
Loans in KRW	17,457	14,389	47.2
Loans in foreign currency	18,234	16,119	52.8
By industry			
Manufacturing	15,694	13,662	44.8
Banking and insurance	5,418	4,164	13.7
Electricity, gas and water supply	4,018	3,149	10.3
Transportation and communication	3,971	3,426	11.2
Public administration and national defense	4,177	3,737	12.2
Other industries	2,413	2,372	7.8
Sum of core loans outstanding	35,691	30,508	100.0

yoy from W35,691 billion a year ago. The Bank kept a balance between Korean won denominated loans and foreign currency denominated loans. At the same time, its loans were extended to diverse sectors from manufacturing to public administration and national defense.

Asset Allocation

In 2002, the year-end balance of investment securities rose 4.1% yoy to W25,045 billion compared to W24,061 billion a year earlier. The increase was the result of the Bank's efforts to expand its investment banking activities such as bond underwriting, securities investment, debt-to-equity swap and conversion of convertible bonds. The increase in investment securities and decrease in loans point to fundamental changes in the Bank's asset structure, as well as the noteworthy trend of non-interest income such as fees, commissions and dividends increasingly contributing to total revenue.

Assets Allocation



Management's Discussion & Analysis

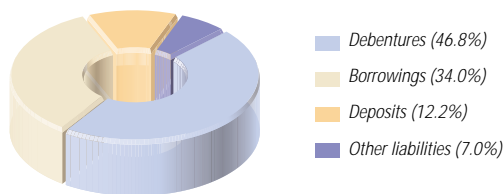
	(Unit: Billion Won)	
	2001	2002
Cash & due from banks	2,673	1,971
Trading securities	1,247	1,333
Investment securities	24,061	25,045
Loans	47,271	44,917
Other assets	6,751	5,516
Total assets	82,003	78,782

2. FUNDING SOURCES

The Bank's total external funds outstanding at the end of 2002 amounted to W71,842 billion, mainly consisting of W33,600 billion in debentures, W24,459 billion in borrowings, and W8,745 billion in deposits. Debentures, as a major source of funding, accounted for 46.8% of total external funding as of the end of 2002.

	(Unit: Billion Won)	
	2001	2002
Deposits	10,483	8,745
Borrowings	21,353	24,459
Debentures (industrial finance bonds)	36,554	33,600
Other liabilities	6,679	5,037
Total funds outstanding	75,070	71,842

Funding Source



Borrowings in Korean Won by organizations like the Ministry of Culture and Tourism and the Korea Energy Management Corporation increased by 4.4% compared to last year, recording W4,365 billion. Foreign currency loans, despite the decrease in funding from the IBRD (International Bank for

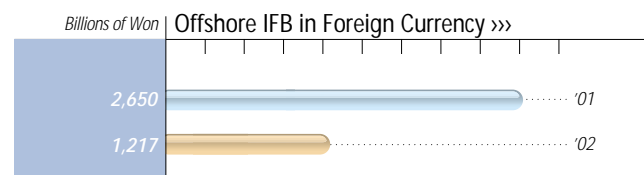
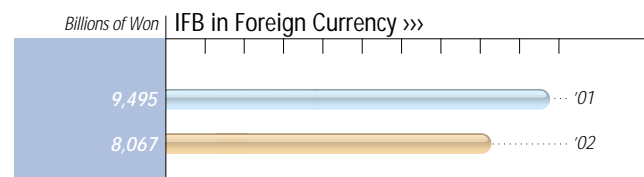
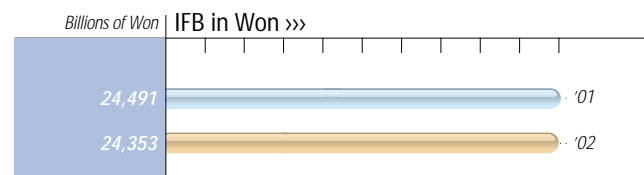
Reconstruction and Development), increased 14.9% to W17,435 billion compared to 2001 alongside the increase in bank loans. The amount of other borrowings jumped 40.4% to W2,659 billion compared to last year as the amount of bonds sold under repurchase agreement also sharply increased.

	(Unit: Billion Won)	
	2001	2002
Won currency borrowings	4,181	4,365
Foreign currency borrowings	15,178	17,435
Other borrowings (*)	1,894	2,659
Total	21,353	24,459

* Other borrowings : Bonds sold under repurchase agreement, notes sold, call money, etc.

The outstanding amount of IFB issued decreased compared to last year with the increase in redemptions. The outstanding amount of IFB issued in won revealed a slight decrease to W24,353 billion, while IFB issued in foreign currency and offshore IFB decreased 15% and 54.1%, respectively.

IFBs Outstanding



Management's Discussion & Analysis

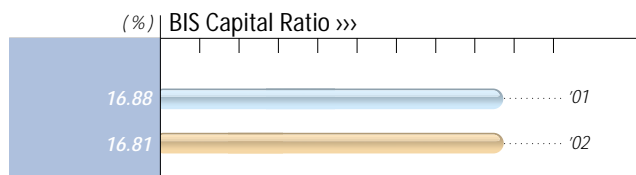
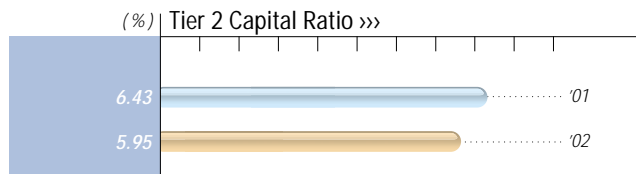
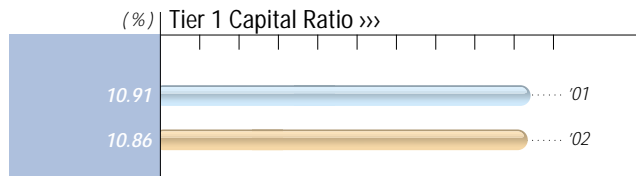
CAPITAL ADEQUACY

Since the Korean government injected W3,050 billion in 2001 to strengthen the Bank's capital base, paid-in-capital remained unchanged at W7,162 billion throughout 2002. On the back of buoyant net income, retained earnings more than doubled to W294 billion at the end of 2002 compared to W109 billion at year-end 2001. Total equity edged up to W6,941 billion as of December 31, 2002.

The Bank's BIS capital at the end of 2002 recorded W11,522 billion, down 3.8% yoy compared to W11,976 billion a year ago. Meanwhile, total risk-weighted assets declined slightly to W68,557 billion at year-end 2002. The Bank's BIS capital adequacy ratio (CAR) remained stable at 16.81% as of the end of 2002, compared to 16.88% in 2001. At the end of 2002, the Tier 1 capital ratio stood at 10.86% and 5.95% for the Tier 2 capital ratio.

	(Unit: Billion Won)	
	2001	2002
Tier 1 capital	7,738	7,446
Tier 2 capital	4,239	4,076
Total risk-weighted assets	70,919	68,557

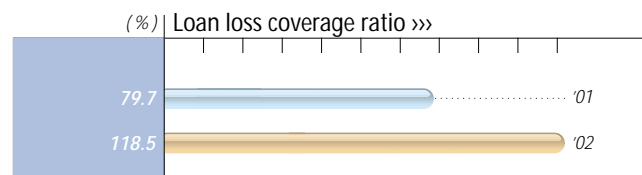
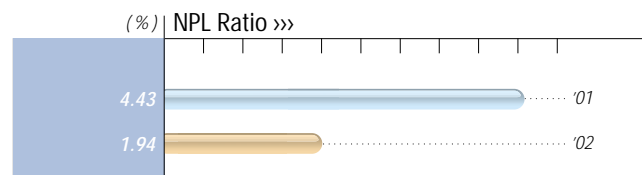
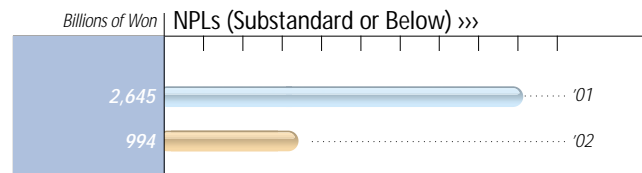
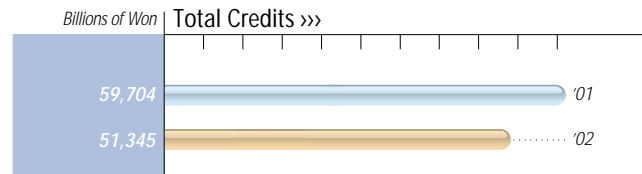
Capital Ratio



ASSET QUALITY

KDB's asset portfolio is considered one of the best-structured among Korean banks. As of December 31, 2002, non-performing loans, which consist of assets classified as substandard or below, accounted for a mere 1.94% of total credits extended by KDB, indicating a substantial improvement from the 4.43% of year-end 2001, in addition to marking the lowest level among Korean banks.

Non-performing loans shrank 62.4% yoy to W994 billion at the end of 2002 from W2,645 billion at the end of 2001. The significant improvement was the result of the Bank's efforts to dispose of bad assets (write-offs of W1,083 billion), combined with its expertise in bad asset management and corporate restructuring (normalization of W714 billion). The Bank aggressively wrote off bad loans extended to troubled corporate borrowers, including Daewoo Motors and Hynix Semiconductor. In addition, loans to Orion Electronics and KP Chemical were normalized.



Management's Discussion & Analysis

ANALYSIS OF TRUST ACCOUNTS

The Bank operates both a commercial banking business and a trust business. Under the Trust Business Act, trust funds held in a fiduciary capacity are accounted for and reported separately from the Bank's own commercial banking business.

Trust assets at the end of 2002 doubled to W13,673 billion from W6,828 billion as of year-end 2001. Securities investments and receivables in trust formed 96.5% of trust assets under management.

	(Unit: Billion Won)	
	2001	2002
Assets		
Securities	2,731	6,069
Receivables in trust	3,485	7,122
Other assets	612	483
	6,828	13,673
Liabilities		
Money trusts	2,938	3,173
Receivable money trusts	3,490	7,231
Securities in trust	-	2,950
Other liabilities	400	320
	6,828	13,673

The trust business affected the Bank's operating results in both fee-based income and expenses. On the back of an 8.0% increase in the balance of money trusts, management fees to the Bank rose 4.3% yoy from W23 billion in 2001 and W24 billion in 2002. Despite this significant jump in the balance of trust assets, the bearish stock market saw trust profit dividends to beneficiaries shrink to W104 billion in 2002 compared to W299 billion the previous year. Alongside the decline in gain on securities, revenue from trust accounts declined 37.3% yoy to W262 billion in 2002 from W418 billion in 2001. Likewise, expenses from trust accounts jumped 33.1% yoy to W157 billion in 2002 mainly because of the steep loss deriving from loss on securities.

	(Unit: Billion Won)	
	2001	2002
Revenue		
Interest on securities	159	179
Interest on loans	15	9
Gain on derivatives transactions	1	11
Gain on securities	193	51
Other revenues	49	11
	418	262
Expenses		
Loss on derivatives transactions	3	16
Loss on securities	67	104
Management fees to the Bank	23	24
Other expenses	26	14
	118	157
Dividend of trust profit to beneficiaries	299	104

Management's Discussion & Analysis

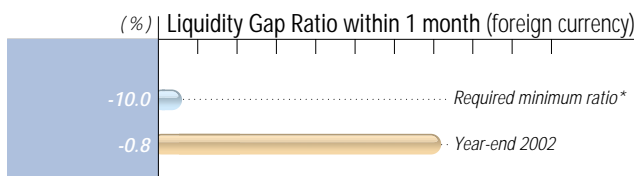
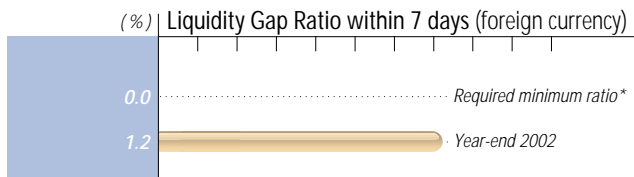
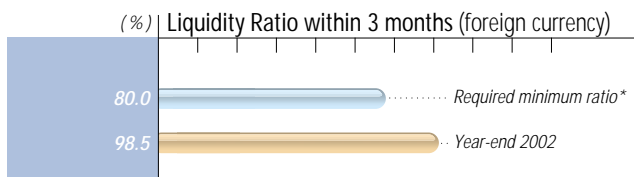
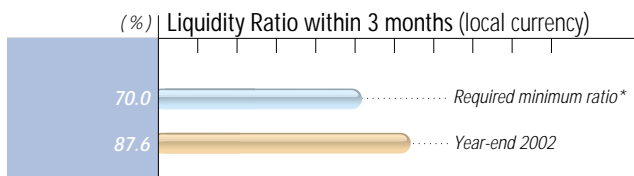
RISK MANAGEMENT

Risk is an inherent part of KDB's business activities. The Bank's ability to properly and effectively identify, measure, monitor, and report risk in its business activities is critical to its soundness and profitability. The diversity of KDB's lines of business helps reduce the impact of volatility in any particular area on the Bank's operating results as a whole.

1. LIQUIDITY RISK MANAGEMENT

Liquidity management is critical to protecting its capital base and maintaining market confidence. Liquidity is managed to ensure stable, reliable and cost-effective sources of funding and meet all current and future financial obligations. The Risk Management Center provides a daily measurement and report of the liquidity ratio, working closely with all business operations such as treasury, corporate banking and funding to

Liquidity Ratio



* FSC (Financial Supervisory Commission) Guidelines

understand and manage the potential liquidity risks in the Bank. Apart from this, KDB is an active participant in global financial markets where it obtains a significant amount of funding. These markets are a cost-effective source of funds and a critical component of the Bank's liquidity management.

2. MARKET RISK MANAGEMENT

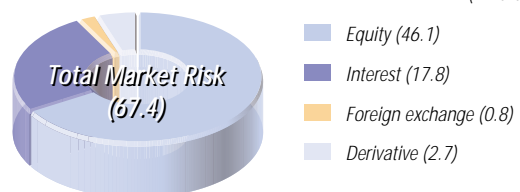
Market risk refers to potential losses arising from changes in interest rates, foreign exchange rates and equity prices in market risk sensitive instruments. Value-at-Risk (VaR) is a generally accepted risk measurement concept. VaR uses statistical models to estimate the maximum fair value the Bank could be reasonably expected to lose on a trading position from an adverse market movement, given a specified confidence level and time horizon.

The Bank has developed policies and procedures to manage market risk through VaR measurement. The Bank's VaR calculation measures potential losses in fair value using a 99% confidence level and 10-day holding period. KDB sets limits for aggregate VaR for marketable securities and allocates VaR limits to divisions, departments and products, taking risk management strategy, business goals and the BIS capital adequacy ratio into account. The objective of this process is to quantify and manage market risk in order to limit single and aggregate exposures.

As of December 31, 2002, the VaR was W67.4 billion or 48.1% of the annual aggregate VaR limit of W140 billion. The VaR accounted for a mere 1.14% of the Bank's W5,903 billion in assets under management. The following chart summarizes the 10-day VaRs at a 99% confidence interval by risk type relating to the Bank's trading activities at the end of 2002.

VaR at year-end 2002

(Billions of Won)



THE KOREA DEVELOPMENT BANK BANKING ACCOUNT AUDIT REPORT 2002

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

SAMIL ACCOUNTING CORPORATION

Samil Accounting Corporation
Kukje Center Building 191 Hangangro 2 ga,
Yongsanku, Seoul 140-702, KOREA
(Yongsan P.O.Box 266, 140-600)

To the Board of Directors of The Korea Development Bank

We have audited the accompanying non-consolidated balance sheets of the Korea Development Bank (the "Bank") as of December 31, 2002 and 2001, and the related non-consolidated statements of income, appropriations of retained earnings and cash flows for the years 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 audits.

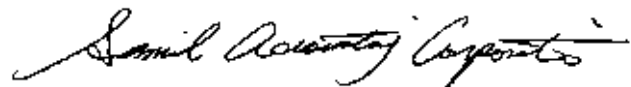
We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on 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 audits provide 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, 2002 and 2001, and the results of its operations, the changes in its retained earnings and its cash flows for the years then ended, in conformity with financial accounting standards generally accepted in the Republic of Korea.

Without qualifying our opinion, we draw your attention to Note 15 of the non-consolidated financial statements, which states that the Korean Government increased the paid-in capital of the Bank by W3,000,000 million in 2001 by contributing 127,086,334 shares of Korea Electric Power Corporation valued at W23,606 per share on June 20, 2001 and W50,000 million cash on December 29, 2001.

Accounting principles and auditing standards and their application in practice vary among countries. The accompanying non-consolidated financial statements are not intended to present the financial position, results of operations and cash flows in conformity with accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of Korea. In addition, the procedures and practices used in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying non-consolidated financial statements are for use by those who are knowledgeable about Korean accounting principles or auditing standards and their application in practice.

Seoul, Korea
January 24, 2003



This report is effective as of January 24, 2003, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

Samil Accounting Corporation is the Korean member firm of PricewaterhouseCoopers. PricewaterhouseCoopers refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

NON-CONSOLIDATED BALANCE SHEETS

(Banking Account)

December 31, 2002 and 2001

	In Millions of Korean Won		In Thousands of U.S. Dollars	
	2002	2001	2002	2001
ASSETS				
Cash and due from banks (Note 3)	W 1,970,664	W 2,673,433	\$ 1,641,673	\$ 2,227,118
Trading securities (Note 4)	1,333,027	1,246,645	1,110,486	1,038,525
Investment securities (Note 4)	25,045,299	24,061,402	20,864,128	20,044,487
Loans, net of provision for possible loan losses of W1,089,983 million in 2002 and W1,835,652 million in 2001 and present value discount of W126,955 million in 2002 and W331,227 million in 2001 (Note 5)	44,917,231	47,270,861	37,418,553	39,379,258
Premises and equipment, net (Note 6)	681,952	715,793	568,103	596,296
Derivative financial instruments (Note 14)	1,645,161	2,372,569	1,370,511	1,976,482
Other assets (Note 7)	3,189,010	3,662,357	2,656,624	3,050,946
Total assets	W 78,782,344	W 82,003,060	\$ 65,630,077	\$ 68,313,112
LIABILITIES AND EQUITY				
Deposits (Note 8)	W 8,745,304	W 10,483,335	\$ 7,285,325	\$ 8,733,201
Borrowings (Note 9)	24,459,085	21,353,378	20,375,779	17,788,552
Industrial finance bonds, gross of premium on bonds of W16,396 million in 2002 and W292 million in 2001 and net of discount on bonds of W52,460 million in 2002 and W81,868 million in 2001 (Note 10)	33,600,020	36,554,291	27,990,686	30,451,759
Provision for possible guarantee losses (Note 12)	63,223	140,980	52,668	117,444
Accrued severance benefits	14,685	12,219	12,233	10,179
Derivative financial instruments (Note 14)	1,424,200	2,614,541	1,186,438	2,178,058
Other liabilities (Note 11)	3,535,222	3,910,871	2,945,037	3,257,973
Total liabilities	71,841,739	75,069,615	59,848,166	62,537,167
Commitments and contingencies (Note 13)				
Equity:				
Paid-in capital (Notes 1 and 15)	7,161,861	7,161,861	5,966,229	5,966,229
Capital surplus (Note 15)	44,373	44,373	36,965	36,965
Retained earnings	294,103	109,428	245,004	91,160
Capital adjustments (Note 15)	(559,732)	(382,217)	(466,288)	(318,408)
Total equity	6,940,605	6,933,445	5,781,910	5,775,946
Total liabilities and equity	W 78,782,344	W 82,003,060	\$ 65,630,077	\$ 68,313,112

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

NON-CONSOLIDATED STATEMENTS OF INCOME

(Banking Account)

For the years ended December 31, 2002 and 2001

	In Millions of Korean Won		In Thousands of U.S. Dollars	
	2002	2001	2002	2001
Interest income:				
Interest on loans	W 2,546,169	W 3,634,930	\$ 2,121,100	\$ 3,028,099
Interest on due from banks	62,560	225,728	52,116	188,044
Interest on trading securities	65,940	112,300	54,932	93,552
Interest on investment securities	602,566	593,748	501,971	494,625
Other interest income	34,280	16,269	28,557	13,553
	3,311,515	4,582,975	2,758,676	3,817,873
Interest expense:				
Interest on deposits	404,641	532,312	337,088	443,446
Interest on borrowings	671,157	1,174,039	559,111	978,040
Interest on bonds payable	2,047,937	2,597,114	1,706,045	2,163,540
Other interest expenses	55,245	56,365	46,022	46,955
	3,178,980	4,359,830	2,648,267	3,631,981
Net interest income	132,535	223,145	110,409	185,892
Non-interest revenue:				
Fees and commissions	273,343	311,159	227,710	259,213
Gain from trading securities	87,930	134,514	73,251	112,058
Gain from derivative financial instruments (Note 14)	3,609,610	3,599,451	3,007,006	2,998,543
Others (Note 16)	724,155	1,130,268	603,261	941,576
	4,695,038	5,175,392	3,911,228	4,311,390
Non-interest expense:				
Fees and commissions	34,460	35,926	28,707	29,928
Loss from trading securities	52,746	72,515	43,940	60,409
Loss from derivative financial instruments (Note 14)	3,567,271	3,591,505	2,971,735	2,991,924
General and administrative expenses (Note 17)	266,143	241,232	221,712	200,960
Others (Note 16)	1,451,989	782,531	1,209,588	651,892
	5,372,609	4,723,709	4,475,682	3,935,112
Operating income	(545,036)	674,828	(454,046)	562,169
Non-operating income (expense), net (Note 18)	730,971	(558,911)	608,940	(465,604)
Income before income taxes	185,935	115,917	15,894	96,565
Income taxes (Note 19)	2,063	6,961	1,719	5,799
Net income	W 183,872	W 108,956	\$ 153,176	\$ 90,766

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

NON-CONSOLIDATED STATEMENTS OF APPROPRIATIONS OF RETAINED EARINGS (Banking Account)

For the years ended December 31, 2002 and 2001.

Dated of appropriations : February 28, 2003 and 2002

	In Millions of Korean Won		In Thousands of U.S. Dollars	
	2002	2001	2002	2001
Retained earnings before appropriations:				
Retained earnings carried over				
from the prior year	W -	W -	\$ -	\$ -
Effects on valuation of investments by the equity method	803	472	669	393
Net income for the year	183,872	108,956	153,176	90,766
	184,675	109,428	153,845	91,160
Appropriations of retained earnings:				
Legal reserve	184,675	109,428	153,845	91,160
	184,675	109,428	153	91,160
Unappropriated retained earnings carried forward to the subsequent year	W -	W -	\$ -	\$ -

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

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

(Banking Account)

For the years ended December 31, 2002 and 2001

	In Millions of Korean Won		In Thousands of U.S. Dollars	
	2002	2001	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	W 183,872	W 108,956	\$ 153,176	\$ 90,766
Adjustments to reconcile net income to net cash provided by operating activities:				
Loss (gain) on disposal of loans, net	(7,207)	1,074,304	(6,004)	894,955
Loss (gain) on trading securities, net	(34,988)	(55,985)	(29,147)	(46,639)
Loss (gain) on investment securities, net	(724,506)	(507,019)	(603,554)	(422,375)
Provision for (reversal of) allowance for bad debt losses	551,700	(141,338)	459,597	(117,742)
Depreciation	31,884	28,654	26,561	23,870
Retirement allowance	15,503	13,176	12,915	10,976
Loss (gain) on foreign currency translation, net	143,580	(10,889)	119,610	(9,071)
Loss (gain) from derivative financial instruments, net	(25,765)	224,555	(21,464)	187,067
Decrease in accrued income	64,862	219,219	54,034	182,622
Increase in derivative financial instruments	(437,168)	(24,846)	(364,185)	(20,698)
Payment of severance benefits	(3,054)	(5,762)	(2,544)	(4,800)
Others, net	79,689	(798,046)	66,385	(664,817)
Net cash provided by operating activities	(161,598)	124,979	(134,620)	104,114
CASH FLOWS FROM INVESTING ACTIVITIES				
Net decrease (increase) in trading securities	(51,395)	500,549	(42,815)	416,985
Net decrease in loans	1,320,904	1,869,161	1,100,387	1,557,115
Net increase in investment securities	(202,112)	(3,007,823)	(168,371)	(2,505,684)
Net decrease (increase) in premises and equipment	5,278	(15,010)	4,397	(12,504)
Others, net	632,555	2,478,600	526,954	2,064,812
Net cash provided by investing activities	1,705,230	1,825,477	1,420,551	1,520,724
CASH FLOWS FROM FINANCING ACTIVITIES				
Net increase (decrease) in deposits	(1,738,031)	1,961,368	(1,447,877)	1,633,929
Net increase (decrease) in borrowings	3,182,706	(2,192,114)	2,651,371	(1,826,153)
Net decrease in bonds issued	(3,094,644)	(1,709,307)	(2,578,011)	(1,423,948)
Increase in paid-in capital	-	50,000	-	41,653
Others, net	(98)	110	(82)	92
Net cash used in financing activities	(1,650,067)	(1,889,943)	(1,374,598)	(1,574,428)
Net increase (decrease) in cash	(106,435)	60,513	(88,666)	50,411
Cash, beginning of the year	144,908	84,395	120,716	70,306
Cash, end of the year (Note 3)	W 38,473	W 144,908	\$ 32,050	\$ 120,716

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

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS (Banking Account)

December 31, 2002 and 2001

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 the Korean industry. The Bank operates through 34 local branches, 5 overseas branches, 3 overseas subsidiaries and 2 overseas offices as of December 31, 2002. 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.

BASIS OF FINANCIAL STATEMENT PRESENTATION -

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.

The Bank maintains its official accounting records in Korean Won and prepares statutory financial statements in the Korean language in conformity with the accounting principles generally accepted in the Republic of Korea. The accompanying non-consolidated financial statements have been condensed, restructured and translated into English from the Korean language financial statements. Certain accounting principles applied by the Bank that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these financial statements are intended for use by those who are informed about Korean accounting principles and practices. Certain information attached to the Korean language financial statements, that are not required for a fair presentation of the Bank's financial position and results of operations, are not presented in the accompanying non-consolidated financial statements.

The preparation of non-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 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, 2002 and 2001 amounted to W226,022 million and W122,915 million, respectively.

PROVISION FOR POSSIBLE LOAN LOSSES -

The Bank provides for possible loan losses based on the 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 the borrowers' credit risk. Provisions are determined by applying the following minimum percentages to the various credit risk ratings:

Loan Classifications	Provision Percentages
Normal	0.5%
Special attention	2% or more
Substandard	20% or more
Doubtful	50% or more
Loss	100%

Pursuant to the revised Regulation on Supervision of Banking Business which is effective December 1, 2002, the Bank has changed the credit line for importers from acceptances to domestic import usance bills. As a result of this change, loans and borrowings increased by W3,237,446 million and the provision for possible losses in 2002 is approximately W63,416 million more than that of which would have been reported under the previous accounting method.

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:

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

(Banking Account)

December 31, 2002 and 2001

- TRADING SECURITIES

The initial cost of trading securities is determined by the moving average method. Subsequently, trading securities are 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 15% of interest. However, the Bank does not apply the equity method for the following investments.

- Investees having total assets of less than W7,000 million
- Investees under the court receivership or bankruptcy
- Investees under the process of being sold-out
- Converted stocks with restriction on disposition under the corporate restructuring law

In addition, when the investees incur accumulated losses and the book value of the investment becomes below zero, the equity method is no longer used. However, the equity method will be used again when income or capital changes exceed losses accrued during the period in which the equity method is not used.

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

Non-marketable 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 be recovered, the acquisition cost is adjusted to the market value or net book value. In such cases, the difference between the carrying amount and the revalued amount is charged to current operations.

The Bank recorded impairment losses amounting to W387,710 million and W289,725 million in 2002 and 2001, respectively.

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.

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.

Interest costs incurred in connection with the purchase or construction of investment assets, tangible assets and intangible assets are capitalized as part of the cost of such assets.

INTANGIBLE ASSETS -

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

PRESENT VALUE DISCOUNT -

Receivables and payables arising from long-term installment transactions, long-term cash loans (borrowings) and other similar transactions are stated at present value if the difference between the nominal value and present value is material. Such differences are presented in the present value discount account and directly deducted from the nominal value of the related receivables or payables. The present value discount account is amortized using the effective interest rate method as interest expense or interest income.

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

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS (Banking Account)

December 31, 2002 and 2001

interest rate. The difference between the 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.

FOREIGN CURRENCY TRANSLATION -

Assets and liabilities denominated in foreign currencies are translated into Korean Won at the basic exchange rates (W1,200.4/US\$1) on the balance sheet date. The resulting exchange gains or losses are reflected in current operations.

BONDS SOLD UNDER REPURCHASE AGREEMENTS -

The Bank provides a provision for possible losses from the bonds sold under repurchase agreements as determined based on possible loss estimates when the bonds are repurchased. The provision for possible losses as of December 31, 2002 and 2001 amounted to W102,054 million and W220,677 million, respectively.

DISPOSITION OF LOANS -

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

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.

Accrued severance benefits are funded at approximately 40.5% as of December 31, 2002, through a group severance trust in Woori Bank. The Bank accounts for the amounts funded under the group severance trust as a deduction to accrued severance benefits.

Actual payments of severance benefits for the years ended December 31, 2002 and 2001 amounted to W3,051 million and W5,762 million (including W4,030 million of early payment of severance benefits), respectively.

PROVISION FOR POSSIBLE GUARANTEE LOSSES -

The Bank sets up a provision for possible losses on guarantees outstanding as determined based on a credit risk rating of the companies for which guarantees are provided. The Bank provides a provision of 20% or more of guaranteed amounts for companies classified as "substandard," 50% or more for "doubtful" and 100% for "loss". The allowance is shown in the liability section.

DEFERRED INCOME TAXES -

The Bank records deferred income taxes which arises from temporary differences between the amount reported for financial reporting purposes and income tax purposes. Income tax expense comprises taxes payable for the period and the change in deferred income tax assets and liabilities for the period.

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 selling and repurchase price is treated as interest and accrued evenly over the period covered by 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 non-consolidated financial statements, the financial statements of the branches have been translated at the exchange rates as of the balance sheet date.

DERIVATIVE FINANCIAL INSTRUMENTS -

Derivative financial instruments held for trading purposes are stated at fair value as of the balance sheet date.

Derivative financial instruments for fair value hedges are stated at market value. The gains and losses on the hedging instruments, as well as the related loss or gain on the hedged items, are recognized in current operations in the same accounting period.

COMPENSATION TO TRUST ACCOUNTS -

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

Certain trust funds held by the Bank are guaranteed a certain rate of return by the Bank. If the income from trust operations is insufficient to generate the required rate of return, the deficiency may be

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

(Banking Account)

December 31, 2002 and 2001

either recovered from previously established special allowances or compensated by the Bank's banking accounts. Such compensation is accounted for as other operating expenses of the banking accounts and other income of the trust accounts, in accordance with the relevant laws and regulations applicable to trust operations.

STATEMENT OF CASH FLOWS -

On the statement of cash flows, the Bank recorded the net cash inflows and outflows for loans, deposits and trading securities due to their frequent turnover and short-term maturity.

RECLASSIFICATION OF PRIOR YEAR AMOUNTS:

Certain amounts in the 2001 financial statements have been reclassified to conform to the 2002 presentation. These reclassifications have no effect on previously reported net income or retained earnings for 2001.

3. CASH AND DUE FROM BANKS:

Cash and due from banks as of December 31, 2002 and 2001 comprise the following:

	Annual Interest Rate (%)	In Millions of Korean Won	
		2002	2001
Cash on hand in Won	-	W 36,624	W 142,842
Cash on hand in foreign currency	-	1,849	2,066
Due from banks in Won	5.9 - 8.0	288,743	97,146
Due from banks in foreign currency	0.0 - 5.59	1,643,448	2,431,379
		W 1,970,664	W 2,673,433

Due from banks in Won as of December 31, 2002 and 2001 are summarized as follows:

Bank	Annual Interest Rate (%)	In Millions of Korean Won	
		2002	2001
The Bank of Korea	-	W 220,385	W 62,720
Others	5.9 - 8.0	68,358	34,426
		W 288,743	W 97,146

Due from banks in foreign currency as of December 31, 2002 and 2001 are summarized as follows:

Bank	Annual Interest Rate (%)	In Millions of Korean Won	
		2002	2001
The Bank of Korea	-	W 12,787	W 40,774
Kookmin Bank	2.75 - 3.50	489,959	567,787
Woori Bank	1.70 - 4.05	66,022	217,480
KDB Asia (HK) Ltd.	1.61 - 2.17	359,763	281,398
KDB Ireland Ltd.	1.62 - 5.59	242,481	267,740
Korea Exchange Bank	1.59 - 3.50	87,444	123,123
Hana Bank	1.72 - 2.12	48,016	132,610
Others	1.27 - 4.20	336,976	800,467
		W 1,643,448	W 2,431,379

Restricted deposits included in due from banks as of December 31, 2002 are as follows:

In Millions of Korea Won	
Reserve deposits with the Bank of Korea	W 220,385
China Construction Bank	6,993
Woori Bank	4,690
Kookmin Bank	56,980
Shinhan Bank	6,644
Shanghai Pudong Development Bank	4,802
Industrial and Commercial Bank of China	3,601
	W 304,095

Reserve deposits with the Bank of Korea represent amounts required under the Banking Act for the payment of deposits. Reserve deposits with China Construction Bank, Shanghai Pudong Development Bank and Industrial and Commercial Bank of China also represent amounts required under the related banking regulations of those countries. Deposits with Woori Bank, Kookmin Bank and others are pledged as collateral.

The maturities of amounts due from banks as of December 31, 2002 are as follows (Millions of Won) :

Maturing On or Before	Due from Banks in Won	Due from Banks in Foreign Currency	Total
Mar. 31, 2003	W 220,429	W 1,362,310	W 1,582,739
Jun. 30, 2003	-	41,542	41,542
Dec. 31, 2003	10,661	112,953	123,614
Dec. 31, 2004	12,448	27,609	40,057
Dec. 31, 2005	28,817	81,027	109,844
Dec. 31, 2006	16,388	-	16,388
Dec. 31, 2007	-	-	-
Thereafter	-	18,007	18,007
	W 288,743	W 1,643,448	W 1,932,191

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

(Banking Account)

December 31, 2002 and 2001

4. SECURITIES:

Trading securities as of December 31, 2002 and 2001 comprise the following:

	Annual Interest Rate (%)	In Millions of Korean Won	
		2002	2001
Marketable equity securities	-	W -	W 10,243
Government and public bonds	6.05 - 6.25	152,475	110,108
Corporate bonds	6.10 - 7.37	169,351	170,486
Beneficiary certificates	-	606,671	375,702
Debt securities in foreign currency	4.75	388,790	580,106
Others	5.66	15,740	-
		W 1,333,027	W 1,246,645

Par value, acquisition cost and fair value of trading debt securities as of December 31, 2002 and 2001 are as follows (Millions of Won):

	Par Value		Acquisition Cost		Fair Value	
	2002	2001	2002	2001	2002	2001
Government and public bonds	W 150,000	W 110,000	W 151,746	W 108,967	W 152,475	W 110,108
Corporate bonds	170,000	171,139	168,468	169,765	169,351	170,486
Securities in foreign currency	370,200	590,524	385,733	578,601	388,790	580,106
	W 690,200	W 871,663	W 705,947	W 857,333	W 710,616	W 860,700

Trading securities in each foreign currency as of December 31, 2002 and 2001 comprise the following:

	Foreign Currency (In Thousands)		In Millions of Korean Won	
	2002	2001	2002	2001
US\$	323,884	398,466	W 388,790	W 528,406
DEM	-	35,021	-	20,996
EUR	-	22,844	-	26,787
SGD	-	5,459	-	3,917
			W 388,790	W 580,106

Investment securities as of December 31, 2002 and 2001 comprise the following:

	Annual Interest Rate (%)	In Millions of Korean Won	
		2002	2001
Equity securities			
Investments using the equity method	-	W 7,041,539	W 6,034,406
Investments not using the equity method	-	6,905,254	6,748,332
		13,946,793	12,782,738
Debt securities			
Government and public bonds	4.98 - 7.50	2,247,242	2,913,054
Corporate bonds	3.81 - 5.24	4,895,282	4,894,965
Investment securities in foreign currency	3.83 - 7.25	3,169,469	2,444,203
Others (*)	1.0 - 22.0	786,513	1,026,442
		11,098,506	11,278,664
		W 25,045,299	W 24,061,402

(*) Investment securities amounting to W485,000 million are pledged as collateral to KDB First Securitization Specialty Co., Ltd. and others and investment securities amounting to W142,600 million are pledged for construction performance insurance.

With regards to futures trading, 6,319,660 shares of Korea Electric Power corporation are pledged as a substitute for deposit money to Kookmin Futures Inc. and others.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

(Banking Account)

December 31, 2002 and 2001

Investments in debt securities available-for-sale as of December 31, 2002 and 2001 comprise the following (Millions of Won):

	Par Value		Acquisition Cost		Market(Carrying) Value	
	2002	2001	2002	2001	2002	2001
Government and public bonds	W 42,399	W 97,943	W 42,378	W 68,033	W 44,927	W 158,879
Corporate bonds	4,655,850	4,077,799	4,488,215	4,118,184	4,171,455	4,036,957
Investment securities in foreign currency	3,164,853	2,140,878	2,102,743	1,521,545	2,098,907	1,428,171
Others	679,635	907,679	772,531	895,548	671,162	911,075
	W 8,542,737	W 7,224,299	W 7,405,867	W 6,603,310	W 6,986,451	W 6,535,082

Investments in debt securities held-to-maturity as of December 31, 2002 and 2001 comprise the following (Millions of Won):

	Par Value		Acquisition Cost		Carrying Amount of Bonds	
	2002	2001	2002	2001	2002	2001
Government and public bonds	W 2,209,785	W 2,764,362	W 2,201,252	W 2,756,469	W 2,202,315	W 2,754,175
Corporate bonds	733,000	865,613	717,101	653,905	723,827	858,008
Investment securities in foreign currency	1,073,168	1,021,909	1,144,905	1,018,688	1,070,562	1,016,032
Others	114,583	115,384	114,563	115,366	115,351	115,367
	W 4,130,536	W 4,767,268	W 4,177,821	W 4,544,428	W 4,112,055	W 4,743,582

Equity investments as of December 31, 2002 and 2001 comprise the following (Millions of Won):

	Ownership(%) 2002.12.31	Acquisition Cost		Book Value		Fair Value or Net Book Value (*)	
		2002	2001	2002	2001	2002	2001
Investments using the equity method:							
The KDB Capital Corp.	79.86	W 467,706	W 478,208	W 102,965	W 203,576	W 85,929	W 173,854
Daewoo Securities Co., Ltd.	39.46	563,247	563,247	554,034	563,442	468,986	421,421
Daewoo Shipbuilding & Marine Engineering Co., Ltd.	42.10	390,368	390,368	614,560	428,515	530,755	317,821
Daewoo Heavy Industries & Machinery Ltd.	21.91	173,078	173,078	188,915	186,153	159,469	146,891
Korea Electric Power Corporation	21.59	3,265,468	3,265,468	4,541,043	3,634,862	7,667,147	7,177,780
Seoul Debt Restructuring Fund	43.80	117,224	262,800	114,110	259,384	114,110	259,384
Arirang Restructuring Fund	43.73	126,846	145,800	101,567	132,763	101,567	132,763
Mukoonghwa Restructuring Fund	43.71	142,995	145,700	124,764	147,084	124,764	147,084
Hankang Restructuring Fund	23.01	95,915	145,700	97,270	147,802	97,270	147,801
Others	-	671,552	396,566	602,311	330,825	631,998	336,184
		6,014,399	5,966,935	7,041,539	6,034,406	9,981,995	9,260,983
Investments not using the equity method:							
Samsung Life Insurance Co., Ltd.	1.89	264,496	264,496	132,248	132,248	100,476	40,518
Industrial Bank of Korea	18.95	400,000	400,000	387,013	410,721	387,013	410,721
Korea Highway Corporation	10.22	1,430,100	1,430,100	1,430,184	1,430,184	1,430,379	1,471,251
Korea National Housing Corp.	22.68	1,300,618	1,300,618	1,300,618	1,300,618	1,238,252	1,336,842
Korea Land Development Corp.	26.90	1,161,904	1,161,904	1,191,329	1,191,329	881,293	844,292
Korea Water Resources Corp.	7.30	671,307	671,307	671,307	671,307	546,045	745,646
Others	-	2,448,885	2,222,397	1,792,555	1,611,925	1,941,842	1,630,572
		7,677,310	7,450,822	6,905,254	6,748,332	6,525,300	6,479,842
		W13,691,709	W13,417,757	W13,946,793	W12,782,738	W16,507,295	W15,740,825

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

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

(Banking Account)

December 31, 2002 and 2001

Investment securities using the equity method as of December 31, 2002 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.	W 203,576	W (4,421)	W -	W (98,435)	W 2,245	W 102,965
Daewoo Securities Co., Ltd.	563,442	-	-	(394)	(9,014)	554,034
Daewoo Shipbuilding & Marine Engineering Co., Ltd.	428,515	-	-	78,591	107,454	614,560
Daewoo Heavy Industries & Machinery Ltd.	186,153	-	-	2,939	(177)	188,915
Seoul Debt Restructuring Fund	259,384	-	140,335	(4,939)	-	114,110
Arirang Restructuring Fund	132,763	-	18,954	(12,242)	-	101,567
Mukoonghwa Restructuring Fund	147,084	-	21,855	(465)	-	124,764
Korea Electric Power Corp.	3,634,862	-	75,931	1,007,385	(25,273)	4,541,043
Hankang Restructuring Fund	147,802	-	56,532	6,000	-	97,270
Others	330,825	275,054	1,969	(1,246)	(353)	602,311
	W 6,034,406	W 270,633	W 315,576	W 977,194	W 74,882	W 7,041,539

(*) Valuation gain or loss includes loss on foreign currency translation amounting to W8,117 million for the year ended December 31, 2002.

The equity method adjustments are calculated as the difference between the initial purchase price and the Bank's initial proportionate ownership of the net book value of investees at the time of purchase. Equity method adjustment debits are amortized over five years and equity method adjustment credits are amortized over five years (for

those purchased before December 31, 2000) or weighted average useful lives of tangible assets of investees using the straight-line method. The accumulated unamortized equity method adjustments are as follows (Millions of Won):

	2002		2001	
	Equity Method Adjustment Debit	Equity Method Adjustment Credit	Equity Method Adjustment Debit	Equity Method Adjustment Credit
Beginning balance	W 318,508	W 3,550,739	W 245,266	W 10,735
Increase (decrease)	(31,120)	24,015	125,815	3,750,927
Amortization	(71,488)	(418,398)	(52,573)	(210,923)
Ending balance	W 215,900	W 3,156,356	W 318,508	W 3,550,739

Investees in which the Bank holds more than 15% of interest but are not valued using the equity method as of December 31, 2002 are summarized as follows (Millions of Won):

	Ownership (%)	Acquisition Cost	Book Value	Fair Value or Net Book Value
Korea National Housing Corp. (*1)	22.7	1,300,618	1,300,618	1,238,252
Korea Land Development Corp. (*1)	26.9	1,161,904	1,161,904	881,293
Korea National Tourism Organization (*1)	43.6	24,370	35,529	139,016
Hyundai Petrochemical Co., Ltd. (*2)	27.8	60,094	60,094	197,999
KP Chemical Corp. (*2)	19.9	94,421	57,597	57,597
Donghae Pulp Co., Ltd. (*2)	51.4	24,500	17,395	17,395
Kia Steel Co., Ltd. (*2)	17.2	31,945	3,642	3,642
Others (*3)	-	56,240	54,745	31,850

(*1) Investees which are controlled by the government or government investing companies.

(*2) Investees under court receivership, workout process and other restructuring process.

(*3) Investees whose total assets are less than W7,000 million.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

(Banking Account)

December 31, 2002 and 2001

As of December 31, 2002, the Bank used unaudited or unreviewed financial statements for the following investees (Millions of Won):

	Expected time of closing	Pre Adjusted Net Book Value	Adjustment	Net Book Value
The KDB Capital Corp.	May, 2003	W 114,353	W (8,871)(*)	W 105,482
Daewoo Securities Co., Ltd.	May, 2003	1,185,908	(1)(*)	1,185,907
Daewoo Shipbuilding & Marine Engineering Co., Ltd.	March, 2003	1,256,642	-	1,256,642
Pan Ocean Shipping Co., Ltd.	March, 2003	190,505	-	190,505
Mukoonghwa Restructuring Fund	May, 2003	285,408	-	285,408
Seoul Debt Restructuring Fund	May, 2003	260,525	-	260,525
Hankang Restructuring Fund	May, 2003	422,794	-	422,794
Arirang Restructuring Fund	May, 2003	232,253	-	232,253
Others	March or May, 2003	156,183	-	156,183

(*) Adjustment made by using the Bank's standard provision ratio for possible loan losses.

Unaudited or unreviewed financial statements were used due to the difference in the fiscal year-end, or closing delay of the investees and other reasons. The most recent audited or reviewed financial statements, except for the above investees, were used for the equity method investees.

Investment securities denominated in foreign currency as of December 31, 2002 and 2001 comprise the following:

Foreign Currency (In Thousands)				In Millions of Korean Won			
2002		2001		2002		2001	
Securities available-for-sale							
US\$	1,359,939	US\$	806,460	W	1,632,470	W	1,069,448
JPY	42,643,208	JPY	32,448,921		431,920		327,539
EUR	16,394	EUR	7,699		20,613		9,028
DEM	-	DEM	33,021		-		19,797
SGD	2,490	SGD	2,549		1,722		1,829
CHF	90	CHF	669		78		530
GBP	4,027	GBP	-		7,753		-
CNY	30,001	CNY	-		4,351		-
				W	2,098,907	W	1,428,171
Securities held-to-maturity							
JPY	17,172,020	JPY	16,059,582	W	173,930	W	162,106
US\$	744,842	US\$	643,938		894,109		853,926
EUR	2,006	EUR	-		2,523		-
				W	1,070,562	W	1,016,032

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

(Banking Account)

December 31, 2002 and 2001

Issuers of the securities held by the Bank as of December 31, 2002 and 2001 are categorized as follows:

	In Millions of Korean Won		Percentage (%)	
	2002	2001	2002.12.31	
By country				
The Republic of Korea	W 25,793,484	W 24,883,635	97.78	
The Philippines	68,093	123,963	0.26	
Thailand	16,343	19,094	0.06	
Indonesia	8,383	20,909	0.03	
Others	492,023	260,446	1.87	
	W 26,378,326	W 25,308,047	100.00	

	In Millions of Korean Won		Percentage (%)	
	2002	2001	2002.12.31	
By issuer				
Korea Electric Power Corporation	W 4,659,477	W 3,634,862	17.66	
Korea National Housing Corp.	1,606,211	1,603,433	6.09	
Korea Highway Corporation	1,450,238	1,430,184	5.50	
Korea Deposit Insurance Corp.	1,333,077	1,350,764	5.05	
Korea Land Development Corp.	1,191,328	1,191,629	4.52	
Korea Asset Management Corp.	585,197	761,243	2.22	
Others	15,552,798	15,335,932	58.96	
	W 26,378,326	W 25,308,047	100.00	

	In Millions of Korean Won		Percentage (%)	
	2002	2001	2002.12.31	
By industry				
Banking and insurance	W 7,269,345	W 7,208,018	27.56	
Manufacturing	5,586,592	4,715,490	21.18	
Construction	3,966,773	4,163,905	15.04	
Electric, gas and water supply industry	4,906,646	4,147,909	18.60	
Public administration and national defense	2,130,266	2,316,380	8.07	
Others	2,518,704	2,756,345	9.55	
	W 26,378,326	W 25,308,047	100.00	

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

(Banking Account)

December 31, 2002 and 2001

5. LOANS:

Loans as of December 31, 2002 and 2001 comprise the following:

	In Millions of Korean Won			
	2002		2001	
Loans in Won	W	14,389,340	W	17,456,629
Loans in foreign currency		16,118,522		18,234,381
Other loans		15,626,307		13,746,730
		46,134,169		49,437,740
Less: Provision for possible loan losses		(1,089,983)		(1,835,652)
Present value discount account		(126,955)		(331,227)
	W	44,917,231	W	47,270,861

Loans in Won and foreign currency as of December 31, 2002 and 2001 comprise the following:

(1) LOANS IN WON

	Annual average Interest Rate (%)	In Millions of Korean Won	
		2002	2001
	2002.12.31		
Loans for working capital:			
Industrial fund loans	8.18	W 2,954,632	W 5,045,799
Government fund loans	5.83	551,690	605,180
Overdrafts	10.38	77,489	333,729
Others	5.82 - 7.81	838,419	860,038
		4,422,230	6,844,746
Loans for facilities:			
Industrial fund loans	8.14	7,060,734	7,805,907
Government fund loans	5.77	924,386	1,040,819
Others	4.46 - 7.62	1,981,990	1,765,157
		9,967,110	10,611,883
		W 14,389,340	W 17,456,629

(2) LOANS IN FOREIGN CURRENCY

	Annual average Interest Rate (%)	In Millions of Korean Won	
		2002	2001
	2002.12.31		
Loans for working capital:			
Local currency loans denominated in foreign currencies	5.24	W 878,387	W 1,369,883
Foreign currency loans	3.36	981,347	1,317,037
Others	3.13	607,381	223,163
		2,467,115	2,910,083
Loans for facilities:			
Local currency loans denominated in foreign currencies	4.11	4,597,906	5,178,075
Foreign currency loans	4.08	2,423,167	2,509,006
Offshore loans in foreign currencies	3.44	1,291,518	1,753,187
Loans to Asian Development Bank	2.63	1,208,755	1,335,968
Loans to International Bank for Reconstruction and Development	2.96	4,115,638	4,547,409
Others	4.21	14,423	653
		13,651,407	15,324,298
		W 16,118,522	W 18,234,381

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

(Banking Account)

December 31, 2002 and 2001

(3) OTHER LOANS

In Millions of Korean Won

	2002		2001	
	W		W	
Notes purchased		4,887		4,340
Bills purchased		3,045,154		3,511,753
Advances for customers		75,316		155,629
Bonds purchased under repurchase agreements		161,805		-
Call loans		742,276		2,054,998
Domestic import usance bills		3,352,839		806,170
Debentures accepted by private subscription		7,777,071		6,686,098
Others (*)		466,959		527,742
	W	15,626,307	W	13,746,730

(*) Included loans to be converted to equity amounting to W438,749 million as follows:

	Amounts (In Millions of Korean Won)	Conversion Price	Restriction on Disposition
Ssangyong Cement Co., Ltd.	W 400,000	W 5,000/share	Till December 31, 2005
Daewoo Engineering & Construction Co., Ltd.	13,512	W 5,000/share	Till December 31, 2003
Hynix Semiconductor Co., Ltd.	25,237	W 5,000/share	Till December 31, 2003
	W 438,749		

The maturity of loans in Won and foreign currency as of December 31, 2002 are as follows:

Maturing On or Before	Loans for Working Capital in Won	Loans for Facility in Won	Loans for Working Capital in Foreign Currency	Loans for Facility in Foreign Currency	Total
Mar. 31, 2003	W 870,531	W 414,730	W 484,496	W 527,085	W 2,296,842
Jun. 30, 2003	538,411	416,999	386,410	502,269	1,844,089
Dec. 31, 2003	975,320	783,326	843,253	1,243,756	3,845,655
Dec. 31, 2004	935,747	1,797,600	528,794	2,142,204	5,404,345
Dec. 31, 2005	199,923	1,912,797	89,949	3,087,782	5,290,451
Dec. 31, 2006	257,775	1,324,950	72,950	1,402,478	3,058,153
Dec. 31, 2007	180,968	1,042,510	23,072	1,102,681	2,349,231
Thereafter	463,555	2,274,198	38,191	3,643,152	6,419,096
	W 4,422,230	W 9,967,110	W 2,467,115	W 13,651,407	W30,507,862

As of December 31, 2002 and 2001, a provision for possible loan losses and doubtful accounts is provided as follows:

In Millions of Korean Won

	2002		2001	
	W		W	
Loans				
Loans in Won and foreign currency and notes purchased		527,474		1,349,978
Bills purchased		39,773		224,834
Advances for customers		3,803		17,976
Call loans		143		980
Domestic import usance bills		104,441		11,367
Debentures accepted by private subscription		100,777		135,086
Other loans		313,572		95,431
		1,089,983		1,835,652
Other assets		4,946		90,146
	W	1,094,929	W	1,925,798

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

(Banking Account)

December 31, 2002 and 2001

Changes in the provision for possible loan losses during the years ended December 31, 2002 and 2001 are as follows (Millions of Won) :

	2002			2001
	Loans	Other Assets	Total	Total
Balance at the beginning of the year	W 1,835,652	W 90,146	W 1,925,798	W 2,255,735
Changes in overseas branches due to foreign currency translation	(3,378)	-	(3,378)	3,638
Transfer from loans repurchased	79,161	-	79,161	253,781
Write-offs due to loan restructuring	(20,360)	-	(20,360)	(158,557)
Current write-offs	(1,593,255)	(13,347)	(1,606,602)	(463,004)
Current provision (reversal)	623,553	(71,853)	551,700	(141,338)
Others	168,611	-	168,611	175,543
	W 1,089,984	W 4,946	W 1,094,930	W 1,925,798

As of December 31, 2002, classification of loans and provisions for possible loan losses are as follows (Millions of Won):

Classification		Loans (*)	Provisions for Possible Loan Losses	Ratio (%)
Normal	W	37,938,345	W 200,854	0.5
Special attention		2,980,269	576,101	19.3
Substandard		715,886	189,236	26.4
Doubtful		113,753	67,301	59.2
Loss		56,491	56,491	100.0
Others (**)		4,202,470	-	-
	W	46,007,214	W 1,089,983	2.4

(*) Present value discounts are deducted.

(**) Loans to the Korean Government or loans guaranteed by the Korean Government.

The provision ratios to total loans and provision ratios to non-performing loans as of December 31, 2002, 2001 and 2000 are as follows (Millions of Won):

	2002		2001		2000
Total loans	W	46,007,214	W	49,106,512	W 52,155,410
Provisions for possible loss		1,089,983		1,835,652	2,163,037
Provision ratio (%)		2.4		3.7	4.1
Non-performing loans	W	886,130	W	2,036,767	W 4,444,737
Provisions for possible loss		313,028		1,162,328	1,882,229
Provision ratio (%)		35.3		57.1	42.3

Restructured loans for 2002 and 2001 due to court receivership, court mediation or other financial restructuring process are as follows:

	In Millions of Korean Won				
		2002		2001	
Changes in contractual terms	W	72,154	W	879,102	
Exemption		-		5,818	
Conversion to equity investment		775,051		63,647	
Conversion to convertible bonds		-		501,247	
Total	W	847,205	W	1,449,814	

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

(Banking Account)

December 31, 2002 and 2001

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 (Millions of Won):

	Period of Restructuring			
	2002		2001	
Beginning				
Original amount before restructuring	W	2,208,352	W	2,588,016
Present value		1,877,125		2,161,338
Present value discount		331,227		426,678
Increase		20,360		158,557
Decrease (amortization)		(224,632)		(254,008)
		(204,272)		(95,451)
Ending				
Original amount before restructuring		1,156,979		2,208,352
Present value		1,030,024		1,877,125
Present value discount		W 126,955		W 331,227

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

The Bank's loan portfolio by nation, major customers and industry as of December 31, 2002 and 2001 are categorized as follows:

	In Millions of Korean Won		Percentage (%)	
	2002	2001	2002.12.31	
By nation:				
The Republic of Korea	W 29,058,776	W 33,801,953	95.3	
Indonesia	135,789	232,689	0.4	
Russia	162,054	198,915	0.5	
USA	172,117	87,523	0.6	
Others	979,126	1,369,930	3.2	
	W 30,507,862	W 35,691,010	100.00	

	In Millions of Korean Won		Percentage (%)	
	2002	2001	2002.12.31	
By customer:				
Small & Medium Industry Promotion Corp.	W 3,352,770	W 3,703,856	11.0	
Korea Hydro & Nuclear Power Co., Ltd.	1,299,679	1,621,499	4.3	
Korea Deposit Insurance Corp.	1,202,210	1,328,259	3.9	
Korea Asset Management Corp.	730,934	1,165,942	2.4	
Korean Airline Co., Ltd.	602,616	816,480	2.0	
Dong Yang Cement Corporation	532,992	-	1.7	
Others	22,786,661	27,054,974	74.7	
	W 30,507,862	W 35,691,010	100.00	

	In Millions of Korean Won		Percentage (%)	
	2002	2001	2002.12.31	
By industry:				
Manufacturing	W 13,661,997	W 15,694,250	44.8	
Banking and insurance	4,163,668	5,417,795	13.7	
Electric, gas and water supply industry	3,149,387	4,017,839	10.3	
Transportation and communication	3,425,730	3,971,096	11.2	
Public administration and national defense	3,734,740	4,176,728	12.2	
Others	2,372,340	2,413,302	7.8	
	W 30,507,862	W 35,691,010	100.00	

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

(Banking Account)

December 31, 2002 and 2001

6. PREMISES AND EQUIPMENT:

Premises and equipment as of December 31, 2002 and 2001 comprise the following:

	In Millions of Korean Won					
	Acquisition Cost or Revaluation		Accumulated Depreciation		Net Book Value	
	2002	2001	2002	2001	2002	2001
Land	W 330,630	W 361,828	W -	W -	W 330,630	W 361,828
Buildings and structures	357,592	355,783	29,944	21,152	327,648	334,631
Machinery	53,906	45,256	39,409	36,577	14,497	8,679
Vehicles	1,324	1,237	930	939	394	298
Construction in progress	759	107	-	-	759	107
Others	27,690	26,882	19,666	16,632	8,024	10,250
	W 771,901	W 791,093	W 89,949	W 75,300	W 681,952	W 715,793

As of December 31, 2002 and 2001, the government-posted prices of the Bank's land amounted to W240,363 million and W263,890 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.

7. OTHER ASSETS:

Other assets as of December 31, 2002 and 2001 comprise the following:

	In Millions of Korean Won	
	2002	2001
Prepaid expenses	W 309,743	W 354,977
Receivables	1,797,526	2,105,145
Accrued income	431,606	496,468
Intangible assets	47,662	42,125
Deferred income tax assets	146,834	146,709
Others	460,709	609,125
	3,194,080	3,754,549
Loss: Provision for possible losses	(4,946)	(90,146)
Present value discount	(124)	(2,046)
	W 3,189,010	W 3,662,357

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(Banking Account)

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8. DEPOSITS:

Deposits as of December 31, 2002 and 2001 comprise the following:

	Annual average Interest Rate (%)	In Millions of Korean Won	
	2002.12.31	2002	2001
Won currency deposits:			
Demand deposits			
Checking deposits	-	W 1,537	W 1,784
Temporary deposits	0.02	150,929	188,764
Passbook deposits	0.94	71,891	25,828
Others	1.00	14,316	234
		238,673	216,610
Time and savings deposits			
Time deposits	5.38	3,777,189	3,794,788
Installment savings deposits	7.15	133,769	165,544
Corporate savings deposits	3.84	2,104,439	2,094,579
Savings deposits	3.03	172,263	196,744
Long-term savings for households	11.39	168,930	130,712
Others	9.68	114,105	70,453
		6,470,695	6,452,820
		6,709,368	6,669,430
Foreign currency deposits:			
Demand deposits			
Checking deposits	-	46,900	61,487
Passbook deposits	0.59	248,586	399,474
Temporary deposits	0.33	146	993
Others	0.91	1,275	4,524
		296,907	466,478
Savings deposits			
Time deposits	1.73	213,579	1,097,033
		510,486	1,563,511
Negotiable certificates of deposits			
	4.27	1,525,450	2,250,394
		W 8,745,304	W 10,483,335

The maturities of time and savings deposits in Won and foreign currency as of December 31, 2002 are as follows (Millions of Won):

Maturing On or Before	Time Deposits	Installment Savings Deposits	Time Deposits in Foreign Currency	Total
Mar. 31, 2003	W 1,334,884	W 16,860	W 149,408	W 1,501,152
Jun. 30, 2003	803,392	18,969	35,645	858,006
Dec. 31, 2003	1,342,235	49,801	27,104	1,419,140
Dec. 31, 2004	230,470	42,357	1,422	274,249
Dec. 31, 2005	56,239	5,781	-	62,020
Dec. 31, 2006	8,697	1	-	8,698
Dec. 31, 2007	1,272	-	-	1,272
	W 3,777,189	W 133,769	W 213,579	W 4,124,537

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

(Banking Account)

December 31, 2002 and 2001

9. BORROWINGS:

Borrowings as of December 31, 2002 and 2001 comprise the following:

	Annual Average Interest Rate (%)	In Millions of Korean Won	
	2002.12.31	2002	2001
Won currency borrowings			
Ministry of Finance and Economy	5.24	W 2,192,150	W 2,448,672
Industrial Bank of Korea	4.87	476,596	368,223
Small & Medium Industry Promotion Fund	5.36	260,203	310,230
Ministry of Culture and Tourism	4.20	519,669	421,238
Korea Energy Management Corporation	4.71	467,586	370,012
Local governments	4.74	80,848	90,286
Others	5.34 - 8.93	367,845	272,857
		4,364,897	4,281,518
Foreign currency borrowings			
Small & Medium Industry Promotion Fund	3.14	209	1,311
KfW group in Germany ("KfW")	3.02	34,472	44,755
Asian Development Bank ("ADB")	2.54	3,609,587	3,988,168
International Bank for Reconstruction and Development ("IBRD")	2.85	5,669,560	6,262,696
The Japan Bank for International Cooperation ("JBIC")	0.86	229,034	269,634
The Bank of Korea	2.25	156,088	254,712
Others	0.86 - 3.34	7,735,910	4,357,012
		17,434,860	15,178,288
Other borrowings			
Bonds sold under repurchase agreements	-	2,333,885	1,324,756
Notes sold	-	2,504	2,838
Call money	-	322,939	565,978
		2,659,328	1,893,572
		W 24,459,085	W 21,353,378

The repayment of W229,034 million included in the borrowings above are guaranteed by the Korean Government.

The Bank entered into an agreement with the JBIC (Japan Bank for International Cooperation) relating to the borrowings amounting to

W229,034 millions to be used for designated purposes. As of December 31, 2002, the Bank has local loans denominated in foreign currency and foreign currency loans amounting W209,668 million and W19,366 million, respectively, relating to this borrowing.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

(Banking Account)

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The maturities of borrowings in Won and foreign currency as of December 31, 2002 are as follows (Millions of Won):

Maturing On or Before	Won Currency Borrowings	Foreign Currency Borrowings	Total
Mar. 31, 2003	W 149,057	W 3,985,322	W 4,134,379
Jun. 30, 2003	98,124	1,227,262	1,325,386
Dec. 31, 2003	214,863	1,592,037	1,806,900
Dec. 31, 2004	575,499	3,775,643	4,351,142
Dec. 31, 2005	603,516	2,266,420	2,869,936
Dec. 31, 2006	577,414	855,346	1,432,760
Dec. 31, 2007	495,436	788,350	1,283,786
Thereafter	1,650,988	2,944,480	4,595,468
	W 4,364,897	W 17,434,860	W 21,799,757

The subordinated debt included in borrowings as of December 31, 2002 comprises the following:

Type	Annual Average Interest Rate (%)	In Millions of Korean Won	Condition of Borrowings
Government fund	5.24	W 2,191,846	Installment reimbursement
Agency for International Development relending facilities	2.00	304	Installment reimbursement
Asian Development Bank relending facilities	2.54	3,609,587	Lump sum reimbursement
International Bank for Reconstruction and Development relending facilities	2.85	5,669,560	Installment reimbursement
		W 11,471,297	

10. INDUSTRIAL FINANCE BONDS:

Industrial finance bonds ("IFB") as of December 31, 2002 and 2001 comprise the following:

	Annual average Interest Rate (%)	In Millions of Korean Won	
		2002	2001
IFB in Won	6.93	W 24,352,837	W 24,491,004
IFB in foreign currency	0.91 - 8.60	8,066,690	9,494,910
Offshore IFB in foreign currency	1.65 - 9.00	1,216,557	2,649,953
		33,636,084	36,635,867
Premiums on IFB		16,396	292
Discounts on IFB		(52,460)	(81,868)
		W 33,600,020	W 36,554,291

Under the Korea Development Bank Act, the Bank has authority to issue industrial finance bonds. The amount of issued bonds and guarantees outstanding by the Bank are limited to the amount of 30 times of paid-in capital and legal reserve. Bonds purchased or guaranteed by the 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 as of December 31,

2002 and 2001 amounted to W4,000 million and W14,910 million, respectively.

The Bank acquired W277,471 million and W369,260 million of industrial finance bonds as of December 31, 2002 and 2001, respectively. The treasury bonds are deducted from industrial finance bonds.

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The maturities of IFB as of December 31, 2002 are as follows (Millions of Won):

Maturing On or Before	IFB in Won	IFB in Foreign Currency	Offshore IFB in Foreign Currency	Total
Mar. 31, 2003	W 2,640,550	W 454,694	W 105,335	W 3,200,579
Jun. 30, 2003	2,946,063	312,910	-	3,258,973
Dec. 31, 2003	6,513,800	684,468	206,469	7,404,737
Dec. 31, 2004	4,565,747	1,947,867	447,749	6,961,363
Dec. 31, 2005	6,424,492	713,767	-	7,138,259
Dec. 31, 2006	821,435	2,766,049	409,585	3,997,069
Dec. 31, 2007	294,370	664,161	47,419	1,005,950
Thereafter	146,380	522,774	-	669,154
	W 24,352,837	W 8,066,690	W 1,216,557	W 33,636,084

(*) Premium and discount on bonds are excluded.

11. OTHER LIABILITIES:

Other liabilities as of December 31, 2002 and 2001 comprise the following:

	In Millions of Korean Won	
	2002	2001
Payables	W 1,804,464	W 2,093,876
Accrued expenses	909,732	862,699
Advanced income	168,004	203,996
Guarantee deposits	29,500	37,406
Advances received on IFB	14,476	6,249
Provisions for possible other losses	208,358	227,194
Trust account debit	249,677	370,890
Others	151,011	108,561
	W 3,535,222	W 3,910,871

12. GUARANTEES OUTSTANDING AND COMMITMENTS:

The Bank provides guarantees for its customers. Guarantees outstanding and the related provision for possible loss as of December 31, 2002 and 2001 are as follows (Millions of Won):

	Guarantees Amount		Provision for Possible Loss	
	2002	2001	2002	2001
Acceptances	W 1,135,796	W 4,443,871	W 237	W 56,733
Guarantees on local borrowings	930,529	1,285,079	684	7,255
Guarantees on indebtedness in foreign currency	3,435,820	4,109,326	62,286	75,730
Letters of guarantee for importers	37,836	34,330	16	1,262
	W 5,539,981	W 9,872,606	W 63,223	W 140,980

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The unsettled guarantees and commitments provided by the Bank as of December 31, 2002 and 2001 are as follows:

	In Millions of Korean Won			
	2002		2001	
Unsettled guarantees				
Local letter of credit issuance	W	10,224	W	11,695
Foreign letter of credit issuance		1,463,845		1,376,794
Others		760,562		455,070
		2,234,631		1,843,559
Commitments				
For loans in Won		7,078,917		6,827,927
For loans foreign currency		689,436		612,450
		7,768,353		7,440,377
Bonds sold under repurchase agreements		354,728		781,532
	W	10,357,712	W	10,065,468

13. COMMITMENTS AND CONTINGENCIES:

The Bank has entered into agreements to provide certain syndicated loans with foreign banks. The total amount available under such loans are US\$107,125 thousand (equivalent to W128,593 million) and W40,700 million, of which US\$55,392 thousand (equivalent to W66,493 million) and W35,700 million, respectively, have not been withdrawn by borrowers as of December 31, 2002.

During 1998, the Bank sold with recourse W3,084,141 million of non-performing loans classified as substandard or below to the Korea Asset Management Corporation for proceeds amounting to W1,339,629 million. The resulting loss was recorded as a loss on disposition of loans during 1998. During 2002, the Bank recognized losses from the settlement of such loans in the amount of W107 million. As of December 31, 2002, the Bank recorded a provision for possible losses from disposition of unsettled loans amounting to W102,054 million as other liabilities (see Note 11).

Loans sold off to KDB First Securitization Specialty Co., Ltd. and others in accordance with the Asset Securitization Plan as of December 31, 2002 comprise the following (Millions of Won):

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

(*) Investment securities are provided as collateral (see Note 4).

According to the contracts on asset transfers stipulating warranty for the assets above, the Bank has a responsibility of warranty up to 30 percent of the proceeds when the principal or a part of the interest is not repaid at the expected due date of the cash flows payment schedule.

and W50,348 million in 2002, respectively, and W497,109 million and W1,571,413 million in 2001, respectively.

The Bank sold off W435,159 million and W3,120,559 million of loans in 2002 and 2001 to KDB LONESTAR CRC and Korea Asset Management Corporation. The Bank recorded gains and losses from the disposition of the loans amounting to W57,555 million

The Bank has provided credit lines to several securitization specialty companies amounting to W7,768,353 million, of which W5,626 million was withdrawn as of December 31, 2002.

In response to the generally unstable economic conditions, the Korean government and the private sector have been implementing structural reforms to historical business practices.

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Implementation of these reforms is progressing slowly, particularly in the areas of restructuring private enterprises and reforming the banking industry. The Korean government continues to apply pressure to Korean companies to restructure into more efficient and profitable firms. The Bank may be either directly or indirectly affected by these generally unstable economic conditions and the reform program described above. The accompanying financial statements reflect management's 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.

The Bank provided loans amounting to W1,503,631 million and securities amounting to W121,889 million on December 31, 2002 for companies under workout, court receivership, court mediation and other restructuring process. The Bank provided W278,734 million for possible loan losses and W32,697 million for present value discount with regard to the above loans and securities. Actual results of the credit loss from the loans to the customers could differ from the provisions reserved.

14. DERIVATIVE FINANCIAL INSTRUMENTS AND THE RELATED CONTRACTS:

The Bank utilizes derivative financial instruments to hedge against financial market risks or for trading purposes.

In case of trading purposes, the Bank uses futures and forward contracts, swaps, and options, in order to gain a profit from short-term fluctuations of the underlying value of the derivatives, by forecasting the future interest rate, exchange rate or other variables affecting the value of the instruments. Furthermore, the Bank also trades the instruments to hedge against the derivative financial instruments purchased by the Bank's customers.

Additionally, the trading derivatives include the derivatives used to hedge the exchange rate of the Bank's foreign currency assets and liabilities and interest rate of the Bank's loans and borrowings, of which the underlying assets and liabilities are already valued at fair market value in accordance with the financial accounting standards generally accepted in the Republic of Korea or the position hedging transactions in which derivative instruments are not specifically identified to the underlying transactions.

The hedging instruments generally include the cross currency swaps and/or interest rate swaps used to hedge the borrowings and bonds denominated in foreign currency from the exchange rate and/or the interest rate risks. Those hedging transactions are made with foreign financial institutions and domestic banks. The hedging instruments also include the interest swaps used to reduce interest rate risks of the Industrial Finance Bonds issued in Won.

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The unsettled contract amount of the Bank's derivatives and the related valuation gain (loss) are as follows (Millions of Won):

	Unsettled Contract Amount			Valuation Gain /Loss (I/S)			Valuation Gain/Loss (B/S)
	Total	Trading Purpose	Hedging Purpose	Total	Trading Purpose	Hedging Purpose	
Interest rate							
Forward	W 324,108	W 324,108	W -	W 12	W 12	W -	W 12
Futures	7,333,834	7,333,834	-	38,981	38,981	-	-
Swap	39,207,910	38,940,740	267,170	60,308	(94,319)	154,627	318,632
Option							
-Buy	320,000	320,000	-	5,381	5,381	-	4,805
-Sell	320,000	320,000	-	(3,455)	579	(4,034)	(3,724)
Futures Option							
-Buy	5,275	5,275	-	70	70	-	110
-Sell	1,394	1,394	-	(3)	(3)	-	(6)
	47,512,521	47,245,351	267,170	101,294	(49,299)	150,593	319,829
Currency							
Forward	8,595,470	8,595,470	-	130,091	130,091	-	135,933
Futures	41,054	41,054	-	-	-	-	-
Swap	15,037,377	13,779,069	1,258,308	(222,405)	(426,967)	204,562	(230,237)
Option							
-Buy	761,187	761,187	-	(9,206)	(9,206)	-	10,111
-Sell	680,503	680,503	-	5,447	5,447	-	(14,705)
	25,115,591	23,857,283	1,258,308	(96,073)	(300,635)	204,562	(98,898)
Equity Option							
Buy	169,212	169,212	-	13,599	13,599	-	14,729
Sell	164,211	164,211	-	6,945	6,945	-	(14,699)
	333,423	333,423	-	20,544	20,544	-	30
	W 72,961,535	W 71,436,057	W 1,525,478	W 25,765	W (329,390)	W 355,155	W 220,961

15. EQUITY:

PAID-IN CAPITAL -

The Bank increased and decreased its paid-in capital several times including a W3,000,000 million investment in kind by 127,086,333 shares of Korea Electric Power Corporation valued at W23,606 per share on June 20, 2001, W50,000 million cash injection on December 29, 2001, and the raising of W100,000 million and the reduction of W959,800 million paid-in capital for the year ended in December 31, 2000. Paid-in capital of the Bank as of December 31, 2002 is W7,161,861 million.

CAPITAL SURPLUS -

In accordance with a resolution of the Board of Directors, the Bank decreased its paid-in capital used to offset accumulated deficit and the capital surplus of the Bank as of December 31, 2002 are as follows (Millions of Won):

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

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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.

OFFSETTING 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 Korean Government should complement the deficiency. Offsetted accumulated deficit with the approval of the Korean Government since 2000 are as follows:

Year	Approval Date	Accounts	Millions of Won	
2002	2001.2.28	Legal reserve	W	456,997
		Capital reserve		950,181
			W	1,407,178

CAPITAL ADJUSTMENTS -

Changes in gains or losses on valuation of investment securities accounted for as capital adjustments are as follows (Millions of Won):

	2002			2001
	Investments in Equity Securities	Investments in Debt Securities	Total	Total
Beginning Balance	W (341,507)	W (40,710)	W (382,217)	W (358,068)
Decrease due to disposal	(39,947)	(27,868)	(67,815)	(57,807)
Current valuation gains or losses	(138,463)	28,763	(109,700)	33,658
Ending Balance	W (519,917)	W (39,815)	W (559,732)	W (382,217)

16. OTHER NON-INTEREST REVENUE (EXPENSE):

Other non-interest revenue (expense) for the years ended December 31, 2002 and 2001 comprise the following (Millions of Won):

	In Millions of Korean Won			
	2002		2001	
Other non-interest revenue				
Gain on foreign currency transactions	W	322,392	W	392,429
Reversal of provision for possible losses on guarantees outstanding		76,850		105,125
Reversal of provision for possible loan losses		-		141,338
Gain on valuation of hedged items		253,781		427,344
Others		71,132		64,032
	W	724,155	W	1,130,268
Other non-interest expense				
Loss on foreign currency transactions	W	450,549	W	351,051
Education tax		24,201		27,208
Deposit insurance expenses		3,918		4,277
Donations		34,818		41,360
Loss on valuation of hedged items		271,995		273,143
Others		666,508		85,492
	W	1,451,989	W	782,531

NOTE TO NON-CONSOLIDATED FINANCIAL STATEMENTS

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17. GENERAL AND ADMINISTRATIVE EXPENSES:

General and administrative expenses for the years ended at December 31, 2002 and 2001 comprise the following:

	In Millions of Korean Won			
		2002		2001
Salaries	W	126,515	W	110,905
Retirement allowance		15,503		13,176
Employee benefits		21,624		20,984
Rent		6,685		6,214
Depreciation		20,985		21,662
Taxes and dues		11,484		11,024
Printing		3,381		3,325
Travel		3,141		3,134
Commission		8,726		8,560
Others		48,099		42,248
	W	266,143	W	241,232

18. NON-OPERATING INCOME (EXPENSE):

Non-operating income(expense) for the years ended December 31, 2002 and 2001 comprise the following:

	In Millions of Korean Won			
		2002		2001
Non-operating income				
Gain on disposal of premises and equipment	W	200	W	75
Rental income		1,070		2,356
Gain on disposal of loans		57,555		497,109
Gain from investment securities		1,191,817		819,397
Others		13,829		25,326
		1,264,471		1,344,263
Non-operating expense				
Loss on disposal of premises and equipment		7,780		17,584
Loss on disposal of loans		50,348		1,571,413
Loss from investment securities		466,283		312,380
Others		9,089		1,797
		533,500		1,903,174
	W	730,971	W	(558,911)

19. INCOME TAX EXPENSE:

The statutory income tax rate applicable to the Bank, including resident tax surcharges, is approximately 29.7%. However, there was no income taxes payable, except for special additional taxes due to an operating loss carry-forward.

Income tax expense for the years ended December 31, 2002 and 2001 comprise the following:

	In Millions of Korean Won			
		2002		2001
Income taxes payable (special additional tax)	W	-	W	706
Deferred income taxes		-		5,434
Income taxes for overseas branches		2,063		821
	W	2,063	W	6,961

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The tax effect of major tax adjustments for the years ended December 31, 2002 and 2001 are as follows :

	In Millions of Korean Won			
	2002		2001	
	W	185,935	W	115,917
Income before income tax expense				
Computed income tax at the expected statutory rate		55,223		35,702
Temporary differences (tax effect):				
Provision for possible loan losses		(67,259)		(148,473)
Provision for severance benefits		(790)		2,545
Loss on settlement of non-performing loans disposed		(5,594)		(144,271)
Loss on investments using the equity method		(299,241)		(91,586)
Write-off of loans		308,242		226,333
Provision for guarantees outstanding		(22,607)		(70,271)
Impairment loss on investment securities		51,864		(40,742)
Present value discount		7,092		(72,436)
Others		299,027		(278,165)
		270,734		(617,066)
Permanent differences (tax effect):				
Dividends received Others		(12,928)		(8,776)
Others		(38,141)		20,451
		(51,069)		11,675
Tax effect of taxable income		274,888		-
Tax effect of operating loss carry-forward		274,888		-
Special value added tax		-		706
Income taxes payable	W	-	W	706

Changes in temporary differences for the years ended December 31, 2002 and 2001 are as follows (Millions of Won):

	Beginning Balance		Decrease		Increase		Ending Balance	
	W	8,264	W	2,659	W	-	W	5,605
Accrued severance benefits								
Acquisition of stocks resulting from the transfer of capital surplus to common stock		93,785		1,118		-		92,667
Loss on valuation of investment securities		12,981		1,369		-		11,612
Gain on valuation of trading securities		(61,887)		-		(98,659)		(160,546)
Impairment loss on investment equity securities		698,145		63,791		154,156		788,510
Impairment loss on investment debt securities		361,695		148,410		232,671		445,956
Present value discount		191,497		-		23,880		215,377
Provision for possible loan losses		697,606		697,606		471,144		471,144
Provision for guarantees outstanding		139,341		139,341		63,223		63,223
Loss on settlement of non-performing loans disposed		227,194		227,194		208,358		208,358
Loss on investment valuation by the equity method		(160,943)		-		(1,007,544)		(1,168,487)
Write-off of loans		734,846		162,999		1,200,851		1,772,698
Others		(376,388)		(936,775)		171,196		731,583
		2,566,136		507,712		1,419,276		3,477,700
Operating loss carry-forward		3,558,081		816,761		-		2,741,320
		6,124,217		1,324,473		1,419,276		6,219,020
Gross deferred income tax assets	W	1,818,892	W	393,368	W	421,525	W	1,847,049
Deferred income tax assets recorded on the balance sheet								
	W	146,709					W	146,834

Considering the future deductibility of accumulated deficit and temporary differences from future taxable income, the Bank recorded W146,834 million out of total future income tax benefits of W1,847,049 million.

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20. AVERAGE AMOUNTS OF ASSETS AND LIABILITIES RELATED TO INTEREST INCOME AND EXPENSE:

Interest income or interest expense and related average amounts of assets or liabilities for 2002 and 2001 are as follows (Millions of Won):

	2002		2001	
	Average Amounts	Interest Income or Expense	Average Amounts	Interest Income or Expense
Assets				
Due from banks	W 2,321,166	W 62,560	W 3,819,060	W 225,728
Securities	12,392,033	668,506	10,752,294	706,048
Loans	44,081,790	2,546,169	47,684,966	3,634,930
Others		34,280		16,269
		W 3,311,515		W 4,582,975
Liabilities				
Deposits	W 8,900,359	W 404,641	W 9,192,630	W 532,312
Borrowings	20,630,046	671,158	21,672,006	1,174,039
Bonds	36,054,817	2,047,937	36,740,049	2,597,114
Others		55,244		56,365
		W 3,178,980		W 4,359,830

21. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES:

Significant assets and liabilities denominated in foreign currencies as of December 31, 2002 and 2001 are as follows:

	Thousands of U.S.\$ (*)		In Millions of Korean Won	
	2002	2001	2002	2001
Assets				
Cash	US\$ 1,540	US\$ 1,558	W 1,849	W 2,066
Due from banks	1,369,083	1,833,481	1,643,448	2,431,379
Trading securities	323,884	437,452	388,790	580,106
Investment securities	2,754,118	1,920,358	3,306,043	2,546,587
Bills bought	2,536,782	2,648,181	3,045,154	3,511,753
Call loans	540,318	1,135,800	648,598	1,506,184
Loans	13,427,626	13,750,382	16,118,522	18,234,381
Domestic import usance bills	2,793,102	607,925	3,352,839	806,170
Receivables	1,134,060	1,102,357	1,361,326	1,461,836
Other assets	1,590,630	1,070,746	1,909,392	1,419,916
	US\$ 26,471,143	US\$ 24,508,240	W 31,775,961	W 32,500,378
Liabilities				
Deposits	US\$ 536,105	US\$ 1,516,651	W 643,540	W 2,011,231
Borrowings	14,524,208	11,445,810	17,434,860	15,178,288
Bonds sold under repurchase agreements	589,872	281,532	708,082	373,340
Call money	269,026	204,342	322,939	270,978
Bonds in foreign currency	7,714,125	9,136,761	9,260,036	12,116,259
Others	1,746,748	2,077,741	2,096,795	2,755,292
	US\$ 25,380,084	US\$ 24,662,837	W 30,466,252	W 32,705,388

(*) Foreign currencies denominated other than in U.S. Dollars have been converted into U.S. Dollars by using the exchange rate in effect as of December 31, 2002 and 2001.

NOTE TO NON-CONSOLIDATED FINANCIAL STATEMENTS

(Banking Account)

December 31, 2002 and 2001

22. OPERATION RESULTS OF TRUST ACCOUNTS:

The income statements of the Trust Accounts for the years ended December 31, 2002 and 2001 are as follows:

In Millions of Korean Won					
		2002			2001
Revenue					
Interest income	W	188,388	W		179,446
Gain from securities		51,020			193,267
Others		22,437			44,952
	W	261,845	W		417,665
Expenses					
Dividends of trust profits to Beneficiaries	W	104,408	W		299,389
Commissions paid		231			185
Loss from securities		104,025			66,729
Taxes and dues		-			53
Trust fee to the Bank		23,871			22,596
Provisions for possible loan losses		9,196			17,072
Others		20,114			11,641
	W	261,845	W		417,665

23. RELATED PARTY TRANSACTIONS:

Significant transactions which occurred in the ordinary course of business with related parties for the years ended December 31, 2002 and 2001 are as follows:

In Millions of Korean Won					
Loans					
		2002			2001
The KDB Capital Corp.	W	325,583	W		735,587
KDB Asia (HK) Ltd.		24,008			26,522
Daewoo Shipbuilding & Marine Engineering Co., Ltd.		480,951			412,914
Daewoo Securities Co., Ltd.		200,000			200,000
Pan Ocean Shipping Co., Ltd. (*)		180,319			-
	W	1,210,861	W		1,375,023

(*) Included as a related party in 2002.

24. SUPPLEMENTAL CASH FLOW INFORMATION:

Transactions not involving an inflow or outflow of cash are as follows:

In Millions of Korean Won					
		2002			2001
Capital contribution in kind	W	-	W		3,000,000
Loans converted to equity securities		775,051			63,647

THE KOREA DEVELOPMENT BANK TRUST ACCOUNT AUDIT REPORT 2002

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

SAMIL ACCOUNTING CORPORATION

Samil Accounting Corporation
Kukje Center Building 191 Hangangro 2 ga,
Yongsanku, Seoul 140-702, KOREA
(Yongsan P.O.Box 266, 140-600)

To the Board of Directors of The Korea Development Bank

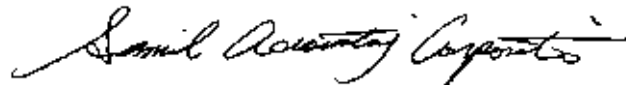
We have audited the accompanying balance sheets of The Korea Development Bank (the "Bank") Trust Accounts as of December 31, 2002 and 2001, and the related statements of operations for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits provide 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 Trust Accounts as of December 31, 2002 and 2001, and the results of its operations for the years then ended in conformity with the Trust Business Act and related regulations in the Republic of Korea.

Accounting principles and auditing standards and their application in practice vary among countries. The accompanying financial statements are not intended to present the financial position, results of operations in conformity with the Trust Business Act and related regulations in countries and jurisdictions other than the Republic of Korea. In addition, the procedures and practices used in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying financial statements are for use by those who are knowledgeable about Korean Trust Business Act and related regulations or auditing standards and their application in practice.

Seoul, Korea
January 25, 2003



This report is effective as of January 25, 2003, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

Samil Accounting Corporation is the Korean member firm of PricewaterhouseCoopers. PricewaterhouseCoopers refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

BALANCE SHEETS

(Trust Accounts)

December 31, 2002 and 2001

	In Millions of Korean Won		In Thousands of U.S Dollars	
	2002	2001	2002	2001
ASSETS (Note 11)				
Cash deposits	W -	W 98	\$ -	\$ -
Securities (Note 4)	6,068,633	2,731,304	5,055,509	2,275,328
Loans (Note 5)	79,140	104,515	65,928	87,067
Receivables in trust (Note 6)	7,122,006	3,485,156	5,933,027	2,903,329
Real estate in trust (Note 7)	130,000	130,000	108,297	108,297
Accrued income	47,346	53,813	39,442	44,829
Due from banking accounts (Note 9)	243,582	360,534	202,917	300,345
Other assets	2,310	3,833	1,924	3,193
Provision for possible loan losses	(19,760)	(40,789)	(16,461)	(33,980)
	W 13,673,257	W 6,828,464	\$ 11,390,584	\$ 5,688,491
LIABILITIES (Note 11)				
Money trusts	W 3,172,827	W 2,937,624	\$ 2,643,141	\$ 2,447,204
Receivable money trusts	7,230,557	3,490,431	6,023,456	2,907,723
Securities in Trust (Note 8)	2,950,052	-	2,457,557	-
Mortgage bond trusts	130,000	130,000	108,297	108,297
Borrowings (Note 9)	31,651	50,415	26,367	41,999
Accrued trust dividends	137,026	197,207	114,150	164,284
Other liabilities	16,185	19,709	13,483	16,419
Provision for future trust losses	4,959	3,078	4,131	2,564
	W 13,673,257	W 6,828,464	\$ 11,390,584	\$ 5,688,491

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

STATEMENTS OF OPERATIONS

(Trust Accounts)

For the years ended December 31, 2002 and 2001

	In Millions of Korean Won		In Thousands of U.S Dollars	
	2002	2001	2002	2001
REVENUE (Note 11)				
Interest on securities	W 178,968	W 159,273	\$ 149,090	\$ 132,683
Interest on loans	9,273	14,943	7,725	12,448
Interest on call loans	145	689	121	574
Interest on due from banking accounts (Note 9)	7,576	5,939	6,311	4,948
Other interest income	2	4,541	2	3,783
	195,964	185,385	163,249	154,436
Gain on derivatives transactions	11,140	1,317	9,280	1,097
Gain from securities	51,020	193,267	42,502	161
Other income (Note 9)	2,843	22,129	2,368	18,435
Reversal of provision for possible loan losses	878	15,567	731	12,968
	261,845	417,665	218,131	347,968
EXPENSES (Note 11)				
Commission expenses	230	185	192	154
Loss on derivatives transactions	15,517	2,773	12,927	2,310
Loss from securities	104,025	66,729	86,659	55,589
Interest on borrowings (Note 9)	1,549	4,580	1,290	3,815
Management fees to the Bank (Note 9)	23,871	22,596	19,886	18,824
Other expenses	3,049	4,341	2,540	3,616
Provision for possible loan losses	9,196	17,072	7,661	14,222
	157,437	118,276	131,154	98,530
Dividend of trust profit to beneficiaries (Note 11)	W 104,408	W 299,389	\$ 86,978	\$ 249,408

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

NOTES TO FINANCIAL STATEMENTS (Trust Accounts)

December 31, 2002 and 2001

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 34 local branches, 5 overseas branches, 3 overseas subsidiaries and 2 overseas offices as of December 31, 2002. The Bank is engaged in the banking business under the Korea Development Bank Act and in the trust business according to the the Trust Business Act and other related regulation.

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 Bank's trust funds held as fiduciary are accounted for and reported separately from the Bank's banking accounts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The significant accounting policies applied in the preparation of the accompanying financial statements of the Bank Trust Accounts are summarized as follows:

BASIS OF FINANCIAL STATEMENT PRESENTATION -

The Bank Trust Account maintains its official accounting records in Korean Won and prepares statutory financial statements in the Korean language in conformity with the Trust Business Act and related regulations of the Republic of Korea. The accompanying financial statements have been condensed, restructured and translated into English from the Korean language financial statements. Certain accounting principles applied by the Bank Trust Account that conform with the Trust Business Act and related regulations in the Republic of Korea may not conform with the Trust Business Act and related regulation in other countries.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts reported therein. Due to the inherent uncertainty involved in making estimates, actual results reported in future periods may differ from those estimates.

REVENUES AND EXPENSES OF TRUST ACCOUNTS -

Trust accounts comprise trust operating revenues and expenses,

management fees to the Bank, and dividends of trust profit to the beneficiaries of the trust accounts. The management fees to the Bank are recognized as income of the banking accounts of the Bank.

INTEREST INCOME RECOGNITION -

The Bank Trust Accounts 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.

SECURITIES -

Listed stocks and beneficiary certificates are valued at market value. Non-marketable equity securities are valued at cost unless the net book value of the issuer declined significantly, and remote possibility of recovery exists.

Bonds held by trust accounts organized before November 15, 1998 are valued at cost net of possible losses in accordance with the transitional provisions of Trust Business Act and related regulations. Effective as of July 1, 2001, new accounts of the trusts are prohibited.

Bonds held by other trust accounts are recorded at fair market value.

Details of valuation method for bonds are as follows:

Cost Method	Fair Value Method
General unspecified money trusts	Unspecified money trusts
Installment money trusts	Retirement money trusts
Development trusts	Additional money trusts
Corporation money trusts	New individual pension trusts
Old-age living pension trusts	New old-age living pension trusts
Individual pension trusts	Pension trusts
Household long-term trusts	Real estate investments trusts
Labor preferential trusts	Specified money trusts
New installments trust	

PROVISION FOR POSSIBLE LOAN LOSSES -

The Bank Trust Accounts provide allowances 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 financial and non-financial factors of borrowers and classifies borrowers' credit risk.

NOTES TO FINANCIAL STATEMENTS

(Trust Accounts)

December 31, 2002 and 2001

Provisions are determined by applying the following minimum percentage to the various credit risk ratings:

Loan Classifications	Provision Percentages	
	Loans to Enterprise	Loans to Households
Normal	0.5%	0.5%
Special attention	2% or more	8% or more
Substandard	20% or more	20% or more
Doubtful	50% or more	55% or more
Loss	100%	100%

RESTRUCTURING OF IMPAIRED LOANS -

Restructured loans due to financial restructuring programs of borrowers, 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. Also, the difference between the adjusted nominal value and the present value is recorded as liability and amortized using the effective interest rate. Resulting amortization is recognized as other interest income.

DERIVATIVE FINANCIAL INSTRUMENTS -

Derivative financial instruments for trading purposes are stated at fair value on the balance sheet date.

Derivative financial instruments for fair value hedges are stated at market value. The gains and losses on the hedging instruments, as well as the related loss or gain on the hedged items, are recognized in current operations.

DUE FROM BANKING ACCOUNTS -

The Bank Trust Accounts deposit cash with the Bank. Such deposits are recorded as due from banking accounts by the Bank Trust Accounts. Interest on these deposits is computed and recorded daily.

PROVISION FOR FUTURE TRUST LOSSES -

In accordance with the Trust Business Act, guaranteed principal or rate of return trusts are required to set up special allowance of more than 25% of management fees to the Bank until the total allowances equals 5% of the related trust balance.

MANAGEMENT FEES -

The Bank's banking accounts receive management fees from the

trust accounts for its management of trust assets and operations in accordance with the relevant laws, regulations and articles applicable to each trust. The Bank records this amount as income from trust operations.

COMPENSATION FROM THE BANK -

Certain money trust agreements provide that the Bank guarantees a minimum rate of return. In relation to such guarantees, 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 incomes of the trust accounts in accordance with the relevant laws, regulations and articles applicable to trust operations.

SECURITIES INVESTMENT TRUST ACCOUNTS -

Securities investment trust accounts, for which the Bank asks as custodians, are not included in financial statements of trust accounts due to the guidelines of the Financial Supervisory Service.

RECEIVABLES IN TRUST -

The Bank Trust Accounts record entrusted receivables as receivables in trust in the asset section and receivable money trust in the liability section. The collected amounts from the receivables are paid to the beneficiary of the trust. The Bank's banking accounts receive management fee.

REAL ESTATE IN TRUST -

In accordance with the Mortgage Bonds Trust Acts, the Bank Trust Accounts record real estates entrusted as collaterals for bonds as real estate in trust in the asset section and mortgage bond trusts in the liability section. The Bank's banking accounts receive management fee.

SECURITIES IN TRUST -

The Bank Trust Accounts record securities entrusted as collaterals for trustor's creditors as equity securities or guaranteed commercial papers in the asset section and securities in trust in the liability section. Both the principal and profits generated from the securities, net of commission expenses, are returned to the beneficiaries of the trust.

NOTES TO FINANCIAL STATEMENTS

(Trust Accounts)

December 31, 2002 and 2001

3. NATURE OF MONEY TRUST ACCOUNTS:

The details of the Bank's money trust accounts are as follows:

Trusts	Trust terms		In Millions of Korean Won	
	Maturity (years)	Note	2002	2001
General unspecified money trusts	over 1.5	Note 1	W 11	W 13
Installment money trusts	over 1.5	Note 3	1,150	19,903
Development trusts	2,3 and 5	-	525	2,849
Corporation money trusts	1.5	Note 1	43,665	58,157
Household money trusts	1.5	Note 3	12,436	17,496
Old-age living pension trusts	over 5	Note 3	50,522	53,764
Specified money trusts	over 0.25	Note 2	1,417,177	1,187,422
Individual pension trusts	over 10	-	108,695	83,803
Household long term trusts	3 ~ 5	Note 2	141,727	164,019
Labor preferential trusts	3 ~ 5	Note 2	38,547	43,666
New installment trusts	over 1.5	-	87,294	148,246
Unspecified money trusts	1	-	149,552	61,750
Retirement trusts	-	-	569,283	396,827
Additional money trusts	1	Note 2	197,387	533,358
New individual pension trusts	over 10	-	8,633	5,278
New old-age living pension trusts	over 5	Note 2	57,297	152,352
Pension trusts	over 11	Note 2	8,443	2,903
Real estate investment trusts	1, 1.5	Note 2	280,484	5,820

Note 1) Fixed rate of return is guaranteed by the Bank.

Note 2) Repayment of principal is guaranteed by the Bank.

Note 3) Repayment of principal is guaranteed for the accounts set up before April 30, 1996.

4. SECURITIES:

Securities as of December 31, 2002 and 2001, are as follows:

	Annual Interest Rate (%)	In Millions of Korean Won	
	2002.12.31	2002	2001
Equity securities	-	W 3,134,360	W 340,227
Government bonds	3.0 - 9.6	50,748	290,808
Monetary stabilization bonds	4.7 - 6.6	86,711	140,399
Other financial bonds	5.3 - 13.8	18,098	24,912
Corporate bonds	0.0 - 16.3	2,025,770	1,427,467
Commercial paper	2.0 - 11.5	581,503	407,554
Certified deposit	4.7 - 4.9	34,714	-
Beneficiary certificates	-	31,821	88,757
Other securities	0.0 - 7.1	104,908	11,180
		W 6,068,633	W 2,731,304

NOTES TO FINANCIAL STATEMENTS

(Trust Accounts)

December 31, 2002 and 2001

Investments in bonds classified by valuation methods as of December 31, 2002, are as follows:

	Trusts by Cost Methods		Trusts by Fair Value Methods		Total
	W		W		
Government bonds	W	38,602	W	12,146	W 50,748
Monetary stabilization bonds		9,215		77,496	86,711
Other financial bonds		8,095		10,003	18,098
Corporate bonds		1,131,338		894,432	2,025,770
Others		325,211		427,735	752,946
	W	1,512,461	W	1,421,812	W 2,934,273

5. LOANS:

Loans as of December 31, 2002 and 2001, are as follows:

	Annual Interest Rate (%)	In Millions of Korean Won	
	2002.12.31	2002	2001
Loans collateralized by :			
Marketable securities	5.8 - 13.0	W 3,369	W 2,019
Real estates	9.9 - 14.0	3,291	10,516
Bonds	6.3 - 13.8	13,867	7,672
Beneficiary certificates	6.0 - 12.0	11,023	26,851
Letter of guarantee	12.0	10	239
Other loans	10.5 - 15.0	47,580	57,218
		W 79,140	W 104,515

6. RECEIVABLES IN TRUST:

Receivables in trust as of December 31, 2002 and 2001, are as follows:

	In Millions of Korean Won	
	2002	2001
Receivables trusted by :		
Hyundai Merchant Marine (1st)	W 43,875	W 93,604
Doosan Construction & Engineering (Duk-so)	10,354	193,072
Doosan Construction & Engineering (Wol-gok)	62,059	60,031
Asiana Airlines (1st)	1,586,349	1,879,294
Asiana Airlines (2nd)	889,499	1,259,155
Hyundai Merchant Marine (2nd)	1,025,363	-
Dream line	265,926	-
Dong-kook Industry	465,271	-
Dong-bu Steel Mill Co., Ltd.	1,646,854	-
Doosan Construction & Engineering	85,137	-
Hansol Chemience	164,502	-
Doosan (5 th)	172,436	-
Sambo computer	382,650	-
Dong bu Construction	45,370	-
Kum ho Engineering	276,361	-
	W 7,122,006	W 3,485,156

NOTES TO FINANCIAL STATEMENTS

(Trust Accounts)

December 31, 2002 and 2001

7. REAL ESTATE IN TRUST:

Real estate in trust as of December 31, 2002 and 2001, is as follows (Millions of Won):

	2002		2001
Trusted by :		Trusted by :	
Hanwha Resort	W 30,000	Hanwha Resort	W 30,000
LG Industrial systems	100,000	LG Industrial systems	100,000
	W 130,000		W 130,000

8. SECURITIES IN TRUST:

Securities in Trust as of December 31, 2002, are as follows (Millions of Won):

		Stocks		Commercial Papers		Total
GM- DAEWOO	W	1,515,360	W	-	W	1,515,360
DAEWOO INCHEON MOTORS		1,330,502		-		1,330,502
DAEWOO BUS		-		104,190		104,190
	W	2,845,862	W	104,190	W	2,950,052

9. RELATED PARTY TRANSACTIONS:

Significant transactions with the Bank's banking accounts are as follows (Millions of Won) :

	In Millions of Korean Won	
Assets or Liabilities:	2002	2001
Due from banking accounts	W 243,582	W 360,534
Borrowings from banking accounts	31,651	50,415
Revenues or Expenses:	2002	2001
Interest income on banking accounts dues	W 7,576	W5,939
Interest expense on banking accounts borrowings	1,549	4,580
Management fee	23,871	22,596

Financial bonds and commercial papers issued by KDB capital amounted to W22,038million and W32,928million, respectively, as of December 31, 2002. Related interest income and gain on valuation of securities amounted to W2,015million and W356million, respectively for the years ended December 31,2002.

Transactions and transfers among trust accounts for the years ended December 31, 2002 and 2001, amounted to W5,518million and W16,707million, respectively.

10. CONTINGENCIES:

In response to generally unstable economic conditions, the Korean government and the private sector have been implementing structural reforms to historical business practices. Implementation of these reforms is progressing, particularly in the areas of restructuring private enterprises and reforming the banking industry. The Korean government continues to apply pressure to Korean companies to restructure into more efficient and profitable firms. The Bank Trust Account may be either directly or indirectly affected by these general unstable economic conditions and the reform program described above. The accompanying financial statements reflect management's assessment of the impact to date of the economic situation on the financial position of the Bank Trust Accounts. Actual results may differ materially from management's current assessment.

NOTES TO FINANCIAL STATEMENTS

(Trust Accounts)

December 31, 2002 and 2001

11. DETAIL OF TRUST ACCOUNTS:

The condensed balance sheets and statements of operations of Trust Accounts by category as of December 31, 2002 and 2001, are as follows (Millions of Won):

Condensed Balance Sheets-

	Guaranteed principal or rate of return trusts	Co-mingled	Non-guaranteed trusts	Property Trusts	Total
Marketable securities	W 723,341	W 52,920	W 2,273,938	W 3,018,434	W 6,068,633
Loans	32,094	103	46,943	-	79,140
Receivable in Trust	-	-	-	7,122,006	7,122,006
Due from Banking accounts	109,824	7,887	87,503	38,368	243,582
Others	12,762	589	33,965	132,340	179,656
Provision for possible loan losses	18,866	87	807	-	19,760
Total in 2002	W 859,155	W 61,412	W 2,441,542	W10,311,148	W13,673,257
Total in 2001	W 769,385	W 101,663	W 2,336,953	W 3,620,463	W 6,828,464
Money and other trusts	W 803,409	W 57,250	W 2,312,168	W10,310,609	W13,483,436
Trust dividends payable	8,157	4,008	125,035	(176)	137,025
Provision for future trust losses	4,850	109	-	-	4,959
Borrowings	31,651	-	-	-	31,651
Others	11,087	44	4,341	715	16,186
Total in 2002	W 859,154	61,411	2,441,544	10,311,148	13,673,257
Total in 2001	W 769,385	W 101,663	W 2,336,953	W 3,620,463	W 6,828,464

Condensed Statements of Operations -

	Guaranteed principal or rate of return trusts	Co-mingled	Non-guaranteed trusts	Property Trusts	Total
Revenue:					
Interest on marketable securities	W 47,021	W 5,559	W 125,526	W 862	W 178,968
Interest on Loans	3,866	212	5,194	-	9,273
Gains on securities	10,803	86	40,131	-	51,020
Interest on due from Banking accounts	2,016	372	3,512	1,676	7,576
Reversal of provision for possible loan losses	861	3	14	-	878
Other revenues	5,118	-	7,439	1,574	14,130
	69,685	6,232	181,816	4,112	261,845
Expenses:					
Loss on securities	W 3,108	W 2	W 100,915	W -	W 104,025
Trust fees to the Bank	7,128	726	12,996	3,021	23,871
Provisions for future trust losses	1,990	7	-	-	1,997
Provisions for possible loan losses	3,650	2,047	3,499	-	9,196
Other expenses	10,495	55	7,693	105	18,348
	26,371	2,837	125,103	3,126	157,437
Dividends of Trust Profit to Beneficiaries					
Total in 2002	W 43,314	W 3,395	W 56,713	W 986	W 104,408
Total in 2001	W 20,091	W 12,966	W 266,300	W 32	W 299,389

THE KOREA DEVELOPMENT BANK AND SUBSIDIARIES

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

SAMIL ACCOUNTING CORPORATION

Samil Accounting Corporation
Kukje Center Building 191 Hangangro 2 ga,
Yongsanku, Seoul 140-702, KOREA
(Yongsan P.O.Box 266, 140-600)

To the Board of Directors of The Korea Development Bank

We have audited the accompanying consolidated balance sheets of the Korea Development Bank (the "Bank") and its subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of income, changes in equity and cash flows for the years 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 audits.

We conducted our audits 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 consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Korea Development Bank and its subsidiaries as of December 31, 2002 and 2001, and the results of their operations, the changes in their equity and their cash flows for the years then ended, in conformity with financial accounting standards generally accepted in the Republic of Korea.

Without qualifying our opinion, we draw attention to the following matters.

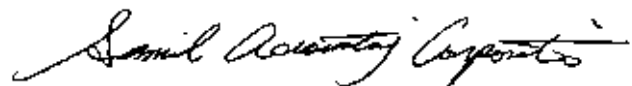
As discussed in Note 1 to the consolidated financial statements, Dawoo Bank (Romania) S. A. was excluded from consolidation in 2002 due to its disposal in 2003. Pan Ocean Shipping Co., Ltd. and Delta Info-Comm. Co., Ltd., of which control were obtained by the Bank and its subsidiary, were consolidated in 2002. Also, five off-shore funds which were invested into by the subsidiary of the Bank were consolidated in 2002 due to revisions to the relevant regulations.

As also discussed in Note 15 to the consolidated financial statements, the Korean Government increased the paid-in capital of the Bank by W3,000,000 million in 2001 by contributing 127,086,334 shares of Korea Electric Power Corporation valued at W23,606 per share on June 20, 2001 and W50,000 million cash on December 29, 2001.

As discussed in Note 24 to the consolidated financial statements, an investigation about allegations of window-dressing in SK Global Ltd., to which the Bank is a creditor, is in progress. In case of the detection of new facts proving such allegations, which can affect the financial position of SK Global Ltd., the actual loss from the loans provided to SK Global Ltd. may differ from the allowance for possible loan losses on the loans provided to SK Global Ltd. No adjustments related to such uncertainties have been recorded in the accompanying consolidated financial statements.

Accounting principles and auditing standards and their application in practice vary among countries. The accompanying consolidated financial statements are not intended to present the financial position, results of operations and cash flows in conformity with accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of Korea. In addition, the procedures and practices used in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying consolidated financial statements are for use by those who are knowledgeable about Korean accounting principles or auditing standards and their application in practice.

Seoul, Korea
March 13, 2003



This report is effective as of March 13, 2003, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

CONSOLIDATED BALANCE SHEETS

December 31, 2002 and 2001

	In Millions of Korean Won		In Thousands of U.S. Dollars	
	2002	2001	2002	2001
ASSETS				
Cash and due from banks (Note 3)	W 3,119,462	W 4,167,367	\$ 2,598,685	\$ 3,471,649
Trading securities (Note 4)	3,238,522	2,722,341	2,697,685	2,267,862
Investment securities (Note 5)	24,481,196	23,732,797	20,394,199	19,770,741
Loans, net (Note 6)	46,122,410	48,822,903	38,422,534	40,672,195
Premises, plant and equipment, net (Note 7)	3,222,361	2,650,972	2,684,406	2,208,407
Intangible assets	181,267	219,971	151,005	183,248
Guarantee deposits	199,060	203,953	165,828	169,904
Derivative financial instruments (Note 14)	1,858,611	2,374,303	1,548,326	1,977,927
Trade accounts receivable, net	845,059	955,314	703,981	795,830
Prepaid expenses	375,054	393,769	312,441	328,031
Others	3,753,978	4,331,011	3,127,273	3,607,973
Total assets	W 87,396,980	W 90,574,701	\$ 72,806,548	\$ 75,453,766
LIABILITIES AND EQUITY				
Deposits (Note 8)	W 10,376,016	W 12,197,768	\$ 8,642,799	\$ 10,161,420
Borrowings (Note 9)	26,533,251	23,517,601	22,103,675	19,591,470
Debentures (Note 10)	34,381,174	37,478,525	28,641,431	31,221,697
Provision for possible guarantee losses (Note 12)	66,961	188,930	55,782	157,389
Accrued severance benefits	372,349	323,964	310,187	269,880
Other accounts payable	1,985,178	2,200,668	1,653,764	1,833,279
Accrued expenses	1,017,246	963,130	847,423	802,341
Derivative financial instruments (Note 14)	1,431,536	2,709,249	1,192,549	2,256,955
Unearned income	201,557	213,690	167,908	178,016
Trade accounts payable	327,576	215,992	272,889	179,933
Other liabilities (Note 11)	1,893,328	1,850,893	1,577,248	1,541,897
Total liabilities	78,586,172	81,860,410	65,466,654	68,194,277
Commitments and contingencies (Note 13)				
Equity:				
Paid-in capital (Note 15)	7,161,861	7,161,861	5,966,229	5,966,229
Capital surplus (Note 16)	-	-	-	-
Retained earnings(accumulated deficit) (Note 17)	118,394	(75,477)	98,629	(62,877)
Capital adjustments (Note 18)	(498,732)	(320,442)	(415,472)	(266,946)
Minority interest in consolidated subsidiaries	2,029,285	1,948,349	1,690,507	1,623,083
Total equity	8,810,808	8,714,291	7,339,893	7,259,489
Total liabilities and equity	W 87,396,980	W 90,574,701	\$ 72,806,548	\$ 75,453,766

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

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31, 2002 and 2001

	In Millions of Korean Won		In Thousands of U.S. Dollars	
	2002	2001	2002	2001
Interest income:				
Interest on loans	W 2,574,177	W 3,674,518	\$ 2,144,433	\$ 3,061,078
Interest on due from banks	151,211	298,754	125,967	248,879
Interest on trading securities	137,106	185,443	114,217	154,484
Interest on investment securities	613,715	606,386	511,259	505,153
Other interest income	119,020	115,881	99,150	96,535
	3,595,229	4,880,982	2,995,026	4,066,130
Interest expense:				
Interest on deposits	469,912	572,901	391,463	477,258
Interest on borrowings	749,344	1,400,708	624,245	1,166,868
Interest on bonds payable	2,131,333	2,723,111	1,775,519	2,268,503
Other interest expenses	57,155	80,912	47,613	67,404
	3,407,744	4,777,632	2,838,840	3,980,033
Net interest income	187,485	103,350	156,185	86,096
Provision for (reversal of) possible loan losses	702,659	(305,850)	585,354	(254,790)
Net interest income (loss) after provisioning for possible loan losses	(515,174)	409,200	(429,169)	340,886
Non-interest revenue:				
Fees and commissions	720,399	777,145	600,132	647,405
Gains from trading securities	259,000	306,750	215,761	255,540
Gains from derivative financial instruments (Note 14)	4,080,127	4,174,685	3,398,973	3,477,745
Gains on foreign currency transactions	416,073	483,483	346,612	402,768
Sales from manufacturing activities	3,491,594	3,126,733	2,908,692	2,604,743
Others (Note 19)	1,134,409	528,230	945,026	440,045
	10,101,602	9,397,026	8,415,197	7,828,246
Non-interest expense:				
Fees and commissions	73,282	73,242	61,048	61,015
Losses from trading securities	276,154	322,896	230,052	268,990
Losses from derivative financial instruments (Note 14)	4,030,279	4,016,126	3,357,447	3,345,656
Losses on foreign currency transactions	543,573	476,118	452,827	396,633
General and administrative expenses (Note 20)	920,828	869,417	767,101	724,273
Cost of sales from manufacturing activities	2,995,160	2,604,462	2,495,135	2,169,662
Others (Note 19)	1,028,932	368,218	857,158	306,746
	9,868,208	8,730,479	8,220,766	7,272,975
Operating income (loss)	(281,780)	1,075,747	(234,738)	896,157
Non-operating income (loss), net	733,080	(580,181)	610,696	(483,323)
Extraordinary income, net	51,694	20,658	43,064	17,209
Income before income taxes	502,994	516,224	419,022	430,043
Income taxes (Note 21)	98,129	89,231	81,747	74,334
Net income before minority interest in earnings of consolidated subsidiaries, net	404,865	426,993	337,275	355,709
Minority interest in earnings of consolidated subsidiaries, net	(192,263)	(307,430)	(160,166)	(256,106)
Net income	W 212,602	W 119,563	\$ 177,109	\$ 99,603

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, 2002 and 2001.

	In Millions of Korean Won		In Thousands of U.S. Dollars	
	2002	2001	2002	2001
Capital stock				
Balance, beginning of the year	W 7,161,861	W 4,111,861	\$ 5,966,229	\$ 3,425,409
Capital contribution	-	3,050,000	-	2,540,820
Balance, end of the year	7,161,861	7,161,861	5,966,229	5,966,229
Consolidated capital surplus				
Balance, beginning of the year	-	47,313	-	39,414
Changes in capital surplus of equity method investees	(272)	(99)	(227)	(82)
Changes in equity ownership ratio	272	(48,536)	227	(40,433)
Others	-	1,322	-	1,101
Balance, end of the year	-	-	-	-
Consolidated retained earnings(accumulated deficit)				
Balance, beginning of the year	(75,477)	(36,856)	(62,877)	(30,703)
Net income	212,602	119,563	177,109	99,603
Changes in equity ownership ratio	(13,925)	(80,445)	(11,600)	(67,015)
Changes in subsidiaries	(7,226)	20,783	(6,020)	17,313
Others	2,420	(98,522)	2,016	(82,074)
Balance, end of the year	118,394	(75,477)	98,629	(62,877)
Consolidated capital adjustments				
Balance, beginning of the year	(320,442)	(288,730)	(266,946)	(240,528)
Changes in capital surplus of equity method investees	271	99	226	82
Changes during the year	(178,561)	(31,811)	(148,751)	(26,500)
Balance, end of the year	(498,732)	(320,442)	(415,472)	(266,946)
Minority interest				
Balance, beginning of the year	1,948,349	1,466,582	1,623,083	1,221,744
Changes during the year	80,936	481,767	67,424	401,339
Balance, end of the year	2,029,285	1,948,349	1,690,507	1,623,083
Total equity	W 8,810,808	W 8,714,291	\$ 7,339,893	\$ 7,259,489

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2002 and 2001

	In Millions of Korean Won		In Thousands of U.S. Dollars	
	2002	2001	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	W 212,602	W 119,563	\$ 177,109	\$ 99,603
Adjustments to reconcile net income to net cash provided by operating activities:				
Loss on disposal of loans, net	55,271	1,081,638	46,044	901,065
Loss on trading securities, net	32,033	31,937	26,685	26,605
Loss (gain) on investment securities, net	258,408	(80,929)	215,268	(67,418)
Depreciation	82,637	71,855	68,841	59,859
Loss (gain) on foreign currency translation, net	143,580	(10,889)	119,610	(9,071)
Gain from derivative financial instruments, net	(49,848)	(158,559)	(41,526)	(132,088)
Decrease in other receivables	273,052	140,871	227,468	117,353
Decrease in prepaid expenses	18,716	95,150	15,591	79,265
Increase (decrease) in accrued expenses	54,117	(666,690)	45,082	(555,390)
Others, net	(973,931)	1,236,666	(811,339)	1,030,212
Net cash provided by operating activities	106,637	1,860,613	88,835	1,549,994
CASH FLOWS FROM INVESTING ACTIVITIES				
Decrease (increase) in trading securities	(548,214)	1,034,093	(456,693)	861,457
Decrease in due from banks	901,205	2,426,259	750,754	2,021,209
Disposal of investment securities	8,536,789	5,272,626	7,111,620	4,392,391
Decrease (increase) in loans	1,901,161	1,086,150	1,583,773	904,823
Acquisition of investment securities	(8,837,270)	(8,684,323)	(7,361,938)	(7,234,524)
Decrease (increase) in premises and equipment	(664,092)	27,723	(553,226)	23,095
Others, net	234,442	175,296	195,303	146,031
Net cash provided by investing activities	1,524,021	1,337,824	1,269,594	1,114,482
CASH FLOWS FROM FINANCING ACTIVITIES				
Increase (decrease) in deposits	(1,821,751)	2,813,082	(1,517,620)	2,343,454
Net increase (decrease) in borrowings	3,015,651	(3,191,335)	2,512,205	(2,658,560)
Net decrease in bonds issued	(3,096,361)	(1,448,926)	(2,579,441)	(1,207,036)
Increase in paid-in capital	-	50,000	-	41,653
Others, net	139,461	(1,333,710)	116,179	(1,111,055)
Net cash used in financing activities	(1,763,000)	(3,110,889)	(1,468,677)	(2,591,544)
Net increase (decrease) in cash	(132,342)	87,548	(110,248)	72,932
Cash, beginning of the year	197,060	109,512	164,162	91,230
Cash, end of the year (Note 3)	W 64,718	W 197,060	\$ 53,914	\$ 164,162

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001

1. THE CONSOLIDATED COMPANIES:

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

THE BANK-

The Korea Development Bank was established in 1954 in accordance with the Korea Development Bank Act for the purpose

of supplying and managing major industrial capital to develop Korean industries. The Bank operates through 34 local branches, 5 overseas branches, 3 overseas subsidiaries and 2 overseas offices as of December 31, 2002. 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 Korean Government owns the entire capital of the Bank.

CONSOLIDATED SUBSIDIARIES -

Summarized information regarding consolidated subsidiaries as of December 31, 2002 and 2001 is as follows:

Subsidiaries	Invested Amount (In Millions of Korean Won)		Ownership Ratio (%)	
	2002	2001	2002.12.31	
Domestic				
KDB Capital Corporation.	W 467,706	W 478,208	79.86	
Daewoo Securities Co., Ltd.	563,247	563,247	39.46	
Daewoo Shipbuilding & Marine Engineering Co., Ltd.	390,368	390,368	42.10	
Seoul Debt Restructuring Fund	117,224	262,800	43.80	
Arirang Restructuring Fund	126,846	145,800	43.73	
Mukoonghwa Restructuring Fund	142,995	145,700	43.71	
Korea Infrastructure Fund	11,569	5,636	45.44	
Pan Ocean Shipping Co., Ltd.	97,396	-	64.45	
Seoul Investment Trust Management	17,350	17,350	81.85	
Samwon Industrial Co., Ltd.	575	200	42.31	
Delta Info-Comm. Co., Ltd.	25,853	-	68.12	
	W 1,961,129	W 2,009,309		

Subsidiaries	Invested amount (Thousands of Foreign Currency)		Ownership Ratio (%)	
	2002	2001	2002.12.31	
Foreign				
KDB Asia (HK) Ltd.	USD 70,000	USD 60,000	100.00	
KDB Ireland Ltd.	USD 20,000	USD 20,000	100.00	
KDB Bank (Hungary) Ltd. (*)	USD 29,305	HUF 4,686,800	100.00	
Metropolitan Industrial Leasing Co., Ltd.	THB 50,000	THB 98,000	25.00	
Vietnam International Leasing Co., Ltd.	USD 1,600	USD 1,600	32.00	
Daewoo Securities (America) Inc.	USD 12,000	USD 12,000	100.00	
Daewoo Securities (Europe) Ltd.	USD 18,365	USD 18,365	100.00	
Daewoo Securities (Hong Kong) Ltd.	USD 9,999	USD 9,999	100.00	
UZ Daewoo Bank	USD 5,500	USD 5,500	55.00	
Optimal Access Investment Limited and others	USD 14,551	USD -	69.98	
Daewoo Mangalia Heavy Industries	Lei 156,138,000	Lei 156,138,000	51.00	
	THB 50,000	THB 98,000		
	HUF -	HUF 4,686,800		
	USD 181,320	USD 127,464		
	Lei 156,138,000	Lei 156,138,000		

(*) The 100% ownership in KDB Bank (Hungary) Ltd. was transferred from Daewoo Securities Co., Ltd. to the Bank in 2002.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001

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

Subsidiaries	Incorporation Date	Outstanding Capital (In Millions of Korean Won, Thousand of Foreign Currency)				Major Business
		2002		2001		
KDB Capital Corporation	December 1972	W	698,064	W	698,064	Leasing industrial machinery, equipment, aircrafts, ship, automobiles and investing in and providing financing services to venture capital companies.
Daewoo Securities Co., Ltd.	September 1970	W	1,020,883	W	1,020,883	Trading, subscribing and selling securities.
Daewoo Shipbuilding & Marine Engineering Co., Ltd.	October 2000	W	961,954	W	991,954	Manufacturing naval ships, submarines, and other special purpose vessels.
Restructuring Funds	September 1998	W	884,804	W	1,254,734	Investing and financing for restructuring of domestic companies.
Korea Infrastructure Fund	December 1999	W	25,459	W	10,000	Investing and financing for companies operating social infrastructure.
Pan Ocean Shipping Co., Ltd.	May 1996	W	151,548	W	-	Providing sea transportation service.
KDB Asia (HK) Ltd.	January 1986	US\$	70,000	US\$	60,000	Providing financing services to Korean companies. Investment in securities. Conducting international securities operations.
KDB Ireland Ltd.	June 1967	US\$	20,000	US\$	20,000	Supporting to introduce commercial loans for Korean companies. Investing in securities.
KDB Bank(Hungary) Ltd.	February 1990	HUF	4,686,800	HUF	4,686,800	Providing commercial banking service.

The following company, which was consolidated in 2001, was excluded from consolidation in 2002.

Companies	Reason of Exclusion
Dawoo Bank (Romania) S. A.	(*)

(*) In 2002 it was arranged to be disposed to a Romanian company at the price of US\$ 16.8 million.

Pan Ocean Shipping Co., Ltd. was consolidated in 2002 since the Bank has taken control of such company. Five off-shore funds which were invested into by Daewoo Securities Co., Ltd., the Bank's subsidiary, were consolidated in 2002 due to the revisions of relevant regulations. Also, Delta Info-Comm. Co., Ltd., of which control was obtained by Daewoo Securities Co., Ltd. was consolidated in 2002. A summary of significant financial data of the companies as of December 31, 2002 is as follows (Millions of Won):

	Pan Ocean Shipping Co., Ltd.	Delta Info-Comm Co., Ltd.
Total assets	W 852,758	W 15,335
Total liabilities	662,304	6,285
Total shareholder's equity	190,454	9,040

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 Bank and its domestic consolidated subsidiaries maintain their official accounting records in Korean Won and prepare statutory financial statements in the Korean language in conformity with the accounting principles generally accepted in the Republic of Korea. The official accounting records of the overseas subsidiaries are maintained in foreign currencies in accordance with the laws and regulations applicable in their respective jurisdictions. The accompanying consolidated financial statements are prepared in conformity with financial accounting standards for consolidated financial statements generally accepted in the Republic of Korea. Certain accounting principles applied by the Bank and its consolidated subsidiaries that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. The accompanying consolidated financial statements have been condensed, restructured and translated into English

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001

from the Korean language consolidated financial statements. Accordingly, these consolidated financial statements are intended for use by those who are informed about Korean accounting principles and practices. Certain information attached to the Korean language financial statements, that are not required for a fair presentation of the Bank's financial position and results of operations, is not presented in the accompanying non-consolidated financial statements.

The preparation of the consolidated financial statements in conformity with the financial accounting standards requires management to make estimates and assumptions that affect amounts reported therein. Due to the inherent uncertainty involved in making estimates, actual results reported in future periods may differ from those estimates.

Financial statements for the years ended December 31, 2002 and 2001 were used for the consolidation of KDB Capital Corporation, Daewoo Securities Co., Ltd., Seoul Debt Restructuring Fund, Arirang Restructuring Fund and Mukoonghwa Restructuring Fund, which have a fiscal year end of March 31.

PRINCIPLES OF CONSOLIDATION -

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

The investment account of the controlling company is eliminated against the corresponding capital accounts of its consolidated subsidiaries.

The Bank records differences between the investment account and corresponding capital account of subsidiaries as goodwill or negative goodwill. Goodwill is amortized over five years and negative goodwill is reversed over the weighted average useful life of depreciable assets using the straight-line method. However, differences which occur from additional investments acquired in consolidated subsidiaries are reported in capital surplus, shown as a separate component of equity, and are not included in the determination of the results of operations.

The minority interest is calculated based on the equity after settlement when the capital account of its consolidated subsidiaries is decreased or increased since the acquisition date. The excess

amount is recognized as a loss in excess of the minority interest to the capital of the controlling company when the amount of loss of the subsidiary pertaining to minority interest exceeds the current minority interest balance. The total gain of the consolidated subsidiaries hereafter is to be added to the capital of the controlling company until the amount of loss recognized under the controlling company's equity is fully recovered.

RECOGNITION OF INTEREST INCOME-

The Bank and its subsidiaries recognize interest income on loans and debt securities on an accrual basis. However, interest income on delinquent and dishonored loans, other than those subject to security deposits and guaranteed by financial institutions, is recognized on a cash basis. Such unaccrued interest income of the Bank as of December 31, 2002 and 2001 amounted to W226,022 million and W122,915 million, respectively.

PROVISION FOR POSSIBLE LOAN LOSSES -

The Bank and its subsidiaries provide for possible loan losses based on the 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 the borrowers' credit risk. Provisions are determined by applying the following minimum percentages to the various credit risk ratings:

Loan Classifications	Provision Percentages
Normal	0.5%
Special attention	2% or more
Substandard	20% or more
Doubtful	50% or more
Loss	100%

Daewoo Shipbuilding & Marine Engineering Co., Ltd. and Pan Ocean Shipping Co., Ltd. provide allowances for doubtful accounts based on estimated losses from the analysis on the collectibility of trade receivables, loans and other receivables.

KDB Capital Corporation and Daewoo Securities Co., Ltd. provide allowances for loan losses according to the relevant and applicable laws and regulations. However, for the consolidated financial statements, KDB Capital Corporation and Daewoo Securities Co., Ltd. provided for possible loan losses in accordance with the Bank's method as described above.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001

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.

Investment securities which allow the Bank significant influence over the investees are valued using the equity method of accounting. The Bank considers that it has a significant influence on investees in which the Bank holds more than 15% of interest. However, the Bank does not apply equity method for the following investments.

- Investees which are owned by the Korean Government and Government-invested companies
- Investees having total assets less than W7,000 million
- Investees under court receivership or bankruptcy
- Investees under the process being sold-out
- Converted stocks with restrictions on disposal under the corporate restructuring law

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

Non-marketable 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 be recovered, the acquisition cost is adjusted to the market value or net book value. In such cases, the difference between the carrying amount and the revalued amount is charged to current operations.

The Bank and its subsidiaries recorded impairment losses on investment securities amounting to W397,186 million and W328,133 million in 2002 and 2001, respectively.

VALUATION ON INVENTORIES -

Inventories of Daewoo Shipbuilding & Marine Engineering Co., Ltd. are stated at the lower of cost or market value, with cost being determined by the specific identification method for goods in-process and goods in-transit, and moving average method for raw materials and supplies.

Inventories of Pan Ocean Shipping Co., Ltd. are stated at the lower of cost or market value, with cost being determined by the weighted average method.

LEASE TRANSACTIONS -

KDB Capital Corporation accounts for lease transactions as either operating or capital leases, depending upon the terms of the underlying lease agreements. In general, leases are recognized as capital leases when the ownership title is transferred after the expiration of the non-cancelable leases or when a bargain purchase option exists.

Under the capital lease method, aggregate lease rentals are recorded as capital 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 rate method.

Assets related to 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, PLANT AND EQUIPMENT AND RELATED DEPRECIATION -

Depreciation is computed using the following methods over the estimated useful lives of the assets as described below:

	Estimated Useful Lives	Method of Depreciation
Buildings	20 ~ 50 years	Straight-line method
Structures	7 ~ 50	Straight-line method
Machinery	4 ~ 12	Declining-balance method (*)
Ships	15 ~ 25	Straight-line method
Vehicles	4 ~ 6	Declining-balance method (*)
Others	4 ~ 6	Declining-balance method (*)

(*) Daewoo Shipbuilding & Marine Engineering Co., Ltd. computes depreciation using the straight-line method.

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

PRESENT VALUE DISCOUNTS -

Receivables and payables arising from long-term installment transactions, long-term cash loans (borrowings) and other similar transactions are stated at present value if the difference between the nominal value and present value is material. Such differences are presented in the present value discount account and directly deducted from the nominal value of the related receivables or payables. The present value discount account is amortized using the effective interest rate method as interest expense or interest income.

Loans which are impaired due to the restructuring of the borrower, court mediation or negotiation, are revalued using the adjusted interest rate. The difference between the 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.

BONDS SOLD UNDER REPURCHASE AGREEMENTS -

The Bank provides a provision for possible losses from the bonds sold under repurchase agreements as determined based on possible loss estimates when the bonds are repurchased. The provision for possible losses as of December 31, 2002 and 2001 amounted to W102,054 million and W220,677 million, respectively.

DISPOSAL OF LOANS -

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

FOREIGN CURRENCY TRANSLATION -

Assets and liabilities denominated in foreign currencies are translated into Korean Won at the basic exchange rates (W1,200.4/US\$1 in 2002, W1,326.1/US\$1 in 2001) in effect on the balance sheet date. The 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 and directors were to terminate their employment as of the balance sheet date.

On December 31, 2002 the Bank paid accrued severance benefits to employees and directors except for employees in overseas branches, and others. Actual payments of severance benefits for the years ended December 31, 2002 and 2001 amounted to W3,051 million and W5,762 million (including W4,030 million of early payment of severance benefits), respectively.

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

PROVISION FOR POSSIBLE GUARANTEE LOSSES -

The Bank sets up a provision for possible losses on guarantees outstanding as determined based on a credit risk rating of the companies for which guarantees are provided. The Bank provides a provision of 20% or more of guaranteed amounts for companies classified as "substandard," 50% or more for "doubtful" and 100% for "loss." The allowance is shown in the liability section.

DEFERRED INCOME TAXES -

The Bank and its consolidated companies record deferred income taxes which arise from temporary differences between the amount reported for financial reporting purposes and income tax purposes. Income tax expense comprise taxes payable for the period and the change in deferred income tax assets and liabilities for the period.

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 selling and repurchase price is treated as interest and accrued evenly over the period covered by the agreements.

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TRANSLATION OF FOREIGN CURRENCY FINANCIAL STATEMENTS -

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

DERIVATIVE FINANCIAL INSTRUMENTS -

Derivative financial instruments for trading purposes are stated at fair value as of the balance sheet date.

Derivative financial instruments for fair value hedges are stated at market value. The gains and losses on the hedging instruments, as well as the related losses or gains on the hedged items, are recognized in current operations in the same accounting period.

COMPENSATION TO TRUST ACCOUNTS -

The Bank receives management fees from trust accounts for management and custodian services. Certain trust funds held by the Bank are guaranteed a certain rate of return by the Bank. If the income from trust operations is insufficient to generate the required rate of return, the deficiency may be either recovered from previously established special allowances or compensated by the Bank's banking accounts. Such compensation is accounted for as other operating expenses of the banking accounts and other income of the trust accounts, in accordance with the relevant laws and regulations applicable to trust operations.

PROVISION FOR FUTURE TRUST LOSSES -

The Bank's trust accounts are required to set up a special allowance exceeding 25% of trust fees to the Bank, until the total allowance equals 5% of the related trust balance. This special allowance of trust accounts is included in retained earnings upon consolidation.

STATEMENT OF CASH FLOWS -

On the statement of cash flows, the Bank and its subsidiaries records the net cash inflows and outflows for loans, deposits, trading securities and others due to their frequent turnover and short-term maturity.

RECLASSIFICATION OF PRIOR YEAR AMOUNTS -

Certain amounts in the 2001 consolidated financial statements have been reclassified to conform to the 2002 presentation. These reclassifications have no effect on previously reported net income or retained earnings.

3. CASH AND DUE FROM BANKS:

Cash and due from banks as of December 31, 2002 and 2001 comprise the following:

Bank	Annual Interest Rate (%)	In Millions of Korean Won	
		2002	2001
Cash on hand in Won	-	W 37,269	W 146,063
Cash on hand in foreign currency	-	27,449	50,997
Due from banks in Won	0.0 - 8.0	1,799,289	1,801,840
Due from banks in foreign currency	0.9 - 4.2	1,255,455	2,168,467
		W 3,119,462	W 4,167,367

Due from banks in Won as of December 31, 2002 and 2001 are summarized as follows:

Bank	Annual Interest Rate (%)	In Millions of Korean Won	
		2002	2001
The Bank of Korea	-	W 220,385	W 62,720
Others	0.0 - 8.0	1,578,904	1,739,120
		W 1,799,289	W 1,801,840

Due from banks in Won as of December 31, 2002 and 2001 are summarized as follows:

Bank	Annual Interest Rate (%)	In Millions of Korean Won	
		2002	2001
The Bank of Korea	-	W 12,787	W 40,774
Kookmin Bank	2.8 - 3.5	489,959	567,787
Korea Exchange Bank	1.0 - 3.5	101,247	174,724
Chohung Bank	0.9 - 4.2	133,869	97,142
Woori Bank	1.1 - 4.1	84,028	242,676
Others	1.0 - 2.9	433,565	1,045,364
		W 1,255,455	W 2,168,467

Restricted deposits included in due from banks as of December 31, 2002 are as follows:

	In Millions of Korea Won
Reserve deposits with the Bank of Korea	W 220,385
Woori Bank	11,227
Shinhan Bank	7,247
Kookmin Bank	56,980
Hana Bank	27,132
China Construction Bank	6,993
Shanghai Pudong Development Bank	4,802
Industrial and Commercial Bank of China	3,601
Others	4,920
	W 343,287

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Reserve deposits with the Bank of Korea represent amounts required under the Banking Act for the payment of deposits. Reserve deposits with China Construction Bank, Shanghai Pudong Development Bank and Industrial and Commercial Bank of China also represent amounts required under the related banking regulations of those countries. Deposits with Woori Bank, Shinhan Bank, Kookmin Bank, Hana Bank and others are pledged as collateral.

The maturities of amounts due from banks as of December 31, 2002 are as follows (Millions of Won):

Maturing on or Before	Due from Banks in Won	Due from Banks in Foreign currency	Total
Mar. 31, 2003	W 1,722,783	W 1,192,706	W 2,915,489
Jun. 30, 2003	1,000	38,025	39,025
Dec. 31, 2003	17,250	4,724	41,974
Dec. 31, 2004	12,684	-	12,684
Dec. 31, 2005	28,817	-	28,817
Dec. 31, 2006	16,459	-	16,459
Dec. 31, 2007	-	-	-
Thereafter	296	-	296
	W 1,799,289	W 1,255,455	W 3,054,744

4. TRADING SECURITIES:

Trading securities held by the Bank and its subsidiaries as of December 31, 2002 and 2001 comprise the following (Millions of Won):

	The Bank		Subsidiaries		Total	
	2002	2001	2002	2001	2002	2001
Marketable equity securities	W -	W 10,243	W 236,601	W 225,599	W 236,601	W 235,842
Government and public bonds	152,475	110,108	208,106	189,485	360,581	299,593
Corporate bonds	169,351	170,486	676,193	311,617	845,544	482,103
Beneficiary certificates	606,671	375,702	480,864	575,885	1,087,535	951,587
Securities in foreign currency	388,790	580,106	19,555	98,243	408,345	678,349
Others	15,740	-	284,176	74,867	299,916	74,867
	W 1,333,027	W 1,246,645	W 1,905,495	W 1,475,696	W 3,238,522	W 2,722,341

Par value, acquisition cost and fair value of trading debt securities as of December 31, 2002 and 2001 are as follows (Millions of Won):

	Par Value		Acquisition Cost		Fair Value	
	2002	2001(*)	2002	2001(*)	2002	2001(*)
Government and public bonds	W 359,934	W 110,000	W 367,540	W 108,967	W 360,581	W 110,108
Corporate bonds	912,176	171,139	876,943	169,765	845,544	170,486
Securities in foreign currency	384,260	590,524	402,020	578,601	408,345	580,106
	W 1,656,370	W 871,663	W 1,646,503	W 857,333	W 1,614,470	W 860,700

(*) Amounts in 2001 represent trading debt securities of the Bank only.

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Trading securities in foreign currency as of December 31, 2002 and 2001 comprise the following:

Foreign Currency (In Thousands)				In Millions of Korean Won			
2002		2001(*)		2002		2001(*)	
USD	340,174	USD	398,466	W	408,345	W	528,406
DEM	-	DEM	35,021		-		20,996
EUR	-	EUR	22,844		-		26,787
SGD	-	SGD	5,459		-		3,917
				W	408,345	W	580,106

(*) Amounts in 2001 represent trading securities in foreign currency of the Bank only.

5. INVESTMENT SECURITIES:

Investment securities held by the Bank and its subsidiaries as of December 31, 2002 and 2001 comprise the following (Millions of Won):

	The Bank		Subsidiaries		Total	
	2002	2001	2002	2001	2002	2001
Equity investments	W 12,094,930	W 10,942,574	W 640,584	W 542,337	W 12,735,514	W 11,484,911
Government and public bonds	2,247,241	2,913,054	2,302	3,395	2,249,543	2,916,449
Corporate bonds	4,895,282	4,894,965	161,876	555,584	5,057,158	5,450,549
Beneficiary certificates	139,057	191,841	-	-	139,057	191,841
Investment securities in foreign currency	3,172,858	2,458,790	473,158	391,268	3,646,016	2,850,058
Others	647,456	863,601	6,452	4,388	653,908	838,989
	W 23,196,824	W 22,235,825	W 1,284,372	W 1,496,972	W 24,481,196	W 23,732,797

Investment securities as of December 31, 2002 and 2001 comprise the following:

	Annual Interest Rate (%)		In Millions of Korean Won	
	2002.12.31		2002	2001
Equity investment securities				
Investments using the equity method	-		W 5,341,850	W 4,208,829
Investments not using the equity method	-		7,397,053	6,748,332
			12,738,903	10,957,161
Debt investment securities				
Government and public bonds	5.0 - 7.5		2,249,543	2,913,054
Corporate bonds	5.2 - 15.0		5,057,158	4,894,965
Beneficiary certificates	-		139,057	191,841
Investment securities in foreign currency	3.8 - 7.3		3,642,627	2,444,203
Others	3.8 - 5.5		653,908	834,601
			11,742,293	11,278,664
			W 24,481,196	W 22,235,825

(*) Amounts in 2001 represent investment securities of the Bank only.

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Equity investments as of December 31, 2002 and 2001 comprise the following (Millions of Won):

	Ownership(%)	Acquisition Cost		Book Value		Fair Value or Net Book Value		
		2002.12.31	2002	2001(**)	2002	2001(**)	2002	2001(**)
Investments using the equity method:								
Korea Asset Management Corporation.	28.57	W 40,000	W 40,000	W 45,465	W 44,007	W 45,450	W 43,963	
Korea Appraisal Board(*)	30.60	667	667	-	-	-	-	
Daewoo Heavy Industries & Machinery Ltd.	21.91	173,078	173,078	188,915	186,153	159,469	146,891	
Korea Electric Power Corp.	21.59	3,265,468	3,265,468	4,541,043	3,634,862	7,667,147	7,177,780	
Hankang Restructuring Fund	23.01	95,915	145,700	97,270	147,802	97,270	147,801	
Others		572,338	274,629	469,157	196,005	470,787	201,541	
		4,147,466	3,899,542	5,341,850	4,208,829	8,440,123	7,717,976	
Investments not using the equity method:								
Samsung Life Insurance Co., Ltd.	1.89	264,496	264,496	132,248	132,248	100,476	40,518	
Industrial Bank of Korea	18.95	400,000	400,000	387,013	410,721	387,013	410,721	
Korea Highway Corporation.	10.22	1,430,100	1,430,100	1,430,184	1,430,184	1,430,379	1,471,251	
Korea National Housing Corp.	22.68	1,300,618	1,300,618	1,300,618	1,300,618	1,238,252	1,336,842	
Korea Land Corporation.	26.90	1,161,904	1,161,904	1,191,329	1,191,329	881,293	844,292	
Korea Water Resources Corp.	7.30	671,307	671,307	671,307	671,307	546,045	745,646	
Others		3,206,971	2,222,397	2,284,354	1,611,925	2,336,529	1,630,572	
		8,435,396	7,450,822	7,397,053	6,748,332	6,919,987	6,479,842	
		W 12,582,862	W 11,350,364	W 12,738,903	W 10,957,161	W 15,360,110	W 14,197,818	

(*) The application of the equity method was suspended in 2001, since the Bank's share in the losses of the investee exceeded the carrying amount of the investment. As of December 31, 2002, the unrecognized losses for the investee amounted to W7,494 million.

(**) Amounts in 2001 represent equity investments of the Bank only.

Investment securities using the equity method as of December 31, 2002 are summarized as follows (Millions of Won):

	Beginning Book Value	Acquisition (Disposition)	Dividends	Valuation Gain or Loss	Capital Adjustment	Ending Book Value
Korea Asset Management Corporation.	W 44,007	W -	W 1,000	W 2,458	W -	W 45,465
Daewoo Heavy Industries & Machinery Ltd.	186,153	-	-	2,939	(177)	188,915
Korea Electric Power Corporation.	3,634,862	-	75,931	1,007,385	(25,273)	4,541,043
Hankang Restructuring Fund	147,802	-	56,532	6,000	-	97,270
Others	354,996	132,790	3,059	(12,518)	(3,052)	469,157
Total	W 4,367,820	W 132,790	W 136,522	W 1,006,264	W (28,502)	W 5,341,850

The equity method adjustments are calculated as the difference between the initial purchase price and the Bank's initial proportionate ownership of the net book value of investees at the time of purchase. Equity method adjustment debits are amortized over five years and equity method adjustment credits are amortized over five years (for those purchased before December 31, 2000) or weighted average useful lives of tangible assets of investees using the straight-line method.

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Investments in debt securities available-for-sale as of December 31, 2002 and 2001 comprise the following (Millions of Won):

	Par Value		Acquisition Cost		Fair Value	
	2002	2001(*)	2002	2001(*)	2002	2001(*)
Government and public bonds	W 44,171	W 97,943	W 44,150	W 68,033	W 46,694	W 158,879
Corporate bonds	4,677,451	4,077,799	4,509,816	4,118,184	4,193,056	4,036,957
Beneficiary certificates	150,352	188,442	150,352	176,442	139,057	191,841
Investment securities in foreign currency	3,373,086	2,140,878	2,310,976	1,521,545	2,302,729	1,428,171
Others	532,353	719,237	625,249	719,106	535,174	719,234
	W 8,777,413	W 7,224,299	W 7,640,543	W 6,603,310	W 7,216,710	W 6,535,082

(*) Amounts in 2001 represent investments in debt securities available-for-sale of the Bank only.

Investments in debt securities held-to-maturity as of December 31, 2002 and 2001 comprise the following (Millions of Won):

	Par Value		Acquisition Cost		Carrying Amounts of Bonds	
	2002	2001(*)	2002	2001(*)	2002	2001(*)
Government and public bonds	W 2,210,320	W 2,764,362	W 2,201,787	W 2,756,469	W 2,202,849	W 2,754,175
Corporate bonds	875,320	865,613	860,488	653,905	864,102	858,008
Investment securities in foreign currency	1,343,068	1,021,909	1,414,805	1,018,688	1,339,898	1,016,032
Others	116,309	115,384	117,945	115,366	118,734	115,367
	W 4,545,017	W 4,767,268	W 4,595,025	W 4,544,428	W 4,525,583	W 4,743,582

(*) Amounts in 2001 represent investments in debt securities held-to-maturity of the Bank only.

Investment securities in foreign currency as of December 31, 2002 and 2001 comprise the following:

Foreign Currency (In Thousands)		In Millions of Korean Won	
2002	2001(*)	2002	2001(*)
Securities available-for-sale			
USD 1,529,734	USD 806,460	W 1,836,293	W 1,069,448
JPY 42,643,208	JPY 32,448,921	431,920	327,539
EUR 16,394	EUR 7,699	20,613	9,028
DEM -	DEM 33,021	-	19,797
SGD 2,490	SGD 2,549	1,722	1,829
CHF 90	CHF 669	78	530
GBP 4,027	GBP -	7,753	-
CNY 30,001	CNY -	4,350	-
		W 2,302,729	W 1,428,171
Securities held-to-maturity			
USD 969,214	USD 643,938	W 1,163,445	W 853,926
JPY 17,172,020	JPY 16,059,582	173,930	162,106
EUR 2,006	EUR -	2,523	-
		W 1,339,898	W 1,016,032

(*) Amounts in 2001 represent investments securities in foreign currency of the Bank only.

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6. LOANS:

Loans as of December 31, 2002 and 2001 comprise the following:

	In Millions of Korean Won			
	2002		2001	
Loans in Won	W	15,043,325	W	17,888,738
Loans in foreign currency		16,128,045		18,508,587
Notes purchased		4,887		4,340
Bills purchased		3,045,154		3,530,515
Advances for customers		193,553		334,441
Bonds purchased under repurchase agreements		161,805		-
Call loans		790,276		2,104,998
Domestic import usance bills		3,352,839		889,251
Debentures accepted by private subscription		7,530,666		6,326,006
Others		1,296,533		1,571,145
		47,547,083		51,158,021
Less: Provision for possible loan losses		(1,285,048)		(2,001,280)
Present value discount		(139,625)		(333,838)
	W	46,122,410	W	48,822,903

Loans in Won and foreign currency as of December 31, 2002 and 2001 comprise the following (Millions of Won):

	The Bank		Subsidiaries		Total	
	2002	2001(*)	2002	2001(*)	2002	2001(*)
Loans in Won						
Loans for working capital	W 4,421,878	W 6,844,746	W 202,694	W 271,197	W 4,624,572	W 7,115,943
Loans for facilities	9,914,379	10,611,883	504,374	245,370	10,418,753	10,857,253
Inter-company loans		(84,458)		-		(84,458)
	W 14,336,257	W 17,372,171	W 707,068	W 516,567	W 15,043,325	W 17,888,738
Loans in foreign currency						
Loans for working capital	W 2,289,937	W 2,910,083	W 150,664	W 620,046	W 2,440,601	W 3,530,129
Loans for facilities	13,398,620	15,324,298	114,798	238,784	13,513,418	15,563,082
Others	-	-	174,026	-	174,026	-
Inter-company loans		(578,652)		(5,972)		(584,624)
	W 15,688,557	W 17,655,729	W 439,488	W 852,858	W 16,128,045	W 18,508,587

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December 31, 2002 and 2001

The maturities of loans in Won and foreign currency as of December 31, 2002 are as follows (Millions of Won):

Maturing on or Before	Loans for Working Capital in Won	Loans for Facilities in Won	Loans for Working Capital in Foreign Currency	Loans for Facilities in Foreign Currency	Others in Foreign Currency
Mar. 31, 2003	W 932,370	W 600,374	W 520,575	W 553,424	W -
Jun. 30, 2003	591,246	432,455	416,671	511,512	-
Dec. 31, 2003	988,199	815,982	873,392	1,264,803	38,526
Dec. 31, 2004	947,788	1,895,752	554,141	2,168,472	38,526
Dec. 31, 2005	210,473	1,985,987	106,358	3,101,995	16,608
Dec. 31, 2006	272,415	1,350,978	81,993	1,411,399	-
Dec. 31, 2007	187,001	1,058,877	25,827	1,104,583	-
Thereafter	495,432	2,331,079	38,822	3,650,017	80,366
	4,624,924	10,471,484	2,617,779	13,766,205	174,026
Inter-company loans	(352)	(52,731)	(177,178)	(252,787)	-
	W 4,624,572	W 10,418,753	W 2,440,601	W 13,513,418	W 174,026

The Bank's restructured loans for 2002 and 2001 due to court receivership, court mediation or other financial restructuring process are as follows:

	In Millions of Korean Won	
	2002	2001
Changes in contractual terms	W 72,154	W 879,102
Exemption	-	5,818
Conversion to equity investment	775,051	63,647
Conversion to convertible bonds	-	501,247
Total	W 847,205	W 1,449,814

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.

7. PREMISES, PLANT AND EQUIPMENT:

Premises and equipment as of December 31, 2002 and 2001 comprise the following (Millions of Won):

	Acquisition Cost or Revaluation		Accumulated Depreciation		Net Book Value	
	2002	2001(*)	2002	2001(*)	2002	2001(*)
Land	W 1,002,105	W 1,042,265	W -	W -	W 1,002,105	W 1,042,265
Buildings and structures	1,308,857	1,278,556	182,495	145,898	1,126,362	1,132,658
Machinery	435,071	340,617	217,981	190,415	217,090	150,202
Ships	1,079,604	-	607,650	-	471,954	-
Construction in-progress	193,767	109,922	-	-	193,767	109,922
Others	563,354	513,100	352,271	297,175	211,083	215,925
	W 4,582,758	W 3,284,460	W 1,360,397	W 633,488	W 3,222,361	W 2,650,972

In accordance with the Asset Revaluation Law, on July 1, 1998, the Bank revalued a substantial portion of its land and premises used for business purposes, based primarily on current replacement costs. The revaluation increment of W679,486 million, net of a revaluation tax payment of W11,288 million, was credited to capital surplus and used to offset accumulated deficit as approved by the Korean Government on February 27, 1999.

As of December 31, 2002 and 2001, the government-posted prices of the domestic land of the Bank and its subsidiaries amounted to W674,669 million and W694,063 million, respectively.

As of December 31, 2002 and 2001, inventories, premises and equipment, and other assets are insured against fire and other casualty losses up to approximately W4,498,083 million and W2,333,749 million, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001

8. DEPOSITS:

Deposits as of December 31, 2002 and 2001 comprise the following:

	Annual Interest Rate (%)		In Millions of Korean Won	
	2002.12.31		2002	2001
Won currency deposits:				
Demand deposits	0.0 - 1.9	W	1,225,082	W 216,611
Time and savings deposits	0.0 - 11.5		6,990,998	7,894,961
			8,216,080	8,111,572
Foreign currency deposits:				
Checking deposits	-		46,900	63,716
Passbook deposits	0.0 - 0.9		225,944	406,179
Time deposits	0.1 - 7.4		318,168	1,199,238
Temporary deposits	-		4,946	993
Others	0.0 - 3.0		37,501	165,676
			633,459	1,835,802
Negotiable certificates of deposits	0.0 - 6.7		1,526,477	2,250,394
		W	10,376,016	W 12,197,768

9. BORROWINGS:

Borrowings as of December 31, 2002 and 2001 comprise the following:

	Annual Interest Rate (%)		In Millions of Korean Won	
	2002.12.31		2002	2001
Won currency borrowings				
Borrowings from the Korean Government	4.2 - 5.24	W	2,711,819	W 2,869,910
Others	2.75 - 8.5		2,622,765	1,980,013
			5,334,584	4,849,923
Foreign currency borrowings				
Borrowings from the Korean Government	2.54 - 2.85		9,279,147	10,250,864
Off-shore borrowings	2.78 - 3.34		1,378,002	1,872,762
Others	1.5 - 8.5		7,668,178	4,302,118
			18,325,327	16,425,744
Other borrowings				
Bonds sold under repurchase agreements	-		2,413,851	1,400,894
Notes sold	-		2,504	2,838
Call money	-		453,939	776,978
Others	-		3,046	61,224
			2,873,340	2,241,934
		W	26,533,251	W 23,517,601

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001

The subordinated debts included in borrowings from the Korean Government as of December 31, 2002 and 2001 comprise the following:

Type	Annual Interest Rate (%)	In Millions of Korean Won				
		2002		2001		Condition of Banking
Government fund	5.24	W	2,191,846	W	2,448,301	
Agency for International Development relending facilities	2.00		304		371	Installment reimbursement
Asian Development Bank relending facilities	2.54		3,609,587		3,988,168	Lump sum reimbursement
International Bank for Reconstruction relending facilities	2.85		5,669,560		6,262,696	Installment reimbursement
		W	11,471,297	W	12,699,536	

The maturities of borrowings as of December 31, 2002 are as follows (Millions of Won):

Maturing on or Before	Borrowings in Won		Borrowings in Foreign currency		Total
Mar. 31, 2003	W	462,557	W	4,107,711	W 4,570,268
Jun. 30, 2003		268,405		1,291,096	1,559,501
Dec. 31, 2003		478,117		1,822,897	2,301,014
Dec. 31, 2004		619,018		3,859,958	4,478,976
Dec. 31, 2005		627,142		2,431,817	3,058,959
Dec. 31, 2006		605,146		934,858	1,540,004
Dec. 31, 2007		522,947		895,287	1,418,234
Thereafter		1,751,252		2,981,703	4,732,955
	W	5,334,584	W	18,325,327	W 23,659,911

10. DEBENTURES:

Debentures as of December 31, 2002 and 2001 comprise the following:

	Annual Interest Rate (%)	In Millions of Korean Won			
		2002		2001	
Industrial finance bonds ("IFB") in Won	1.0 - 12.4	W	24,352,837	W	24,107,214
IFB in foreign currency	0.9 - 8.6		8,006,101		9,464,951
Off-shore IFB in foreign currency	1.7 - 9.0		1,216,557		2,649,953
Others	6.5 - 11.8		843,091		1,335,248
			34,418,586		37,557,366
Premiums on debentures			16,396		4,571
Discounts on debentures			(53,808)		(83,412)
		W	34,381,174	W	37,478,525

Under the Korea Development Bank Act, the Bank has authority to issue industrial finance bonds. The amount of issued bonds and guarantees outstanding by the Bank are limited to the amount of 30 times of paid-in capital and legal reserve. Bonds purchased or guaranteed by the 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 as of December 31, 2002 and 2001 amounted to W4,000 million and W14,910 million, respectively.

The Bank acquired W277,471 million and W369,260 million of industrial finance bonds as of December 31, 2002 and 2001, respectively. The treasury bonds are deducted from industrial finance bonds.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001

The maturities of debentures as of December 31, 2002 are as follows (Millions of Won):

Maturing on or Before	Debentures in Won		Debentures in Foreign Currency		Total
Mar. 31, 2003	W	2,688,550	W	567,145	W 3,255,695
Jun. 30, 2003		3,183,063		310,910	3,493,973
Dec. 31, 2003		6,596,914		888,937	7,485,851
Dec. 31, 2004		4,868,468		2,397,015	7,265,483
Dec. 31, 2005		6,554,195		717,098	7,271,293
Dec. 31, 2006		851,142		3,120,045	3,971,187
Dec. 31, 2007		294,370		711,580	1,005,950
Thereafter		146,380		522,774	669,154
	W	25,183,082	W	9,235,504	W 34,418,586

11. OTHER LIABILITIES:

Other liabilities as of December 31, 2002 and 2001 comprise the following:

	In Millions of Korean Won			
	2002		2001	
Advance received	W	1,035,832	W	1,140,173
Withholding taxes		25,416		20,411
Deferred gain from foreign exchange transaction		45,996		38,243
Provision for possible losses from disposed loans		208,358		227,194
Advance received on IFB		14,476		6,249
Others		563,250		418,623
	W	1,893,328	W	1,850,893

12. GUARANTEES OUTSTANDING:

The Bank and its subsidiaries provide guarantees for its customers. Guarantees outstanding and the related provision for possible loss as of December 31, 2002 and 2001 are as follows (Millions of Won):

	Guarantee Amount		Provision for Possible Loss		Provision Ratio (%)
	2002	2001(*)	2002	2001(*)	2002.13.31
Acceptances	W 1,135,796	W 4,443,871	W 237	W 56,733	0.02
Guarantees on local borrowings	1,333,096	1,495,756	4,421	55,205	0.33
Guarantees on indebtedness in foreign currency	3,435,820	4,109,326	62,286	75,730	1.81
Letters of guarantee for importers	37,836	34,330	17	1,262	0.04
	W 5,942,548	W 10,083,283	W 66,961	W 188,930	1.13

(*) Amounts in 2001 represent guarantees outstanding of the Bank only.

13. COMMITMENTS AND CONTINGENCIES:

The Bank has entered into agreements to provide certain syndicated loans with foreign banks. The total amount available under such loans are US\$107,125 thousand (equivalent to W128,593 million) and W40,700 million, of which US\$55,392 thousand (equivalent to W66,493 million) and W35,700 million, respectively, have not been withdrawn by borrowers as of December 31, 2002.

During 1998, the Bank sold with recourse W3,084,141 million of non-performing loans classified as substandard or below to the Korea Asset Management Corporation for proceeds amounting to W1,339,629 million. The resulting loss was recorded as a loss on disposal of loans during 1998. During 2002, the Bank recognized losses from the settlement of such loans in the amount of W107 million. As of

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001

December 31, 2002, the Bank recorded a provision for possible losses from disposal of unsettled loans amounting to W102,054 million as other liabilities (see Note 11).

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

(*) Investment securities are provided as collateral (see Note 4).

According to the contracts on asset transfers stipulating warranty for the assets above, the Bank has a responsibility of warranty up to 30 percent of the proceeds when the principal or a part of the interest is not repaid at the expected due date of the cash flows payment schedule.

The Bank sold off W435,159 million and W3,120,559 million of loans in 2002 and 2001 to KDB LONESTAR CRC and Korea Asset Management Corporation. The Bank recorded gains and losses from the disposal of the loans amounting to W57,555 million and W50,348 million in 2002, respectively, and W497,109 million and W1,571,413 million in 2001, respectively.

The Bank has provided credit lines to several securitization specialty companies amounting to W7,768,353 million, of which W5,626 million was withdrawn as of December 31, 2002.

In response to the generally unstable economic conditions, the Korean government and the private sector have been implementing structural reforms to historical business practices. Implementation of these reforms is progressing slowly, particularly in the areas of restructuring private enterprises and reforming the banking industry. The Korean government continues to apply pressure to Korean companies to restructure into more efficient and profitable firms. The Bank and its subsidiaries may be either directly or indirectly affected by these generally unstable economic conditions and the reform program described above. The accompanying consolidated financial statements reflect management's 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.

Loans sold off to KDB First Securitization Specialty Co., Ltd. and others in accordance with the Asset Securitization Plan as of December 31, 2002 comprise the following (Millions of Won):

The Bank and its subsidiaries provided loans amounting to W1,621,309 million as of December 31, 2002 for companies under workout, court receivership, court mediation and other restructuring process. The Bank and its subsidiaries provided W296,998 million for possible loan losses with regard to the above loans. Actual results of the credit loss from the loans to the customers could differ from the provisions reserved.

14. DERIVATIVE FINANCIAL INSTRUMENTS AND THE RELATED CONTRACTS:

The Bank and its subsidiaries utilizes derivative financial instruments to hedge against financial market risks or for trading purposes.

In case of trading purposes, the Bank and its subsidiaries uses futures and forward contracts, swaps, and options, in order to gain a profit from short-term fluctuations of the underlying value of the derivatives, by forecasting the future interest rate, exchange rate or other variables affecting the value of the instruments. Furthermore, the Bank and its subsidiaries also trade the instruments to hedge against the derivative financial instruments purchased by customers.

Additionally, the trading derivatives include the derivatives used to hedge the exchange rate of the Bank and its subsidiaries' foreign currency assets and liabilities and interest rate of the Bank and its subsidiaries' loans and borrowings, of which the underlying assets and liabilities are already valued at fair market value in accordance with the financial accounting standards generally accepted in the Republic of Korea or the position hedging transactions in which derivative instruments are not specifically identified to the underlying transactions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001

The hedging instruments generally include the cross currency swaps and/or interest rate swaps used to hedge the borrowings and bonds denominated in foreign currency from the exchange rate and/or the interest rate risks. Those hedging transactions are

made with foreign financial institutions and domestic banks. The hedging instruments also include the interest swaps used to reduce interest rate risks of the Industrial Finance Bonds issued in Won.

The unsettled contract amount of the Bank's derivatives and the related valuation gain (loss) are as follows (Millions of Won):

	Unsettled Contract Amount			Valuation Gain /Loss (I/S)			
	Total	Trading Purpose	Hedging Purpose	Total	Trading Purpose	Hedging Purpose	Valuation Gain/Loss (B/S)
Interest rate							
Forward	W 324,108	W 324,108	W -	W 12	W 12	W -	W 12
Futures	7,333,834	7,333,834	-	38,981	38,981	-	-
Swap	39,207,910	38,940,740	267,170	60,308	(94,319)	154,627	318,632
Option							
-Buy	320,000	320,000	-	5,381	5,381	-	4,805
-Sell	320,000	320,000	-	(3,455)	579	(4,034)	(3,724)
Futures Option							
-Buy	5,275	5,275	-	70	70	-	110
-Sell	1,394	1,394	-	(3)	(3)	-	(6)
	47,512,521	47,245,351	267,170	101,294	(49,299)	150,593	319,829
Currency							
Forward	8,595,470	8,595,470	-	130,091	130,091	-	135,933
Futures	41,054	41,054	-	-	-	-	-
Swap	15,037,377	13,779,069	1,258,308	(222,405)	(426,967)	204,562	(230,237)
Option							
-Buy	761,187	761,187	-	(9,206)	(9,206)	-	10,111
-Sell	680,503	680,503	-	5,447	5,447	-	(14,705)
	25,115,591	23,857,283	1,258,308	(96,073)	(300,635)	204,562	(98,898)
Equity Option							
Buy	169,212	169,212	-	13,599	13,599	-	14,729
Sell	164,211	164,211	-	6,945	6,945	-	(14,699)
	333,423	333,423	-	20,544	20,544	-	30
	W 72,961,535	W 71,436,057	W 1,525,478	W 25,765	W (329,390)	W 355,155	W 220,961

15. PAID-IN CAPITAL:

The Bank increased and decreased its paid-in capital several times, including a W3,000,000 million investment in kind, represented by 127,086,334 shares of Korea Electric Power Corporation valued of

W23,606 per share on June 20, 2001, and a W50,000 million cash injection on December 29, 2001. Paid-in capital of the Bank as of December 31, 2002 is W7,161,861 million.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001

16. CAPITAL SURPLUS -

In accordance with a resolution of the Board of Directors, the Bank decreased its paid-in capital used to offset accumulated deficit and the capital surplus of the Bank as of December 31, 2002 are as follows (Millions of Won):

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

In 2002, negative capital surplus due to the changes in the ownership ratio were debited to consolidate retained earnings.

17. RETAINED EARNINGS(ACCUMULATED DEFICIT):

Retained earnings(accumulated) deficit as of December 31, 2002 and 2001 comprise the following:

	In Millions of Korean Won			
	2002		2001	
Legal reserve	W	294,103	W	109,428
Others		(175,709)		(184,905)
	W	118,394	W	(75,477)

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.

OFFSETTING 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 Korean Government should complement the deficiency. Offsetted accumulated deficit with the approval of the Korean Government since 2000 are as follows:

Year	Approval Date	Accounts	Millions of Won	
2002	2001.2.28	Legal reserve	W	456,997
		Capital reserve		950,181
			W	1,407,178

18. CAPITAL ADJUSTMENTS:

Capital adjustments as of December 31, 2002 and 2001 comprise the following:

	In Millions of Korean Won			
	2002		2001	
Valuation gain on investment securities	W	(559,732)	W	(479,192)
The Bank's share of the capital adjustments of subsidiaries		61,000		158,750
	W	(498,732)	W	(320,442)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001

19. OTHER NON-INTEREST REVENUE (EXPENSE):

Other non-interest revenue (expense) for the years ended December 31, 2002 and 2001 comprise the following (Millions of Won):

	In Millions of Korean Won			
	2002		2001	
Other non-interest revenue				
Revenue from operating leases	W	124,597	W	218,517
Revenue from shipping operations		763,427		-
Reversal of provision for possible losses on guarantees outstanding		108,727		105,125
Others		137,658		204,588
	W	1,134,409	W	528,230
Other non-interest expense				
Expenses from operating leases		31,221		75,533
Expenses from shipping operations		748,345		-
Others		249,366		292,685
	W	1,028,932	W	368,218

20. GENERAL AND ADMINISTRATIVE EXPENSES:

General and administrative expenses for the years ended December 31, 2002 and 2001 comprise the following:

	In Millions of Korean Won			
	2002		2001	
Salaries	W	274,900	W	241,470
Retirement allowance		34,709		29,910
Welfare expenses		122,893		111,156
Depreciation		116,282		113,180
Rent		34,068		27,537
Fees		92,755		97,121
Others		245,221		249,043
	W	920,828	W	869,417

21. INCOME TAX EXPENSE:

The statutory income tax rate applicable to the Bank, including resident tax surcharges, is approximately 29.7%. However, there was no income taxes payable during the years ended December 31, 2002 and 2001 except for special additional taxes due to an operating loss carried forward.

Income tax expense of the Bank for the years ended December 31, 2002 and 2001 comprise the following:

	In Millions of Korean Won			
	2002		2001	
Income taxes payable (special additional tax)	W	-	W	706
Changes in deferred income taxes		-		5,434
Income taxes for overseas branches		2,063		821
	W	2,063	W	6,961

Considering the future deductibility of accumulated deficit and temporary differences from future taxable income, the Bank recorded W146,834 million out of the total future income tax benefits of W1,847,049 million as of December 31, 2002.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001

22. INTERCOMPANY TRANSACTIONS AND ACCOUNT BALANCES:

Significant transactions made in the ordinary course of business during the years ended December 31, 2002 and 2001 among the Bank and its subsidiaries, and the related account balances as of December 31, 2002 and 2001, which have been eliminated in the accompanying consolidated financial statements, are summarized as follows:

	In Millions of Korean Won			
	2002		2001	
Inter-company interest	W	84,423	W	105,951
Inter-company loans / borrowings		691,490		669,082
Inter-company deposits		910,622		1,029,101
Others		694,005		501,936

23. INDUSTRY SEGMENT REPORTING:

The consolidated balance sheets summarized by industry segment as of December 31, 2002 and 2001 are as follows (Millions of Won):

	Finance & Insurance		Non-Finance & Insurance	
	2002	2001	2002	2001
ASSETS				
Cash and due from banks	W 3,031,743	W 4,158,261	W 203,162	W 102,126
Trading securities	3,224,846	2,722,014	13,676	327
Investment securities	25,140,812	24,086,516	50,461	74,797
Loans, net	46,507,858	48,970,222	174,026	234,809
Premises, plant and equipment	1,104,348	1,164,312	2,245,685	1,597,670
Others	5,290,083	6,940,078	1,760,272	1,336,018
Total assets	W 84,299,690	W 88,041,403	W 4,447,282	W 3,345,747
LIABILITIES AND EQUITY				
Deposits	W 10,621,896	W 12,290,788	W -	W -
Borrowings	26,077,549	23,317,308	975,320	584,153
Debentures	34,381,174	37,408,578	42,528	69,947
Other liabilities	5,215,016	6,783,972	1,968,869	1,900,290
Total liabilities	W 76,295,635	W 79,800,646	W 2,986,717	W 2,554,390
Equity				
Paid-in capital	W 7,161,861	W 7,161,861	W 1,113,502	W 991,954
capital surplus	-	16	90,432	-
Retained earnings(accumulated deficit)	120,591	(75,642)	374,595	181,462
Capital adjustments	(498,887)	(319,706)	(131,388)	(396,483)
Minority interest	1,220,490	1,474,228	13,424	14,424
Total equity	8,004,055	8,240,757	1,460,565	791,357
Total liabilities and equity	W 84,299,690	W 88,041,403	W 4,447,282	W 3,345,747

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001

The consolidated statements of operations summarized by the industry segment for the years ended December 31, 2002 and 2001 are as follows (Millions of Won):

	Finance & Insurance				Non-Finance & Insurance			
		2002		2001		2002		2001
Interest income	W	3,579,050	W	4,852,307	W	45,474	W	41,602
Interest expense		3,400,682		4,661,859		36,357		128,700
Net interest income (loss)		178,368		190,448		9,117		(87,098)
Provision for (reversal of) possible loan losses		703,137		(303,755)		460		(364)
Net interest income (loss) after provisioning for possible loan losses		(524,769)		494,203		8,657		(86,734)
Non-interest revenue		5,813,741		6,240,135		4,349,561		3,172,012
Non-interest expense		5,857,741		5,848,666		4,045,780		2,869,700
Operating income (loss)		(568,769)		885,672		312,438		215,578
Non-operating income (loss), net		772,980		(557,228)		36,843		17,016
Extraordinary income (loss), net		51,797		20,658		(103)		-
Income before income taxes		256,008		349,102		349,178		232,594
Income tax expense		4,355		18,076		93,774		71,155
Net income before minority interest in earnings of consolidated subsidiaries		251,653		331,026		255,404		161,439
Minority interest in earnings of consolidated subsidiaries, net		(39,118)		(211,629)		(1,745)		(687)
Net income	W	212,535	W	119,397	W	253,659	W	160,752

Financial information summarized by industry segment as of and for the year ended December 31, 2002 is as follows (Millions of Won):

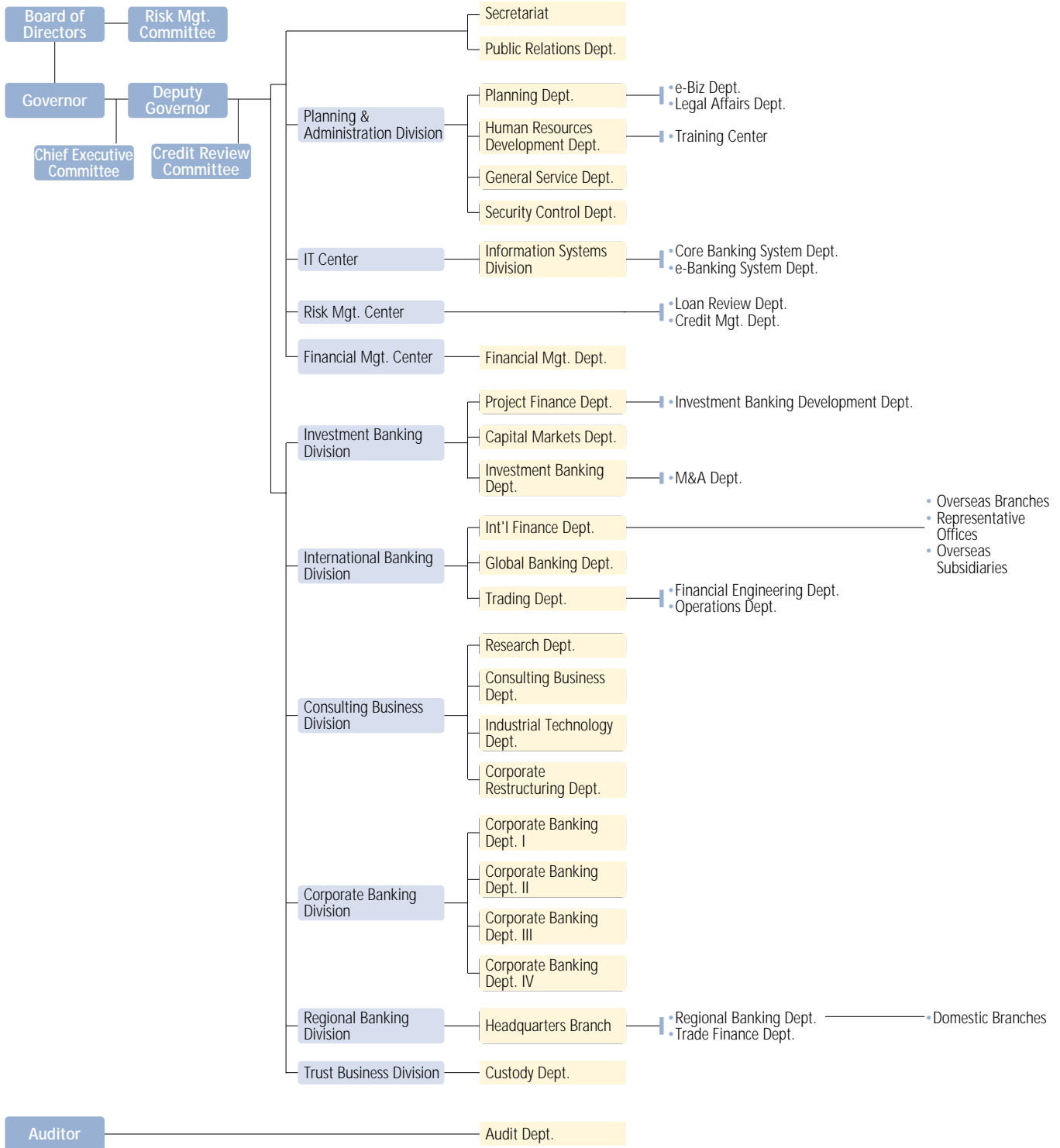
	Finance	Manufacturing	Others	Adjustment	After Adjustment
Operating revenues	W 8,577,770	W 3,620,179	W 1,639,129	W (140,247)	W 13,696,831
Operating income (loss)	(614,059)	322,632	34,018	(24,371)	(281,780)
Total assets	83,781,088	3,594,524	4,163,487	(4,142,119)	87,396,980

24. SUBSEQUENT EVENT:

The total amount of loans (including guarantees outstanding) provided to SK Global Ltd. and its foreign subsidiaries amounted to W913,546 million as of December 31, 2002. An investigation about allegations of window-dressing in SK Global Ltd., to which the Bank is a creditor, is in progress. In case of the detection of new facts proving such allegations, which can affect the financial

position of SK Global Ltd., the actual loss from the loans provided to SK Global Ltd. may differ from the allowance for possible loan losses on the loans provided to SK Global Ltd. No adjustments related to such uncertainties have been recorded in the accompanying consolidated financial statements.

Organization Chart



Members of Board of Directors & Auditor



• **Jichang Yoo** / Governor



• **Yun-Woo Lee** / Deputy Governor



• **Gong-Jae Lee** / Auditor



• **Kiseong Kim**
Executive Director



• **Sung-Kun Rhee**
Executive Director



• **Wang Kyung Kim**
Executive Director



• **Jae Hong Chang**
Executive Director



• **Jong Bae Kim**
Executive Director



• **Chong Gyu Laah**
Executive Director

• **Byong-Hun Ahn**
Nonexecutive Director

• **Yong -Ju Shin**
Nonexecutive Director

Network Directory

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