

Fc 20495

INFORMATION MEMORANDUM ADDENDUM



The Korea Development Bank

*(a statutory juridical entity established under
The Korea Development Bank Act of 1953, as amended, in The Republic of Korea)*

U.S.\$5,000,000,000 Euro Medium Term Note Programme

**for the issue of Notes
with a minimum maturity of 1 month**

This Information Memorandum Addendum is supplemental to, and should be read in conjunction with, the Information Memorandum dated 30th September, 1996 (the "Information Memorandum") which accompanies it and which, together with the Information Memorandum, constitutes listing particulars (the "Listing Particulars") in relation to Notes issued during the period of 12 months from the date of this Information Memorandum Addendum.

Application has been made to the London Stock Exchange Limited (the "London Stock Exchange") for the Notes to be issued under the Programme during the period of 12 months from the date hereof to be admitted to the Official List.

The Listing Particulars have been approved by the London Stock Exchange Limited (the "London Stock Exchange") and a copy of the Listing Particulars has been delivered for registration to the Register of Companies in England and Wales as required under Section 149 of the Financial Services Act 1986. References in the Information Memorandum to this "Information Memorandum" include this Information Memorandum Addendum. ✓

The Issuer accepts responsibility for the information contained in these Listing Particulars. To the best of the Issuer's knowledge and belief (having taken all reasonable care to ensure that such is the case) such information is in accordance with the facts and does not omit anything likely to affect the import of such information.

Dated 1st October, 1997 ✓

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The Korea Development Bank (the "Bank") maintains its accounts in Won. For convenience, Won amounts in this document as at 31st December, 1995 have been translated into U.S. dollars at the rate of ₩774.70 = U.S.\$1.00 and Won amounts in this document as at 31st December, 1996 have been translated into U.S. dollars at the rate of ₩844.20 = U.S.\$1.00. However, such translations should not be construed as representations that the Won amounts have been, could have been or could in the future be converted into U.S. dollars at these or any other rates.

THE KOREA DEVELOPMENT BANK

Purpose and Authority

The Bank was established in 1954 as a governmental financial institution pursuant to The Korea Development Bank Act of 1953, as amended (the "KDB Act"). All of the Bank's paid-in capital is owned by the Government of Korea (the "Government"). The Bank is treated as a special juridical person under Korean law and is not subject to the restrictions and controls generally imposed by Korean law on commercial banks and their operations.

Under the KDB Act, the related Enforcement Decree (the "Enforcement Decree") of the KDB Act and the By-Laws (the "By-Laws") of the Bank, the Bank's primary purpose is to "furnish and administer funds for the financing of major industrial projects in order to expedite industrial development and expansion of the national economy". As an instrumentality serving public policy objectives of the Government, the Bank does not seek to maximise profits. However, the Bank does seek to maintain an overall level of profitability which allows it to strengthen its equity base in order to support the growth in the volume of its business.

In the years following its establishment in 1954, the Bank directed the majority of its activities towards the rehabilitation of industrial facilities destroyed during the Korean War. Since 1962, the Bank has given priority to financing projects contained in the Government's Five Year Economic and Social Development Plans. Historically, the Bank has also given priority to projects promoting exports and import substitution, and to projects making relatively high use of domestic raw material or labour. In keeping with the Government's current globalisation policy, the Bank is increasing significantly its support for overseas projects through loans, guarantees and investments.

The KDB Act, the Enforcement Decree and the By-Laws define and regulate the powers and authority of the Bank. The Bank's principal mandate has been to make loans available for the acquisition, improvement or repair of machinery and equipment and the development of high technology that can contribute to the expansion of electric power, coal mining, shipbuilding, iron and steel production, and other major industries. Most of the Bank's activities have been carried out pursuant to this authority and such loans are characterised by the Bank as equipment capital loans. The Bank also has the authority to extend working capital loans to borrowers to whom it has extended equipment capital loans and to enterprises the capital of which has been subscribed for, or is owned by, the Government or the Bank.

The Bank also has authority to undertake a range of other financial activities. It may: issue guarantees for the benefit of projects of the type which the Bank has the authority to finance; make equity investments in Korean corporations engaged in activities of the type which the Bank has the authority to finance or which are designated by the Government; subscribe to, underwrite or guarantee municipal debentures or corporate debentures issued in relation to the finance of major industrial projects; underwrite stocks of Government owned corporations carrying out major industrial projects; execute foreign exchange transactions for enterprises to which the Bank has extended financial support; provide planning, management, research and other support services at the request of the Government, public bodies, financial institutions or enterprises; and carry out other activities incidental to the foregoing. The Bank is also authorised to engage in currency and interest rate swap transactions and has engaged in such transactions for hedging purposes.

Government Support and Supervision

Effective from 5th January, 1995, the KDB Act was amended to increase the Bank's authorised capital from ₩1,500 billion to ₩5,000 billion, which will enhance the Bank's operating capacity considerably.

Pursuant to the KDB Act, all of the Bank's paid-in capital, ₩1,813.5 billion (U.S.\$2,148.2 million) as of 31st December, 1996, is required to be held by the Government.

In addition to contributions to the capital of the Bank, the Government provides direct financial support for the financing activities of the Bank. The Government lends funds to the Bank for on-lending by

the Bank. The Government allows the Bank to administer Government loans with maturities in excess of one year made from a range of special Government funds. Since 1986, the Bank has also administered certain of The Bank of Korea's surplus foreign exchange holdings: see "Sources of Funds". The Government's determination each fiscal year regarding the amount of financial support to extend to the Bank, in the form of loans, guarantees or contributions to capital, plays an important role in determining the Bank's own lending capacity.

The Bank's operations are also supported by the Government pursuant to Articles 43 and 44 of the KDB Act. Article 43 provides that "the annual net profit of the KDB, after adequate allowances are made for depreciation in assets, shall be totally transferred to the legal reserve" and that accumulated amounts in such legal reserve may be capitalised pursuant to an executive order of the President of Korea. Article 44 provides that "the annual net losses of the Bank shall be offset each year by the legal reserve, and if the legal reserve be insufficient, the deficit shall be replenished by the Government". As of 31st December, 1996, the total amount accumulated in the Bank's legal reserve amounted to ₩125.9 billion (U.S.\$149.1 million).

As a result of the KDB Act, the Government is generally responsible for the operations of the Bank and is legally obligated to replenish any deficit that arises if the Bank's legal reserve is insufficient to cover any of its annual net losses. In light of the above, if the Bank had insufficient funds to make any payment under any of its obligations (including the Notes), the Government would take appropriate steps (by making a capital contribution, by allocation of funds or by taking other action) to enable the Bank to make such payment when due. The provisions of Article 44 do not, however, constitute a direct guarantee by the Government of the obligations of the Bank under the Notes and the provisions of the KDB Act, including Article 44, may be amended at any time by action of the National Assembly.

The Bank's operations are subject to the close supervision of the Government. The Minister of Finance and Economy has supervisory authority over the Bank. In November of each year, the Bank is required to submit to the Minister of Finance and Economy, for his approval, the Bank's proposed programme of operations for the succeeding year. The Bank must also obtain the approval of the Minister of Finance and Economy for the Bank's Operating Manual, which sets forth guidelines on all principal Bank operating matters including the range of permitted financings or other activities, terms that may be offered for financings and other activities, and the types of approvals necessary to commit the Bank to particular financings.

The Bank's budget and settlement of accounts are governed by statute, and the Bank's settlement of accounts is subject to examination each year by the Board of Audit and Inspection, a Government department. In addition, the operations of the Bank are reviewed by the Office of Bank Supervision and Examination of The Bank of Korea under assignment from the Minister of Finance and Economy. The Bank of Korea is the central bank of Korea. Such reviews and examinations are conducted to confirm the accuracy of the Bank's transactions but do not constitute an audit of the financial statements of the Bank. The Bank must also submit an annual report to the National Assembly within four months after the end of each fiscal year outlining its operations and analysing its activities during such fiscal year.

The Minister of Finance and Economy may request the Bank to report on such matters as are deemed necessary and may examine the books, records and other necessary documents of the Bank. On the basis of such reports and examinations, the Minister of Finance and Economy may issue to the Bank such orders concerning the business of the Bank as he deems necessary for the enforcement of the KDB Act. Amendments to the By-laws may be adopted only with the approval of the Minister of Finance and Economy.

The Government, acting through the President of Korea, has the power to appoint or dismiss the Chairman, the Governor and the Auditor of the Bank.

Loan Operations

The Bank's main financing activity is the provision of equipment capital loans and working capital loans, principally to private Korean enterprises that undertake major industrial projects. Since its

establishment, the Bank has been the leading bank in Korea with respect to the provision of long-term financing for projects designed to assist the nation's economic growth and development. Loans made by the Bank to finance specific projects generally cover over 50%, and in some cases as much as 100%, of the total cost of the project. In order to ensure that the loan funds are used for their intended purpose, the Bank usually does not disburse immediately following commitment. Instead, loan proceeds are disbursed in instalments as the project progresses. The Bank is required by the KDB Act to monitor the projects or enterprises to which it has extended loans or in which it has invested. The Bank is also authorised by the KDB Act to assign its own personnel to a borrower that requires management assistance.

The major factors taken into consideration by the Bank before a loan is approved are the economic benefits of the project to Korea, the extent to which the project serves priorities established by the Government's industrial policy, the project's operational feasibility, the loan's and the project's profitability, and the quality of the borrower's management.

Certain loans of the Bank bear interest at rates that are below prevailing market rates. Equipment capital loans made by the Bank generally have original maturities ranging from five to ten years, although the Bank occasionally makes such loans with longer original maturities. The original maturities of working capital loans usually do not exceed two years.

Loans made by the Bank to corporations and other enterprises are generally fully secured by collateral, the values of which usually exceed 100% of the amount of the loans extended. The nature of such collateral varies depending on the type of borrower and the type of loan being made by the Bank and ranges from security interests in equipment purchased with the proceeds of loans to security interests in industrial plant, real estate and marketable securities.

The manufacturing sector accounted for more than one-half of the Bank's outstanding loans as of 31st December, 1996. Loans related to the manufacture of metal products, machinery and equipment, and loans related to the manufacture of chemical, petroleum, coal, rubber and plastic products, represented 39.8% and 12.3%, respectively, of the Bank's outstanding loans.

As of 31st December, 1996, approximately 85.2% of loans made by the Bank were to Korean private enterprises, with the balance made to Government-owned enterprises.

The largest single borrower from the Bank, as of 31st December, 1996, was Korea Electric Power Corporation, accounting for approximately 10.5% of all the Bank's outstanding loans. As of 31st December, 1996, the five largest borrowers from the Bank accounted for approximately 19.6% of all the Bank's outstanding loans and the twenty largest borrowers from the Bank accounted for approximately 35.8% of all the Bank's outstanding loans. Loans to the Bank's twenty largest borrowers outstanding on 31st December, 1996 may be categorised by industry sector as follows: Transportation and Storage — 12.6%, Manufacturing — 31.3%, Electricity and Waterworks — 31.5%, Financing, Insurance, and Business Services — 18.5%, and Others — 6.1%. In addition, as of 31st December, 1996, the Bank held equity investments valued, on a book value basis, at ₩505.1 billion (U.S.\$598.3 million) in all of its four largest borrowers and at ₩841.8 billion (U.S.\$997.7 million) in eight of its twenty largest borrowers.

Guarantee Operations

The Bank is authorised to extend guarantees in both local and foreign currencies for the benefit of its clients in order to facilitate their borrowing from other local or foreign sources. Guarantees are also extended on bonds issued to finance major industrial projects. Guarantees in local currency are extended for credit enhancement purposes in connection with the issuance of corporate debentures and the receipt of local currency loans, and to support the payment of other liabilities. Guarantees in foreign currencies are extended for credit enhancement purposes in connection with the receipt of foreign currency loans from domestic and overseas Korean financial institutions and from foreign institutions. The KDB Act and the By-Laws limit the aggregate amount of the Bank's industrial finance bond obligations and guarantee obligations.

Investments

In accordance with its corporate purpose as stipulated in the KDB Act, the Bank holds equity investments in a range of Korean private and Government-owned enterprises. The Bank's general policy is not to control a company in which it invests unless the Bank is specifically instructed to do so by the Government. Although equity investments are generally made for long-term investment purposes, the Bank does from time to time sell or liquidate investments, principally in line with the Government's privatisation programme. The Bank made new equity investments of ₩250.1 billion (U.S.\$296.3 million) during the year ended 31st December, 1996.

The KDB Act and the By-Laws provide that the cost basis of the Bank's equity investments may not exceed an amount equal to twice the sum of the Bank's own paid-in capital plus its legal reserve. As of 31st December, 1996, the Bank's cost basis in its equity investments of ₩1,375.8 billion (U.S.\$1,629.7 million) was equal to 34.8% of such equity investment ceiling. See "Financial Statements and the Auditor" for a discussion of Korean accounting principles relating to the Bank's equity investments.

As of 31st December, 1996, the Bank held a controlling equity interest in one of its twenty largest borrowers, a financial services company. The Bank does not have an established policy regarding the extension of loans to enterprises in which it holds equity interests (or the terms and conditions of any such loans) or the taking of equity interests in enterprises to which it has extended loans and makes such decisions on a case-by-case basis.

Approximately 68.5% of the Bank's equity investments are represented by securities that are not publicly traded and for which there are no ready means of ascertaining market value. The Bank normally determines the value of its equity investments in such securities annually, on a net asset value basis, when financial statements for the entities in which it holds such equity investments are made available. The Bank determines the value of its equity investments in publicly-listed securities based on the prevailing market price of such securities. The value of the Bank's equity investments, taken as a whole, exceeded its cost basis in such equity investments as of 31st December, 1996.

As part of its investment activities, the Bank also underwrites straight and convertible bond issues in Won for domestic corporate issuers and invests in municipal debentures to enable the Government to make available Won funds to municipal authorities at subsidised interest rates, principally for the financing of water supply and drainage infrastructure projects.

Other Activities

In addition to the foregoing financing activities, the Bank engages in other activities related to its primary industrial development activities. On its own behalf and for clients, the Bank conducts economic and industrial research, performs engineering surveys, provides business analyses and provides managerial assistance.

In 1989, the Bank began offering trust services. As of 31st December, 1996, the Bank held in the form of money trusts and other specialised trust products ₩2,394.7 billion (U.S.\$2,836.7 million). In 1996 the Bank generated fee income of ₩10.3 billion (U.S.\$12.2 million) from such trust activities.

Reserves for Possible Loan Losses and Loans in Arrears

Losses incurred by the Bank on loans, guarantees or investments are charged to the Bank's legal reserve. As described in "Government Support and Supervision", Article 44 of the KDB Act provides that if the legal reserve is insufficient to cover the net annual losses of the Bank, such losses are to be replenished by the Government.

The Bank transfers, at book value, a significant portion of its loans in arrears and delinquent reimbursement obligations arising in connection with guarantees to its wholly-owned subsidiary, The Korea Asset Management Corp. ("KAMC"), which specialises in the collection of bad debts. The remaining portion of its loans in arrears and delinquent reimbursement obligations (called bad debt) are under the direct management of the Bank with due care. Loans and reimbursement obligations are considered to be

in arrears if they are more than six months overdue. Loans and reimbursement obligations that have been transferred to KAMC are written off by the Bank as a bad debt expense to the extent of repayment of such uncollected loans and reimbursement obligations. The aggregate book values of the bad loans and reimbursement obligations including collateral sales amounts held by KAMC as of 31st December, 1995 and 1996 were ₩142.1 billion (U.S.\$183.5 million) and ₩219.9 billion (U.S.\$260.5 million), respectively. Such amounts are included under Other Assets on the Bank's balance sheets included in this Information Memorandum Addendum.

Until 1993, the Bank maintained an allowance for problem loans and reimbursement obligations based on loan loss experience over the past five years, portfolio analysis and management evaluations.

The Bank now maintains an allowance for possible losses of loans and reimbursement obligations based on the length of the delinquent periods and the degree of the doubtful nature of the loans and reimbursement obligations themselves.

As of 31st December, 1996, the allowance for doubtful accounts was ₩220.7 billion (U.S.\$261.4 million). Increases in the amounts of the allowance for doubtful accounts are reflected in the Bank's income statement as Other Expenses. Reductions in the allowance for doubtful accounts, which occur when a loss on a loan or reimbursement obligation is recognised (e.g. upon return from KAMC as described above) and charged as a bad debt expense, are reflected in the Bank's income statement as Other Income.

In certain unique cases, the Minister of Finance and Economy directed the Bank to amortise a particularly large loss over a number of years. Each year's amortisation of such loss would be reflected in the Bank's income statement as Other Expenses so as to distinguish such amounts from Bad Debt Expenses, which reflect losses recognised in the fiscal year to which such income statement relates. The remaining balance of such amortisable loss would be reflected in the Bank's balance sheet under Other Assets as a deferred charge.

As of 31st December, 1996, the total amount of loans in arrears, delinquent reimbursement obligations and receivables arisen by the sale of collateral all of which are held by KAMC plus the bad credit directly managed by the Bank was ₩952.8 billion (U.S.\$1,128.6 million). This total represented approximately 2.4% of the aggregate loans and guarantees (including amounts transferred to KAMC) outstanding as of such date. On 31st December, 1996, the legal reserve of the Bank was ₩125.9 billion (U.S.\$149.1 million), representing approximately 0.32% of the aggregate loans and guarantees (including amounts transferred to KAMC) outstanding as of such date.

Sources of Funds

In addition to its own capital and reserves, the Bank obtains funds primarily through borrowings from the Government, issues of bonds in the domestic and international capital markets and borrowings from international financial institutions or foreign banks. All of the Bank's borrowings are made on an unsecured basis.

Since the Bank's formation, borrowings from the Government have provided a moderate portion of the Bank's financial resources. As of 31st December, 1996, borrowings from the Government totalled ₩3,323.6 billion (U.S.\$3,937.0 million). Borrowings from the Government are made in two forms: borrowings from general purpose funds and borrowings from special purpose funds. Borrowings from general purpose funds totalled ₩2,327.3 billion (U.S.\$2,756.8 million) as of 31st December, 1996. These general purpose borrowings are generally made in Won at fixed interest rates and for original maturities ranging from two to 35 years. Borrowings made from special purpose funds (principally the National Investment Fund, the Petroleum Business Fund, the Tourism Promotion Fund and the Special Industry Supporting Fund) totalled ₩996.3 billion (U.S.\$1,180.2 million) as of 31st December, 1996. These special purpose borrowings are made in connection with specific projects to be financed by the Bank. Accordingly, the interest rate and maturity of each such special purpose borrowing are linked to those of the loan extended by the Bank to fund the related specific project.

The Bank is authorised to issue finance bonds both in Korea and abroad. The repayment of principal of and interest on such bonds may, in some cases, be directly guaranteed by the Government.

Domestic industrial finance bonds have generally been issued at fixed interest rates with original maturities of one to ten years. As of 31st December, 1996, the outstanding balance of industrial finance bonds issued by the Bank equalled ₩26,056.4 billion (U.S.\$30,865.2 million), of which ₩15,228.0 billion was denominated in Won and ₩10,828.4 billion was denominated in other currencies. The amount of industrial finance bonds that the Bank may issue is limited by ceilings set annually by the Minister of Finance and Economy. In addition, pursuant to the KDB Act which was amended by the Korean National Assembly on 16th December, 1994, the ceiling of the sum of the aggregate outstanding principal amount of industrial finance bonds issued by the Bank (other than those that are directly guaranteed or purchased by the Government) and the aggregate outstanding amount of the Bank's obligations in respect of guarantees (other than those arising from statutes) increased to an amount equal to thirty times the sum of the Bank's paid-in capital plus its legal reserve from the previous amount of ten times thereof. As of 31st December, 1996, the aggregate amount of such obligations of the Bank in respect of industrial finance bonds and guarantees, ₩26,769.1 billion (U.S.\$31,709.4 million), was equal to 46.0% of the Bank's authorised amount of ₩58,179.6 billion (U.S.\$68,916.8 million) for such obligations.

The Bank borrows money from institutions outside Korea and classifies such borrowings as Foreign Capital Loan Funds. As of 31st December, 1996, Foreign Capital Loan Funds totalled ₩4,759.9 billion (U.S.\$5,638.4 million). These borrowings were made principally from syndicates of overseas financial institutions at floating interest rates in foreign currencies (frequently accompanied by interest rate and currency swap transactions) with original maturities ranging from five to ten years. Foreign Capital Loan Funds also include certain borrowings from the International Bank for Reconstruction and Development (the "World Bank"), the Asian Development Bank and other similar multinational institutions in connection with the development of special projects. The terms of these borrowings are linked to those of the loans extended by the Bank to fund the related special projects. As Korea was excluded from the list of capable borrowers of the World Bank and the Asian Development Bank due to its advanced economic status, there have been no new borrowings from these institutions since 1986.

As a result of the growth of the economy of Korea, since 1986 The Bank of Korea has accumulated substantial surplus foreign currency deposits. The Bank of Korea has deposited a portion of such surplus foreign currency deposits with the Bank. As of 31st December, 1996, such deposits by The Bank of Korea totalled ₩5,562.6 billion (U.S.\$6,589.2 million). These deposits are typically denominated in U.S. dollars, bear interest at floating rates and have maturities of one year (although such maturities are frequently extended on a year-to-year basis). However, some of these deposits are made at the direction of the Government to finance certain development projects. This latter group of deposits has longer maturities matching the terms of the loans extended by the Bank in connection with such development projects.

The Bank is also authorised to receive time and savings deposits and demand deposits from the public. In order to prevent competition with commercial banks, demand deposits may be accepted only from enterprises to which the Bank has extended credit. Time and savings deposits, however, may be accepted from the general public. As of 31st December, 1996, demand deposits held by the Bank totalled ₩211.8 billion (U.S.\$250.9 million) and time and savings deposits totalled ₩1,553.5 billion (U.S.\$1,840.2 million). Time and savings deposits generally have short-term maturities and bear interest at fixed rates. The Bank does not pay interest on demand deposits.

The following table shows the principal repayment schedule with respect to the Bank's outstanding debt as of 31st December, 1996, adjusted as noted below:

Debt - Principal Repayment Schedule

	Year Ending 31st December,			
	1997	1998	1999	Thereafter
Currency⁽¹⁾⁽²⁾				
Won (billions)	8,838.1	2,234.1	4,663.4	4,756.4
U.S.\$ (millions) ⁽³⁾⁽⁴⁾	5,691.3	1,740.7	2,323.8	13,519.8
German Mark (millions)	13.8	1.5	1.4	8.2
Japanese Yen (billions) ⁽⁵⁾	28.2	34.2	2.3	134.4
Swiss Franc (millions)	5.0	—	—	—
Netherland Guilder (millions)	24.7	—	—	—
Total Won Equivalent (billions)	13,861.2	3,954.2	6,642.5	17,009.8

- (1) Borrowings in foreign currencies have been translated into Won, for purposes of calculating total Won amounts, at the market average exchange rates on 31st December, 1996, as announced by the KFTCI, except that borrowings in foreign currencies from the Industrial Rationalisation Fund have been translated into Won at a fixed exchange rate in effect at the time of borrowing.
- (2) Debt with respect to which the Bank has entered into currency swap agreements is categorised by the repayment currency of the Bank under such agreements.
- (3) An amount equal to U.S.\$11.9 million, representing borrowings from the Industrial Rationalisation Fund, is included at fixed exchange rates of ₩399.67 and ₩399.61 to U.S.\$1.00, respectively.
- (4) This amount consists principally of deposits from The Bank of Korea. See Note 9 of Notes to Financial Statements.
- (5) An amount equal to 6.6 million Japanese Yen, representing borrowings from the International Bank for Reconstruction and Development (the World Bank), is included at a fixed exchange rate of ₩1.9756 to 1 Japanese Yen.

Debt Record

The Bank has never defaulted in the payment of principal or of interest on any of its obligations.

Overseas Operations

The Bank operates overseas subsidiaries in New York, London, Hong Kong, Singapore, Frankfurt, Zurich and Dublin. Recently the Bank has opened a new overseas subsidiary in Dublin in June 1997. These subsidiaries are engaged in a variety of banking and merchant banking services, including management and underwriting of new securities issues, syndication of medium and long-term loans, securities trading, money market trading, investment management and advisory services.

Korea Associated Securities Inc. ("KASI"), a securities subsidiary located in New York, commenced operations in 1977. Since 1990, KASI has expanded its brokerage and dealing activities in the secondary markets. KASI has also been involved in issuances of debt and equity-related securities by both Korean and non-Korean corporate clients as an underwriter. In connection with the Bank's establishment of its New York branch on 1st April, 1997, KASI is required to limit its underwriting activities within two years from such date in order to comply with the United States Bank Holding Company Act and is expected to seek approval from the Federal Reserve to participate in a limited scope of securities related business activities.

The Bank currently maintains five branches in Tokyo, Shanghai, Singapore, New York and London. Recently a London branch has opened in August 1997 and a Bangkok branch is expected to commence operation during 1997.

The Bank also maintains thirteen overseas representative offices in Hong Kong, Frankfurt, Toronto, Budapest, Jakarta, Sydney, Bangkok, Beijing, Mexico City, Hanoi, Manila, Paris and New Delhi. The Bank is planning to open new offices in Chicago, Santiago and Moscow during 1997.

Property

The head office of the Bank is located at 10-2 Kwanchol-dong, Chongno-gu, Seoul 110, Korea, a 25,391 square metre building completed in 1968 and owned by the Bank. In addition to the head office, the Bank maintains 37 branches in major cities throughout Korea, as well as 7 sub-branches in Seoul, 1 sub-branch office in Pusan and 3 sub-branches in other cities in Korea. Sub-branches accept deposits but their lending activities are subject to certain limitations not applicable to branches. The Bank's domestic offices are generally located in premises owned by the Bank while its overseas offices are generally located in facilities held under long-term leases.

In February 1995, the Bank opened KDB Yoido Building which is located at 16 Yoido-dong, Yongdeungpo-Gu Seoul, Korea, a 35,996 square metre building owned by the Bank. The new building houses some departments of the KDB headquarters, including the Information System Department.

Directors and Management; Employees

The Bank is managed by a Board of Directors and Executive Committee.

The Board of Directors, comprising the Chairman, the Governor and no more than eight additional Directors, has authority to decide important matters relating to the Bank's overall policies and operations. The Chairman and the Governor are appointed by the President of Korea upon the recommendation of the Minister of Finance and Economy. Two of the Director positions are required to be filled by specified officials of the Minister of Finance and Economy. The other Directors were appointed by the Minister of Finance and Economy upon the recommendation of the Chairman in consultation with the Governor. The members of the Board of Directors are appointed for three year terms and may be re-appointed. The business address of all the members of the Board is the registered office of the Bank. The names of the members of the Board of Directors as of 1st October, 1997 were:

	Name	Principal Outside Activities
Chairman:	Jae Ku Choi	
Governor:	Young Tai Kim	
Directors:	Jin Pyo Kim	Director General, Banking and Insurance, The Ministry of Finance and Economy
	Gwang Lim Kim	Director General, Administration and Defence Budget, The Ministry of Finance and Economy
	Yoon Dea Euh	Professor, Department of International Business and Finance, Korea University
	Sae Young Kim	Professor, Department of Trade, Dankook University
	Sang Pil Cha	Chairman, Korea Productivity Center
	Yoon Hyung Kim	Professor, Department of Economics, Hankook University of Foreign Studies

The members of the Executive Committee are the Governor, the Deputy Governor and eight Assistant Governors. The Executive Committee meets in order to discuss and deliberate on important business affairs of the Bank. The Governor represents the Bank, directs its operations and takes ultimate responsibility for the operations of the Bank. The Deputy Governor and the Assistant Governors assist the Governor. The members of the Executive Committee are appointed by the Governor from among the employees of the Bank. The members of the Executive Committee work on bank matters full-time, are appointed for a term of three years and are eligible for re-appointment. The names of the members of the Executive Committee as of 31st August, 1997 were:

Governor:	Young Tai Kim
Deputy Governor:	Wan Jung Kim
Assistant Governors:	Kwang Soo Shim
	Chull Joe Chung
	Jong Kak Lee
	Soo Il Sohn
	Ki Hyun Kim
	Jong Uk Huh
	Chang Hyun Yoon
	Kyung Deuk Lee

As of 31st August, 1997 the Bank employed 2,523 persons of whom 1,424 were located in the Seoul head office.

Capitalisation

As of 31st December, 1996, the capitalisation of the Bank was as follows⁽¹⁾⁽³⁾:

	(billions of won)	(millions of dollars) ⁽²⁾
Long-term Debt ⁽²⁾		
Government and Special Funds:		
General Purpose Funds	2,327.3	2,756.8
Special Purpose Funds	996.3	1,180.2
Industrial Finance Bonds	17,830.4	21,121.1
Foreign Capital Loan Funds	1,185.8	1,404.6
Deposit from The Bank of Korea	5,562.6	6,589.2
Total Long-term Debt	27,902.4	33,051.9
Capital:		
Paid-in Capital ⁽⁴⁾	1,813.5	2,148.2
Surplus:		
Legal Reserve	125.9	149.1
Retained Earnings	138.3	163.8
Total Capital	2,077.7	2,461.1
Total Capitalisation	29,980.1	35,513.0

(1) As of 31st December, 1996, the Bank had contingent liabilities in the aggregate amount of ₩5,073.8 billion (U.S.\$6,010.1 million) under outstanding guarantees issued on behalf of Korean clients.

(2) Borrowings in foreign currencies have been translated into Won at the rate of ₩844.2 to U.S.\$1.00, which was the market average exchange rate, as announced by the KFTCI on 31st December, 1996.

(3) There has been no material change in the capitalisation of the Bank since 31st December, 1996.

(4) The Bank's issued capital is fully paid at the date hereof.

Financial Statements and the Auditor

The Auditor of the Bank is appointed for a term of two years by the President of Korea and is responsible for examining the financial operations of the Bank and auditing its financial statements and records. The present Auditor of the Bank is Myong Kon Choi, who was reappointed for a new two-year term on 12th October, 1996.

The Bank prepares its financial statements annually for submission to the Minister of Finance and Economy, accompanied by an opinion of the Auditor. In addition, pursuant to the KDB Act, the Bank's financial statements are available for public review at its offices, branches and sub-branches.

The Bank is not required to have its financial statements audited by external auditors. The Bank chose to have its financial statements audited by independent certified public accountants from 1981 to 1988, in order to satisfy the requirements of its agreements with certain financing sources. Since 1988, such sources have agreed to waive such requirements and the Bank has not had its financial statements audited by external auditors. Each year, the Auditor conducts an audit of the Bank's accounting records.

The Bank's financial statements appearing in this Information Memorandum Addendum under the captions "Statements of Income" and "Balance Sheets" were prepared in conformity with Korean law and in accordance with generally accepted accounting principles in Korea.

The Bank does not have any subsidiary on the date hereof which is required to be consolidated in its financial statements under the accounting rules for Government-Invested Enterprises of Korea. The Bank does not consolidate any subsidiary on the date hereof into its financial statements.

Statements of Income

Year ended 31st December,

	1992	1993	1994	1995	1996	1996
						(millions of dollars)
	(billions of won)					
Income						
Interest Earned	1,663.7	2,037.3	2,404.6	3,113.1	3,591.6	4,254.5
Commissions Received	25.3	31.5	20.4	26.6	35.0	41.5
Dividends Received	23.0	21.3	24.8	31.2	51.9	61.4
Profit on Securities	285.8	21.8	195.7	169.4	149.9	177.6
Profit on Foreign Exchange Transactions and Valuation	22.3	9.9	81.6	88.0	112.3	133.0
Other Income ⁽¹⁾	99.0	162.6	23.2	19.4	41.5	49.2
Total	2,119.1	2,284.4	2,750.3	3,447.7	3,982.2	4,717.2
Expenses						
Interest Paid	1,736.3	1,913.5	2,191.7	2,827.9	3,209.3	3,801.6
Commissions Paid	3.7	4.0	6.1	4.3	3.5	4.2
Loss on Securities	15.7	17.4	2.2	6.2	67.6	80.1
Contributions to Credit Guarantee Fund ⁽²⁾	26.0	29.6	35.6	43.2	53.7	63.7
Loss on Foreign Exchange Transactions and Valuation	45.8	2.0	86.2	97.4	106.6	126.2
Expenses for Issues for Industrial Finance Bonds	71.5	69.1	54.9	49.6	45.4	53.8
Administrative Expenses ..	109.3	116.4	138.9	176.8	213.9	253.4
Other Expenses ⁽¹⁾	85.8	105.4	131.8	120.3	139.4	165.1
Total	2,094.1	2,257.4	2,647.4	3,325.6	3,839.4	4,548.1
Income Before Income Taxes	25.0	27.2	102.9	122.1	142.8	169.1
Income Taxes	0.0	0.4	0.0	0.2	4.4	5.2
Net Income	25.0	26.8	102.9	121.9	138.4	163.9

(1) Other Income consists principally of income from non-operating incomes forward transactions and guarantee fees. See "Guarantee Operations". It also includes income from the Bank's trust business. See "Other Activities". Other expenses consist primarily of non-operating losses and Education Tax.

(2) All Korean banks contribute an amount based on a percentage of the outstanding amount of their loans to the Korea Credit Guarantee Fund, which guarantees repayments of loans extended by various banks to certain qualifying small and mid-size borrowers.

Balance Sheets

31st December,

	1995	1996	1996
	<i>(billions of won)</i>	<i>(billions of won)</i>	<i>(millions of dollars)</i>
Assets			
Cash and Bank Deposits	1,385.7	1,818.3	2,153.9
Marketable Securities	1,975.7	2,984.0	3,534.7
Loans	27,349.9	33,135.0	39,250.2
Equipment Capital Loans	22,872.0	27,978.0	33,141.4
Working Capital Loans	4,477.9	5,157.0	6,108.8
Investments	4,371.6	4,772.0	5,652.7
Customer's Liabilities for Guarantees	2,905.8	5,073.8	6,010.2
Adjustment in Forward Exchange	—	—	—
Premises and Equipment	229.2	249.7	295.8
Other Assets	2,612.9	3,317.6	3,929.8
Total	40,840.8	51,350.4	60,827.3
Liabilities and Net Worth			
Deposits	1,487.4	1,765.3	2,091.1
Deposit from The Bank of Korea	5,706.4	5,562.6	6,589.2
Borrowings from the Government	2,174.7	2,327.3	2,756.8
Borrowings from the Special Funds	828.0	996.3	1,180.2
Foreign Capital Loan Funds	3,018.1	4,759.9	5,638.4
Industrial Finance Bonds	20,795.8	26,056.4	30,865.2
Guarantees	2,905.8	5,073.7	6,010.0
Other Liabilities	2,187.8	2,732.1	3,236.3
Total Liabilities	39,104.0	49,273.6	58,367.2
Paid-in Capital	1,613.5	1,813.5	2,148.2
Surplus	123.3	263.3	311.9
Total Capital	1,736.8	2,076.8	2,460.1
Total	40,840.8	51,350.4	60,827.3

GENERAL INFORMATION

1. Listing

The listing of the Listed Notes on the London Stock Exchange will be expressed as a percentage of their nominal amount (excluding accrued interest). It is expected that each issue of Notes which is to be admitted to the Official List of the London Stock Exchange will be admitted separately as and when issued, subject only to the issue of the temporary global Note initially representing the Notes of such issue. The listing of the Programme is expected to be granted on 3rd October, 1997.

2. Significant or Material Change

There has been no significant change in the financial or trading position of the Issuer since 31st December, 1996 and there has been no material adverse change in the financial position or prospects of the Issuer since 31st December, 1996.

3. Documents on display and available for inspection

Copies of the following documents may be inspected at the registered office of the Issuer and at the specified office of the Agent during usual business hours on any week day (Saturdays, Sundays and public holidays excepted) from the date hereof and throughout the life of the Programme:

- (i) the KDB Act, the Enforcement Decree and the By-Laws (in English);
- (ii) the audited financial statements of the Issuer (in English) for each of the financial years ended 31st December, 1995 and 1996;
- (iii) the most recently available financial statements of the Issuer and the most recently available unaudited interim financial statements (if any) of the Issuer (in English);
- (iv) the Programme Agreement dated 30th September, 1996, the Agency Agreement and the Deed of Covenant;
- (v) this Information Memorandum Addendum and the Information Memorandum;
- (vi) any future prospectuses, offering circulars, information memorandum and supplementary Listing Particulars or other supplements (including Pricing Supplements save that a Pricing Supplement relating to an unlisted Note will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer, or the Agent, as the case may be, as to the identity of such holder) to this Information Memorandum Addendum and/or the Information Memorandum and the documents incorporated therein by reference; and
- (vii) in the case of a syndicated issue of listed Notes, the Subscription Agreement (or equivalent document).

4. Auditor

Mr Myong Kon Choi was appointed as the current statutory auditor of the Issuer on 12th October, 1994. He has audited the financial statements of KDB for the financial years ended 31st December, 1994, 1995 and 1996 without qualification in accordance with Korean laws and generally accepted accounting principles in Korea. The business address of Mr Myong Kon Choi is 10-2 Kwanchol-dong, Chongno-gu, Seoul 110-748, Korea.

5. Authorisation

The Programme was authorised by the approval of the Governor of the Issuer given on 30th July, 1996.

6. Litigation

There are no legal or arbitration proceedings including any pending or threatened of which the Issuer is aware which may have or have had during the 12 months prior to the date hereof a significant effect on the financial position of the Issuer.

7. Euroclear and Cedel Bank

The Notes have been accepted for clearance through the Euroclear and Cedel Bank systems. The appropriate Common Codes for each issue allocated by Euroclear and Cedel Bank will be contained in the relevant Pricing Supplement. Transactions will normally be effected for settlement not earlier than 3 days after the date of the transaction.

8. Notes Denominated or Payable in ECU

Under Article 109G of the Treaty establishing the European Communities, as amended by the Treaty on European Union (the "Treaty"), the currency composition of the ECU may not be changed. The Treaty contemplates that European monetary union will occur in three stages, the second of which began on 1st January, 1994 with the entry into force of the Treaty on European Union. The Treaty provides that, at the start of the third stage of European monetary union, the value of the ECU as against the currencies of the member states participating in the third stage will be irrevocably fixed, and the ECU will become a currency in its own right. In contemplation of that third stage, the European Council meeting in Madrid on 16th December, 1995 decided that the name of that currency will be the Euro and that, in accordance with the Treaty, substitution of the Euro for the ECU will be at the rate of one Euro for one ECU. From the start of the third stage of the European monetary union, all amounts or payments in respect of Notes denominated or payable in ECU will be denominated or payable, as the case may be, in Euro at the rate then established in accordance with the Treaty.

9. Deutsche Mark Note Issues

For so long as the same may be a requirement of the Deutsche Bundesbank, the issuance of Notes denominated in, or bearing interest on or redeemable in DM will take place in compliance with the guidelines of the Deutsche Bundesbank (the "Bundesbank Guidelines") regarding the issue of DM denominated Notes. In particular, only entities who are credit institutions domiciled in Germany for the purposes of the Bundesbank Guidelines or the German branch of any foreign credit institution will act as Dealers in relation to such Notes. The requirement set forth in the preceding sentence will not apply when more than one Dealer has agreed with the Issuer to purchase a particular issue of Notes on a syndicated basis. In such a case, only one of the Dealers needs to be a credit institution domiciled in Germany or the German branch of any foreign credit institution if such Dealer performs the functions customarily performed by the lead manager of a syndicated issue of Notes in relation to such issue of Notes.

10. Swiss Franc Note Issues

Issues of Notes denominated in Swiss Francs or carrying a Swiss Franc related element with a maturity of more than one year (other than Notes privately placed with a single investor with no publicity) will be effected in compliance with the relevant regulations of the Swiss National Bank based on article 7 of the Federal Law on Banks and Savings Banks of 8th November 1934 (as amended), and article 15 of the Federal Law on Stock Exchanges and Securities Trading of 24th March, 1995 in connection with article 2, paragraph 2 of the Ordinance of the Federal Banking Commission on Stock Exchanges and Securities Trading of 2nd December, 1996. Under the said regulations, the relevant Dealer or, in the case of a syndicated issue, the Lead Manager must be a bank domiciled in Switzerland (which includes branches or subsidiaries located in Switzerland of a foreign bank) (the "Swiss Dealer") or a securities dealer duly licensed by the Swiss Federal Banking Commission pursuant to the Federal Law on Stock Exchanges and Securities Trading of 24th March, 1995. The Swiss Dealer must report certain details of the relevant transaction to the Swiss National Bank no later than the relevant Issue Date for such a transaction.

11. Sterling

The Korea Development Bank became an "authorised institution" within the meaning of the United Kingdom Banking Act 1987 on 1st July, 1997. Accordingly there are no longer any restrictions arising as a result of the Banking Act 1987 on maturities or minimum denominations of Notes denominated or payable in sterling and the sections in the Information Memorandum under the headings "Maturities", "Redemption" and "Denominations of Definitive Notes" are amended accordingly.

12. Ratings

The ratings for a particular tranche of Notes will, unless otherwise specified in the applicable Pricing Supplement, be those as appear on the front of the Information Memorandum.

13. Process Agent

Following the Bank becoming an authorised institution pursuant to the United Kingdom Bank Act 1987, the Bank's representative office which previously acted as the Bank's agent for service of process became a full branch and moved office to 99 Bishopsgate, London EC3M 3DX, United Kingdom. Any process served on the Bank in England should be marked for the attention of Mr Yun Woo Lee, General Manager.