

Adapt & Prosper

2008 ANNUAL REPORT

Korea Development Bank was founded in 1954 under the Korea Development Bank Act, and is charged with promoting the nation’s industrial development and economic growth. Since then, KDB has grown and evolved together with the Korean economy, adding new skills and capabilities to meet the changing needs of its customers.

KDB provides a broad range of services to support major government initiatives and assist in the development of future growth industries. The Bank also plays an important policy role during times of turmoil and volatility, taking action to stabilize Korea’s financial markets. As a government-owned bank, KDB has been a pioneer in introducing various financial services and products, including project financing, M&A and derivatives. Recently, it has taken on additional responsibilities for managing the restructuring of distressed companies and industries.

KDB’s business network extends to 45 domestic branches, in addition to its overseas offices. The Bank’s future aim is to grow into a global Corporate & Investment Bank (CIB), a goal that it has been steadily working toward by making internal changes to better exploit new opportunities and diversify service offerings.

In June of 2008, the Korean government announced its intention to pursue global IB capability and develop an advanced policy banking infrastructure by privatizing KDB. The privatization program will see the creation of two new entities from the current KDB: Korea Development Bank Holdings (KDBH) and Korea Policy Banking Corporation (KPBC). Throughout the transition process, all members of the KDB network will continue to fulfill their important roles as stabilizers of the domestic financial markets during times of crisis, and work steadily toward the goal of full privatization.

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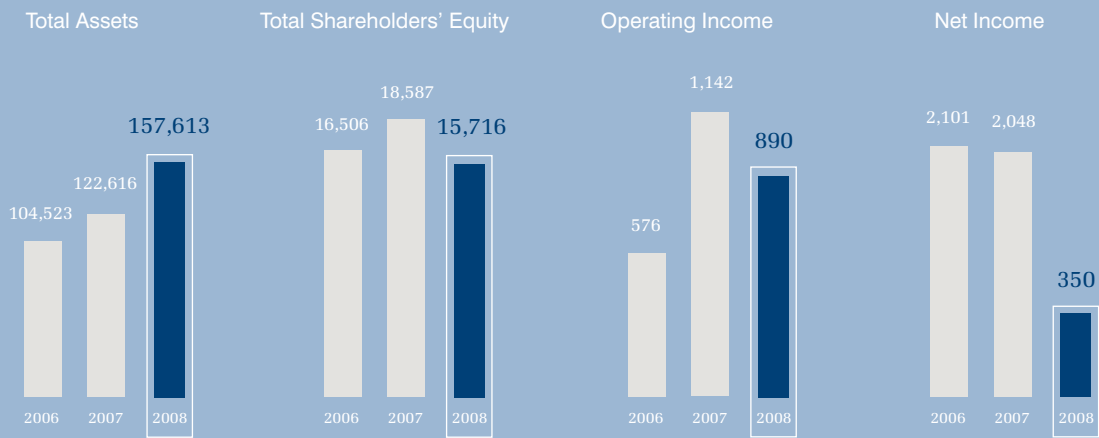
to be a CHAMP

- Challenge-driven
- Highly trustworthy
- Attentiveness to clients
- Market leader in creativity
- Performing with excellence

Being a CHAMP means advancing forward with a new mindset to generate new financial industries. It is not some abstract concept, but a concrete idea followed by action. KDB is where new thinking takes place every day at every aspect of business.

Financial Highlights

Size & Earnings (Unit: KRW Billion)



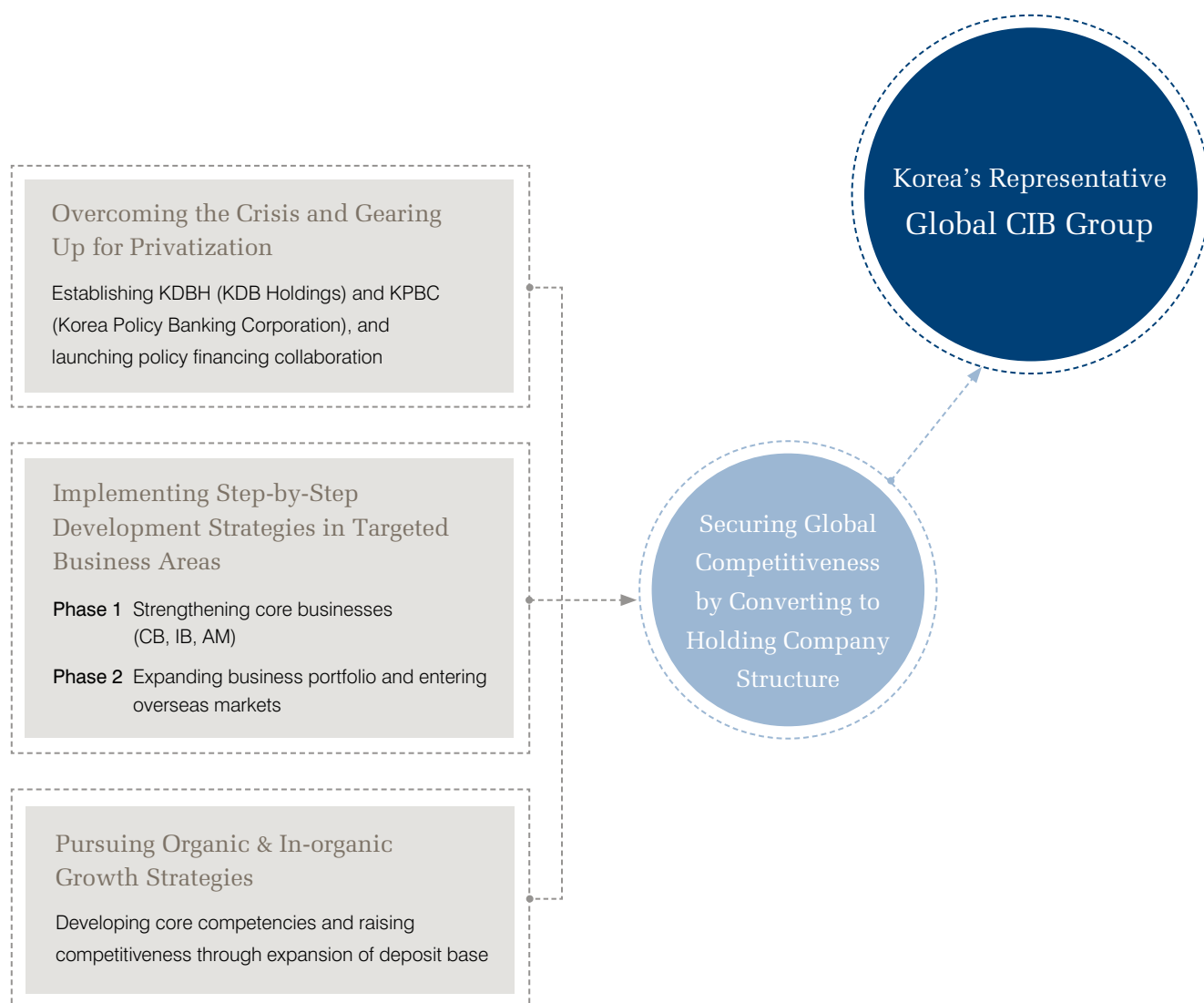
Financial Ratios (Unit: %)

	2006	2007	2008
ROA	2.08	1.75	0.24
ROE	13.37	11.31	2.05
BIS Ratio	17.15	16.50	13.61
NPL Ratio	0.84	0.98	1.19

Credit Ratings

Moody's	S&P	Fitch
A2	A	A+

KDB Vision



Having functioned as a government-owned bank for over half a century, KDB is now preparing for its new role as a private enterprise. The government's privatization plan seeks to foster KDB as an internationally-competitive global CIB group. KDB is one of the strongest and most experienced players in Korea's debt capital markets, and its Daewoo Securities subsidiary is one of the largest operators in the equity markets. Their combined strengths will smooth KDB Group's launch as a global CIB group. The privatization will proceed with the full backing and support of the government, spanning a period of time that creates the greatest advantages for the new business. KDB will also provide ongoing expertise in stabilizing the domestic financial market until full privatization. During the current transition period, the Bank will focus on raising competitiveness in its future core businesses of corporate banking, investment banking and asset management, as well as on making inroads into overseas markets.

Chairman & CEO's Message

As Korea's premier policy bank, KDB is preparing for privatization to transition into a world-class global CIB for the ultimate purpose of serving the nation and customers more effectively.



The global financial crisis has spread to all sectors of the economy since the second half of 2008, causing a sharp contraction in the international trade volume. An ever-increasing number of businesses are in distress, and households are experiencing financial difficulties as real estate markets continue to soften. All of these risks affect the soundness and stability of the banking sector, which is ultimately responsible for absorbing the largest share of default risk.

During this volatile period, KDB has worked tirelessly to fulfill its policy role by spurring recovery and stabilizing markets. All the while, we are relentless in pushing forward with internal changes to our structure and systems in preparation for our transition to a world-class global Corporate & Investment Bank (CIB).

In 2008, KDB supplied KRW 30.1 trillion in capital to the financial markets, up 11.7% from the previous year, bringing its year-end asset total to KRW 157.6 trillion. Following our focused efforts on risk management and raising the quality of our assets, we achieved a BIS ratio of 13.6%, the highest in Korea. Net income for the year totaled KRW 350.3 billion, and we maintained stable funding sources from Industrial Finance Bonds (IFBs) and deposits despite the global credit crunch and rising CDS premiums. The Bank also received a capital injection from the government, which acted in its capacity as the sole shareholder to strengthen our balance sheet and ensure our capability to deal with the economic downturn.

We are also the largest equity investor in the Bond Market Stabilization Fund, through which we exert our policy role of easing volatility in Korea's financial markets. One of our chief support mechanisms is the provision of loans to SMEs and promising venture firms, which last year amounted to over KRW 10 trillion. Another support facility is our ability to issue Primary Collateralized Bond Obligations (P-CBOs) on behalf of weak SMEs. In 2008, KDB issued KRW 1.1 trillion worth of such P-CBOs to secure timely funds for companies caught in the sudden credit crunch.

KDB is an acknowledged expert in corporate banking, and our lengthy experience in this area has been instrumental to quickly building our investment banking capabilities. We increased our share of the domestic project financing and M&A business in 2008, despite an overall contraction of both sectors. We also added to our revenue sources by participating in foreign Private Equity (PE) and venture financing projects, both identified as high-potential areas of concentration for our new IB specialty. KDB broadened its IB product portfolio last year by becoming Korea's first issuer of cross-border Collateralized Debt Obligations (CDO), an arbitrage product that capitalized on the the Korean won's recent rapid decline against the U.S. dollar.



KDB is evolving
from a government-
owned policy bank
into a global CIB
with competencies in
corporate, investment
and private banking.

Thanks to the dedication and professionalism of our staff and management, 2008 was a year in which KDB logged many proud achievements. The confidence that will carry over into 2009 will be an invaluable asset as the domestic industry copes with the increasingly severe downturn. Adding to the challenges of the economic crisis is the implementation of the Financial Investment Services and Capital Markets Act (FSCMA), which will invigorate competition by removing regulatory barriers among different sectors of the financial industry.

While the current needs of the nation's economy are demanding, KDB is irreversibly embarked on a transformation that will soon see us operating as a privatized global CIB. We are disaggregating our portfolios of commercial assets and policy assets, strengthening each by allowing them greater focus. Our policy role as a market stabilizer will continue until the crisis subsides and the domestic economy begins to return to health, but our post-recovery role in the economy will prioritize provision of global corporate and investment banking services.

In accordance with this range of objectives, KDB has established a motto and vision 'To be a CHAMP' (Challenge-driven, Highly trustworthy, Attentiveness to clients, Market leader in creativity, and Performing with excellence). The motto embodies our commitment to effectively meet our public and private obligations during the lead-up to privatization. The tenets of the CHAMP vision are as follows:

—

We will act aggressively to stabilize capital markets and overcome the current crisis, the repercussions of which are being felt throughout the economy. Measures will focus on supporting SMEs, taking preemptive measures to restructure major industries, and making investments in the Bank Recapitalization Fund. Our entire workforce will work steadily to establish a framework for privatization based on the creation of a financial holding company and the Korea Policy Banking Corporation (KPBC), in accordance with the KPBC Act, passed by the National Assembly on March 3, 2009.

Going beyond its role as Korea's premier policy bank, KDB is set to tap private capital and serve its clients more effectively as a global corporate and investment banking specialist.



By putting in place advanced performance-evaluation systems, we will raise our capital and management efficiency. To strengthen our position when we launch our company as a global CIB, we will upgrade our IT systems and secure group-wide competency in corporate and investment banking.

—
To heighten KDB's brand value and reputation as a provider of comprehensive financial services, cross-selling channels and capabilities will be upgraded across all affiliates and divisions.

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Risks will be carefully managed to prevent losses. Management responsiveness to changing market conditions will be raised by modeling scenarios that take into account our impending privatization and global CIB strategy.

KDB is on the path to rebirth as a global champion. It is gathering all its forces to raise competitiveness and unearth opportunities in a time of crisis. We have fulfilled our duties as a government-owned policy bank for over half a century, and now it is time to adopt a new, more flexible, focused and efficient structure.

On behalf of all the staff and management of Korea Development Bank, I thank you for the trust and faith you have bestowed upon us over the years, and pledge to you our continuing commitment to the profitable development of the financial industry and national economy.

Thank you.

MIN, EUOO SUNG
Chairman and Chief Executive Officer

Senior Management

Backed by our ability to adapt to changes and prosper, we will grow into a world-class global Corporate & Investment Bank (CIB).



Min, Euoo Sung
Chairman & CEO

HEADS OF DIVISIONS



Chung, In Sung
Senior Executive Director and
Head of Risk Management Division



Yoon, Man Ho
Head of Strategic Management Division



Kim, Won Geun
Head of Pension & Trust Business Division



Park, Byung Ho
Head of Finance Division

Lee, Kang Woo Head of China Division



Kim, Young-Kee
Vice Chairman & COO



Lee, Sung Moon
Auditor



Shin, Dong Hyeok
Head of Regional Banking Division



Kim, Han Chul
Head of Planning & Administration Division



Choi, Ig Jong
Head of Investment Banking Division



Jung, Kyung Chae
Head of International Banking Division



Han, Daiwoo
Head of Corporate Banking Division



Cho, Hyun Eek
Head of Capital Market Division

NON-EXECUTIVE DIRECTORS: Lee, Youn Soo / Oh, Yeon Cheon

News Highlights



Leader in Domestic Investment Banking

KDB has become recognized as the undisputed leader of Korea's IB industry through its operations in private equity, project finance, cross-border M&A and arrangement for domestic and overseas bond issuance by Korean companies. Its 2008 investment of KRW 200 billion in Mando Corporation set a record for the largest single investment in the domestic blind fund market. The Bank also managed the arrangement for KRW 1.4 trillion worth of private financing of urban highway construction, thereby becoming the largest project financing broker in Korea's SOC sector.

* Project Finance (PF) rankings: 2nd globally for Public/Private Partnerships (PPP) and 4th in Asia for Project Finance (PF) by Dealogic's project finance review for 2008



Taking the Lead in Stabilizing Markets

At the onset of the current crisis, KDB took action to stabilize markets by channeling funds through the Bond Market Stabilization Fund and the Bank Recapitalization Fund. These efforts supplied valuable liquidity to the financial sector and enabled banks to increase their support of distressed SMEs in accordance with the Fast-Track Program and the Creditor Bank Group Agreement. KDB also raised its liquidity support levels for top-performing SMEs through the Bank's exclusive KDB Future Star Program.



Financial Stability with Improved Capital Strength

With a government capital injection of KRW 500 billion in December, KDB's paid-in capital was raised to KRW 8,742 billion. An additional injection of KRW 900 billion in January of 2009 boosted KDB's financial stability and improved external credit worthiness. With this renewed strength, KDB will benefit from reduced borrowing costs and will be able to execute seamless foreign currency transactions. At the same time, the Bank will continue to perform its policy role by increasing support for long-term facility loans and loans to comparatively neglected industrial sectors.



Certified F-IRB Approach to Basel II

In July 2008, KDB received approval from the Financial Supervisory Service for its Foundation Internal Ratings-Based Approach (F-IRB) under the Basel II Accord. With the transition from the Standard Approach, the Bank's BIS ratio was adjusted upward by 2%p and its regulatory capital increased by KRW 2 trillion. Korea's regulatory authorities also certified KDB's credit assessment and risk management procedures, which will raise market confidence in the Bank's soundness as it prepares for privatization.



Establishing Corporate Management for Global CIB

KDB has adopted international best practices for bank management as it moves toward its goal of competing in the markets as a private corporate and investment bank. It is implementing Risk Adjusted Performance Measurement (RAPM), Management Information Systems (MIS) and International Financial Reporting Standards (IFRS) as core management policies, and setting up an Enterprise Value Map (EVM) system to evaluate performance and maximize corporate value.

These initiatives are aimed at establishing a corporate culture rooted in tangible performance and revenue improvements, while also ensuring that the Bank's profitability metrics accurately reflect its risk exposure. When all systems are in place in 2009, the management's decision making will proceed more efficiently and be better informed than ever before.

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In today's rapidly-changing financial industry, KDB's ability to quickly embrace changes stands out as one of its greatest strengths. Meeting the challenges of the past year head-on, KDB demonstrated strength and leadership, bringing forth innovative solutions that powered the Bank's constant growth.

As the primary channel for implementing the government's financial policies, KDB has played a major role in supporting the growth of Korea's competitive industries. KDB puts long-term interests ahead of short-term gains to provide its clients with a complete selection of products and services, and lead the development of the domestic financial industry.

Looking ahead, it is clear that the Bank needs to transform in order to better meet future demands. The world of finance is ever-changing, and KDB must be alert enough to anticipate and flexibly address the clients' evolving needs.

KDB will soon be privatized, a process that involves adopting a stronger corporate structure that will support the Bank's ascension as a top Asian investment bank. Backed by a wealth of experience and a strong organization built on confidence and innovation, KDB is geared up for the dramatic changes that lie ahead.



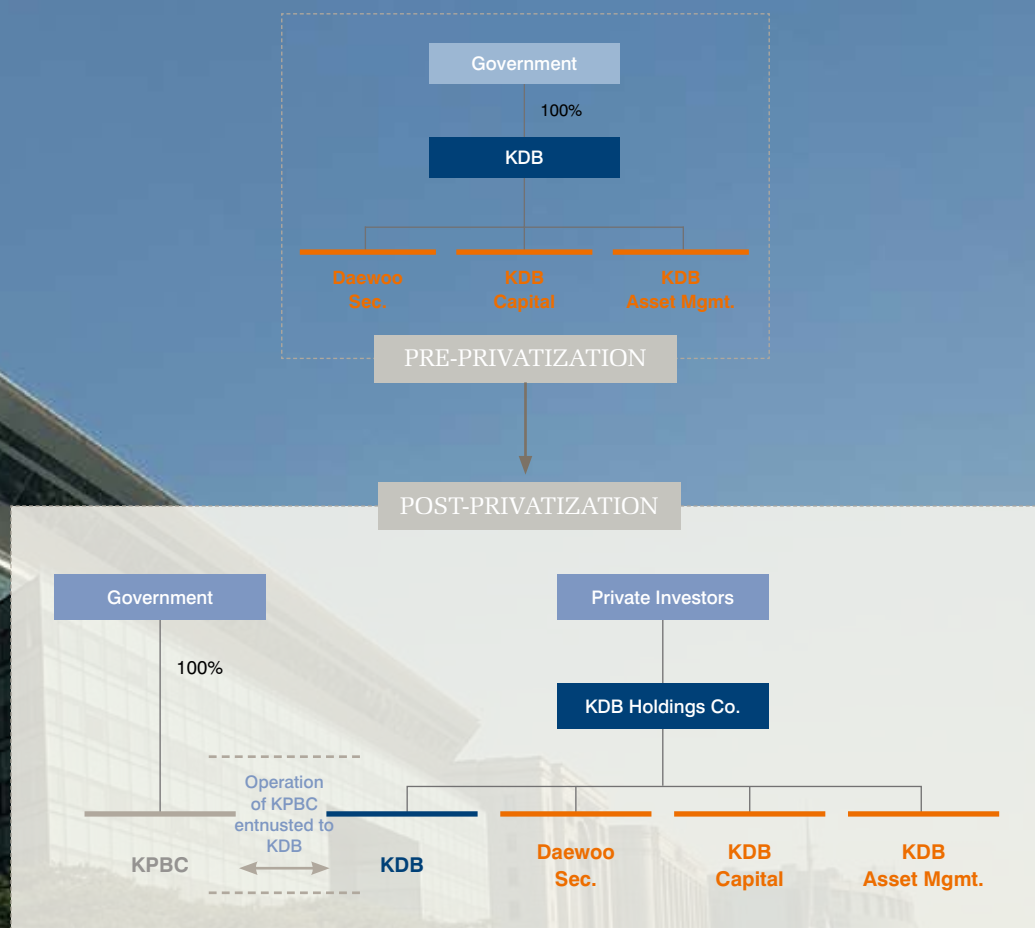
ADAPT TO

Industry Changes



Globally, the financial crisis of 2008 initiated fundamental restructuring of the industry. While the future remains uncertain, there is every possibility that significant realignments will take place in Korea's financial arena.

KDB's adaptations to the changing environment are always guided by the principle of meeting customer needs, regardless of the market situation. The Bank flexibly adjusts its products and services, and in the process, accesses new sources of revenue and secures new growth drivers. This adaptability is the greatest strength that enables KDB to confidently proceed toward the future as a private Corporate & Investment Bank (CIB). KDB is doing its utmost to successfully launch as a global CIB group. It took the first significant step toward attaining its vision with the KPBC Act and the amendment of KDB Act being approved by the National Assembly on March 3 and April 29, 2009, respectively.



Overview of the Privatization Plan

KDB's Privatization



KDB has always led the domestic industry, fulfilling the mission it was created for. Its responsibilities as a government policy bank forced the Bank to adapt, innovate and perform. Now that the home market has reached advanced-nation status, it is time for KDB to evolve with the new environment once again.

- ## Privatization Background

KDB has played a key role in Korea's economic development ever since its establishment in 1954. It has nurtured growth engines and contributed to the nation's recovery from hardships. As the economy matured, however, the need for conventional policy financing diminished, and KDB found its business increasingly overlapping with the activities of private-sector banks. Within KDB, conflicts of interest developed across policy and commercial financing operations, creating inefficiency and hampering growth. Then, in February 2008, Korea's new government took office and launched a review of KDB's role with the aim of resolving direct competition between the private and public sectors. The review resulted in the formation of a detailed plan to privatize KDB in a manner that will render the greatest benefit to the nation and its financial industry.

- ## Privatization Plan

The KDB privatization plan was announced in June 2008. The plan is aimed at achieving two policy goals. The first is to create a globally competitive corporate investment bank (CIB) group that combines the financial market competencies of KDB and Daewoo Securities. The new entity should spur balanced growth of the domestic industry, which relies heavily on indirect financing, by fostering investment banks as a major intermediary in the country's capital markets. The second goal is to modernize the current policy financing model by launching a policy institution that meets international standards and operates on market-friendly principles. The new policy entity should also be capitalized on resources secured by the privatization of the existing KDB.



According to the specifics of the plan, KDB will be split into two organizations: KDB Holdings (KDBH), a financial holding company, and Korea Policy Banking Corporation (KPBC), a new government financial institution established through spin-off from KDB. Korea Development Bank will remain as the subsidiary of the holding company.

Out of the 100% government-held stock in KDBH, 49% will form an in-kind investment in KPBC. The privatization of KDBH will commence with the sales of shares owned by KPBC. The holding company will complete its conversion into a global CIB and become fully privatized upon the sale of the government's remaining equity stake.

However, as KDB's market stabilizer role is continuously required for Korea's economic recovery from the deepening financial crisis, initial sales of KDBH shares will commence within five years from the effectuation of the amended KDB Act.

During the transition period in which the government will continue to hold a controlling stake in the holding company, the government will provide all necessary support to ensure a smooth launch of the fully-privatized entity. Specifically, Article 44 of the KDB Act stipulating the offset of losses will remain effective, and the government will provide financial guarantees to secure KDB's external debt. Operating changes to facilitate KDB's development into a commercial financial institution will be implemented. These changes will include allowing KDB to accept demand deposits and extend household loans, adopting a flexible budgetary process and converting KDB into a corporate and investment bank.

CIB Corporate & Investment Bank Model





Launching a New Holding Company and CIB

Under the privatization plan, KDB and its subsidiaries (Daewoo Securities, KDB Capital and KDB Asset Management) will be placed under the umbrella of KDBH. The holding company combines KDB's expertise in the debt capital markets and Daewoo's knowledge of equity capital markets to lay the foundation of a new and fully capable CIB group. As a CIB group, the holding company will specialize in providing a range of financing solutions to international corporations based on its know-how, organizational infrastructure and specialized workforce.

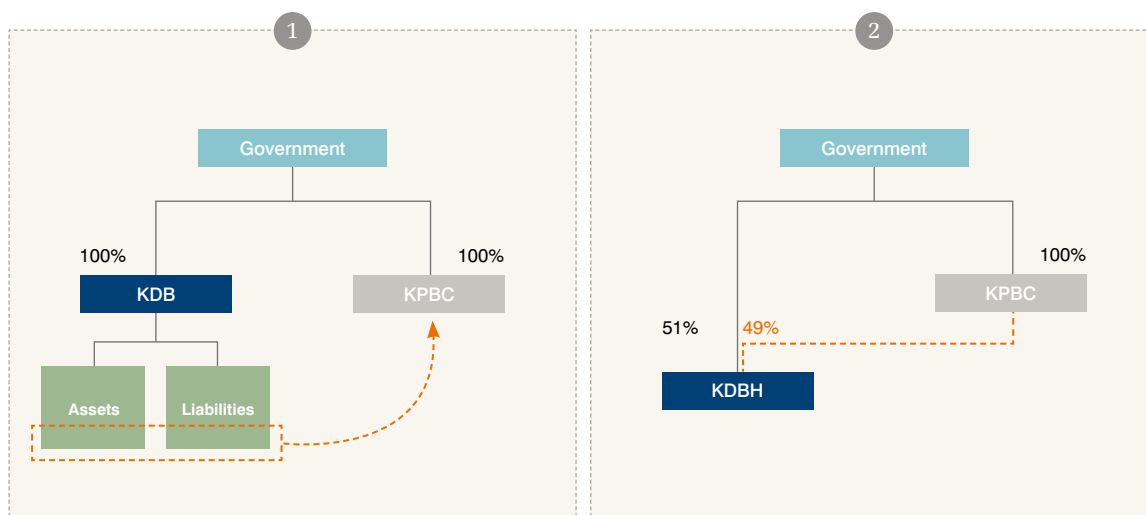
KDBH will grow into a global CIB group through a "two-step" strategy. During its first stage of growth, the company will continue to focus on the core businesses in corporate banking (CB), investment banking (IB) and asset management (AM). It will also recruit top-notch talents and build up its capacity by reinforcing areas with room for improvement such as funding structure. During this phase, it will cooperate closely with KPBC to ensure seamless continuation of the former KDB's policy roles, and guide the domestic economy out of the current financial crisis. In the second stage, KDBH, with strengthened capabilities, will actively compete to win major CIB deals worldwide and expand its global presence.

KPBC's Inheritance of Policy Banking

KPBC will take over KDB's existing policy financing businesses and continue to function as a policy bank while raising the bar to meet the highest operating standards.

Going forward, KPBC will continue to fulfill KDB's traditional policy roles – supporting SMEs, establishing social infrastructure, fostering new economic growth engines and stabilizing financial markets. Upon its initial spin-off, KDB and KPBC will sign an entrustment agreement to ensure smooth transfer of policy financing operations to KPBC. The entrustment agreement will be terminated prior to the full privatization of KDBH.

Establishment of KPBC



Recent Developments and Privatization Timeline

The bills for the amendment to the KDB Act and the enactment of the KPBC Act were laid before the National Assembly in December 2008. Upon deliberation on the bills, the National Assembly approved the KPBC Act on March 3, 2009 and the amendment to the KDB Act on April 29, 2009. Both Acts will take effect on June 1, 2009, whereupon KDBH and KPBC may be established as early as September 2009. For the duration of the economic crisis following this restructuring, KDB will work in cooperation with KPBC to maintain a smooth delivery of policy banking funds and services. In accordance with the amended KDB Act, initial sales of the KDBH shares will commence within five years from the effectuation of the amended KDB Act. KDBH's privatization will be completed upon the sales of controlling shares by the government, which will be carried out after due consideration of market conditions and KDB's management strategy.





ADAPT TO

New Markets



KDB has been a stalwart of Korea's financial system, acting as a policy bank with the primary responsibility of stabilizing markets. It grew into project finance, M&A and private equity, helping the domestic industry grow with each new innovation. Meanwhile, the Bank is also looking to overseas markets to provide the engines for its future growth.

KDB is Korea's leading arranger of bond issues, and has led the nation's advance into emerging markets with advice and financing for project finance and M&A. The Bank developed advanced capabilities that carried it into overseas resource development and energy extraction projects, while in the process establishing operating bases that provide on-site services to help Korean firms manage and finance their foreign projects. KDB also opened up the derivatives market in Korea, and plays a leading role in the management of private equity funds. The Bank's broad range of professional skills continues to expand in preparation for its launch as one of Asia's top CIBs.

Global Presence



HEADQUARTER

Seoul

BRANCH

Beijing, Guangzhou, London, New York, Shanghai, Singapore, Tokyo

SUBSIDIARY

Hong Kong, Hungary, Ireland, Uzbekistan, Brazil

REPRESENTATIVE OFFICE

Frankfurt, Shenyang

Investment Banking



KDB has developed its skills by meeting market needs. Its project finance, venture capital, M&A and debt financing operations have played an immeasurable role in the development of Korea's knowledge-based economy. Now, KDB is applying that expertise to the creation of a Corporate & Investment Bank which will emerge as a strong competitor in the global financial arena.

KDB was Korea's market leader in project financing (PF) in 2008, backing investments that contributed to the nation's balanced regional development. Its expertise has served regional development needs, executing effective social infrastructure development deals and assisting domestic companies with overseas expansion. KDB extends debt or equity financing to promising SMEs to develop and commercialize infant technologies, thereby fostering Korea's future growth engines and cementing the country's status as a technology leader. The Bank strictly maintains its asset quality through strong NPL management, separation of future revenue generators from companies under restructuring, and early normalization of companies under restructuring.

- ## Financing for Balanced Regional Development

KDB tied up its consulting relationship with Daedeok Techno Valley in 2001 as part of the Bank's mission to promote balanced regional development. In 2004, KDB established Korea's first PFV (Project Financing Vehicle) as a platform to raise funds for the Daejeon Convention Center Complex. Since then, it has gone on to arrange many other regional development projects.

In 2008, KDB acquired the rights to manage 19 public offerings worth an estimated total of KRW 24.3 trillion. It also arranged KRW 868.7 billion in financing for 13 projects, including Pangyo Techno Valley. In total, the Bank recorded a 13-fold growth in the volume of arranged financing, compared with the total of KRW 66.2 billion for 2007.

One of KDB's regional development strategies is to support low-carbon businesses in the renewable energy field, including wind power and tidal power. The Bank also promotes urban redevelopment projects such as the highly profitable Pangyo, Cheongju and Dangjin Techno Valleys and other centers for establishing the knowledge economy, as well as Eunpyeong New Town and Yeongdeungpo Alternative Correctional Institution.

• Boosting Economic Growth with Large-scale SOC Investments



Beginning in 1994 with KRW 1.3 trillion worth of financing for the Incheon International Airport Highway, KDB has grown into a major arranger of project financing. To date, the Bank has facilitated KRW 25.8 trillion in financing for 252 projects, developing profound experiences across the full spectrum of PF deals. KDB leads the market with a 67% share of domestic PF in 2008, being ranked second in PPP (public/private partnerships) and fourth in Asia-Pacific for general PF by the *Dealogic Project Finance Review*.

KDB applied its extensive experience to help secure financing for several mega-projects in 2008, including the Gangnam Ring Road, Gimcheon Photovoltaic Plant and GS EPS Fuel Cell Projects in Korea, plus two other overseas infrastructure projects for LNG in Yemen and SK LBO in Indonesia. The Bank was also awarded the financial consulting rights for a combined thermal power plant project in Ukraine and a biomass-fueled cogeneration plant project in Malaysia. KDB signed a cooperation agreement with the Asian Development Bank and jointly financed an LBO with Mizuho Bank, building on an international financial network that strengthens our deal-making and deal-sourcing capabilities.

Looking ahead, KDB will support the government's economic stabilization efforts by increasing its investments in job-creating infrastructure projects such as road and rail construction. It will also actively pursue strategic overseas deals where it can add to its experience in project consulting for overseas plants and logistics, which KDB has targeted as future sources of diversified revenues.

• Opening the Door to VC Opportunities

In accordance with government policies to stimulate economic growth and support SMEs and venture businesses, KDB provides financing to innovative companies. The Bank is also aggressively expanding investments in overseas venture capital (VC) projects to develop new sources of revenue ahead of privatization. In 2008, the Bank provided KRW 197.4 billion in financing to 103 venture companies, ranging from start-ups to mature enterprises. KDB also made a capital contribution to a policy investment cooperative formed by venture capital companies, seeing it as an opportunity to support efforts to attract private capital to venture financing, and thereby re-vitalize the venture capital industry.

The scale and scope of KDB's venture investments are unmatched in the domestic market. As the largest provider of VC support in the nation, KDB received its second Presidential Award for support of venture industries in 2008, following its first win in 2005. KDB will continue searching for promising new business ideas with high growth potential, along with raising investments in overseas venture funds and increasing support for Korean companies to establish overseas branches or launch new ventures.

- **Supporting Knowledge-based Industries**

KDB has spent years developing high-level capabilities in corporate finance and venture investment, and through the execution of many successful projects has gained experience in multiple financial support models. The Bank has applied this experience to the development of knowledge-based industries in Korea, helping small companies source funding, and thereby nurtured the next generation of economic growth engines. In 2008, KDB extended KRW 69.2 billion in loans and directly invested an additional KRW 42.6 billion to support various knowledge-based service companies, spanning such areas as cultural content, R&D center construction, software development and tourism & leisure.

In 2009, Knowledge-based Business & Services Department will be integrated into the Venture Business Department and begin applying its expertise to building a green economy and a social service system. Preference will be given to projects and services offering tangible social benefits, including global cultural content, greenhouse gas-reducing technologies, carbon emission trading and new & renewable energy resources. Financing will also be extended for facility investments by knowledge-based companies.

- **Stabilizing Markets with Timely Corporate Restructurings**

One way in which KDB helped stabilize financial markets in the aftermath of the 1998 Asian financial crisis was to take the lead in restructuring major corporations that played pivotal roles in the domestic economy. The competencies KDB developed during those extensive operations have served it well since then, and will be vital to the Bank's policy banking activities in 2009. Amid the continuing financial crisis, corporate delinquencies are rising rapidly, and the need for sound restructuring advice is growing. KDB stands ready and fully prepared to implement measures to prevent insolvencies and safeguard the foundations of the national economy.

The Bank is currently implementing a Fast-Track program to provide liquidity to the SME sector, and KDB is a signatory to the Creditor Bank Group Agreement, which is aimed at preventing insolvencies and serial bankruptcies in the domestic construction industry. KDB is also working actively to provide assistance to hard-hit small- and mid-sized shipbuilders and other at-risk sectors by executing swift credit reviews and making rapid determinations on whether to inject further support or proceed with liquidation.

With respect to its NPL portfolio, KDB places priority on reducing NPLs using NPL management methods such as normalization of company operations through work-out, sale of NPLs, issuance of ABS, M&A and auctions. Wherever possible, KDB tries to prevent the occurrence of NPLs by taking preemptive actions on corporate restructuring. As a result, the Bank's NPL ratio for 2008 was 1.19%, well below the domestic bank's average of 1.37%. The priorities in NPL management are on maintaining the financial soundness of the Bank, making every effort to maximize debt recovery and boost investment yields. By strengthening domestic industrial sectors with preemptive restructuring of at-risk companies, KDB stabilizes markets and raises corporate value across the entire domestic economy.

• Korea's Only Bank Specializing in Technology Evaluation

The first step of KDB's CIB operations for high-tech SMEs is technology evaluation. If the technical fundamentals are sound, the Bank will arrange financing through 'investment in commercialization of burgeoning technologies' or 'technology-trade finance' programs. KDB has developed a strong reputation as a technology industry consultant, with services spanning internal and external consulting such as independent engineering assistance and technology trading.

In 2008, the Bank invested KRW 14.5 billion in 18 companies to support the commercial launch of technologies, and executed 380 projects through technology surveys and evaluations. KDB also financed 26 companies with KRW 39.7 billion in technology trading. Moreover, it carried out technology consulting work on 16 construction management projects including 'Seosan Techno Valley Development Project', 15 cases of technology trading consultation and 11 cases of external technology evaluation services. As a result of these efforts, KDB has established a new source of future revenue in technology consulting.

Looking ahead to 2009, KDB will establish a Techno-Analyst system, which will specialize in technology evaluation and analysis. There are plans to create five groups to cover twenty industries, including semiconductors, automobiles, shipbuilding, steel and chemicals. The expertise developed by these teams will be a key asset of the global CIB that will be created upon the Bank's privatization. In the meantime, the Bank will continue to aid tech-focused SMEs with transaction support and financing for commercialization of early-stage technologies.



International Banking



KDB is looking into ways to serve more customers in the global market. The Bank already has a strong presence in the world's financial markets, and boasts a growing worldwide network. Experienced in all fields of international finance, KDB looks forward to a bright future as a global CIB.

Amid the backdrop of a spreading financial crisis, KDB recorded many notable achievements in international markets in 2008. It arranged several syndicated loans, completed shipping and aviation finance arrangements, and managed an active derivatives trading business. The Bank's sales capacity was bolstered by additions to its international branch network and new investment in existing overseas branch infrastructure. Propelling its advancement toward a global CIB status, KDB is realizing increased sales synergies from Daewoo Securities under the 'One KDB' campaign, and moving forward to realize the goal of leading Asia's investment banking industry.

- **Taking Bold Steps to Advance in Overseas IB**

KDB has played a pivotal role in overseas funding and provided foreign currency liquidity to Korean companies tapping into overseas markets. In 2008, the Bank raised a total of USD 4.1 billion despite unfavorable global market conditions. A steady reputation as a prime issuer in international markets has allowed KDB to provide highly competitive financing rates to Korean firms, smoothing its advance into syndicated loans and FRNs. Despite the difficult credit environment in 2008, KDB was able to arrange USD 4.2 billion in syndicated loans during the year.



KDB also has extensive experience in the shipping and aviation financing sectors. Although the credit crunch brought on by the subprime mortgage crisis had a negative effect on the market, KDB arranged for USD 540 million in shipping and aviation financing in 2008.

One of the Bank's growth areas has been in credit for non-Korean customers, which has been expanding following investments in infrastructure to serve them. KDB's sales in 2008 mostly took the form of investments in overseas resource development projects, including term loans for the Inaglinskaya coal mine development project in Russia and a loan extended to Uzbekistan's state-owned oil and gas company, Uzbekneftegaz. The Bank also enlarged overseas deals by participating in syndication loans to Russia's MDM Bank with IFC (International Finance Corp.), thereby extending its ability to source deals in international markets.

Leveraging the investment banking experience accumulated in various domestic fields, KDB is providing financial services for overseas resource development, infrastructure projects, NPL management and cross-border M&A. Its broad interests and expertise have laid a solid foundation for KDB to successfully launch its global CIB business.

• Building Ties to Foreign Financial Communities

KDB uses its unique strengths and market position to seize opportunities that other financial companies cannot. Even amid the global market turmoil originating from the subprime crisis, it continues to explore emerging markets in Asia, including India and Indonesia, where rapid growth has generated strong demand for development finance. The Bank's strategies are geared toward becoming a top Asian CIB. In particular, it is strengthening its operations in China by upgrading the Beijing representative office to a formal branch status, opening a representative office in Shenyang, and dispatching additional staff to Dalian. The near future will see the opening of new branches in Southeast Asia, India and Indonesia, and the conversion of the Frankfurt representative office to a formal branch.



Part of KDB's international strategy involves finding niches in each market where it can exploit its unique strengths and add value for local customers. In Singapore, KDB operates a project finance desk, while in Hong Kong it mainly caters to non-residents with primary market services. In Brazil, the strategy focuses on self-sustainability by raising local currency funds based upon the guarantee by the head office, while in Guangzhou local managers have been working to receive authorization to provide renminbi-denominated products and services, which will open up a vast new market.



Investor relations (IR) activities have been conducted so as to prepare for the Bank's impending privatization and conversion into a global CIB. The IR Team is working to uphold the Bank's external credit ratings ahead of privatization, conducting non-deal roadshows to keep investors informed and broaden the scope of KDB's information sharing. At the same time, KDB dispatches delegates to international conferences and symposia organized by international organizations such as IDB, ADB and EBRD to raise the Bank's profile and sharpen its global IR capabilities.

One of the cornerstones of KDB's growth strategy is penetration of emerging markets. The Bank has recently held meetings with government officials and institutional partners in China and Sri Lanka, seeing such relationship-building as a prerequisite to success in foreign markets. In Vietnam, KDB has built ties to the local financial community by holding training and information sessions that share the lessons of Korea's experience in economic development. Another excellent forum for establishing valuable connections has been the Guest Observer Course, now in its 61st session. The most recent GOC was attended by working-level staff from financial institutions and government agencies in 14 countries.

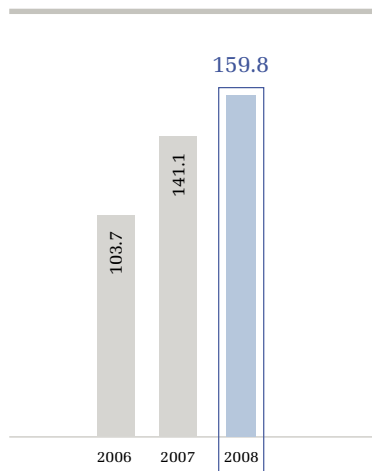
Korea's Leading Derivatives Trader

KDB is Korea's largest derivatives dealer and has been instrumental in building up the market. 2008 trading volume saw a 13% year-on-year increase from USD 141.1 billion to USD 159.8 billion. This growth in the derivatives business is attributable to KDB's product knowledge, trading experience and an infrastructure built up over the years to provide top-quality service to a broad range of customers.

The Bank has expanded the scope of its derivative trading to offer products tailored to specific client needs. These include products for export/import companies, equity-linked products, and exchange rate and interest rate hedges for institutional investors such as insurance companies that invest in foreign currency assets. KDB also introduced commodity derivatives to Korea in June 2006, followed by the nation's first credit derivatives in 2007.

KDB strengthened its derivatives operation in 2008 by recruiting outside specialists, with a special focus on building a top-notch Quant Team. Sales capabilities were upgraded with the development of advanced pricing modules, and a new Trading Infrastructure Team was created to manage the trading infrastructure. To expand the forex and derivatives business both quantitatively and qualitatively, KDB has launched initiatives such as the 'FX/ Derivatives Market Development Forum' and a seminar organized jointly with the Korea Advanced Institute of Science and Technology (KAIST).

Trading Volume (Unit: USD Billion)



• Upgrading Our Global Treasury Capabilities

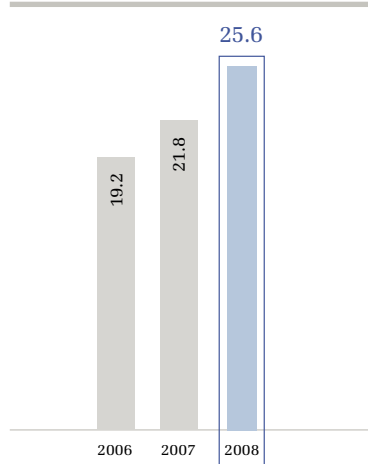
In the treasury area, KDB delivered 2008 results befitting its position as Korea's largest dealer in foreign exchange. The total trading volume in USD/KRW was up 65% year-on-year to USD 363 billion, while the volume of non-USD currencies jumped 121% to USD 173 billion.

The Bank's trading volume in international money markets totaled USD 236 billion, while in the secondary market the volume of foreign-currency securities, including futures, reached USD 15.7 billion. Leveraging a global network in Singapore, London and New York, KDB is able to implement round-the-clock USD/KRW trading activities. KDB is also working to establish a 24-hour trading system that will encompass G7 and Asian currencies.

• Facilitating Trade Finance

KDB's trade finance recorded a 16% growth in 2008, totaling USD 25.6 billion. Export credits amounted to USD 10.8 billion, while the total of import credits reached USD 14.5 billion. The imbalance reflects a strategy of expanding the Bank's customer base and finding new sources of revenues. As such, the Bank began arranging non-L/C import financing settlement services and made procedural changes to improve service delivery. Even under market conditions of severe credit shortage, KDB executed seamless refinancing of USD 920 million using export/import credit lines, and secured sufficient capital to maintain its export/import credit operations, partially based on the government's support of USD 790 million.

Trade Finance (Unit: USD Billion)



Capital Market Business

Based on its dominant position in Korea's debt capital market, KDB is quickly expanding into new business lines in IB, Private Equity, M&A and Consulting. The Bank leads the local industry in terms of managing complex deals and engineering advanced financial instruments.



KDB is a major force in Korea's capital markets, underwriting securities issues and improving companies' access to financing. It has broadened its horizons while improving customer services by entering into consulting, M&A and private equity fund management. In 2009, the Bank established the Capital Market Division to lead the efforts to build global CIB competencies and maximize synergies among KDB's affiliates. KDB plans to develop IB businesses as the main pillar of its CIB business model and a major source of fee revenues.

- **Serving Korean Industry
with DCM Leadership**

Even in the midst of the most severe economic downturn in a decade, KDB remained an active underwriter and arranger of foreign and domestic bond issues. It issued various structured bonds that demonstrate the Bank's ability to generate new products according to client needs, such as Asset Backed Securities backed by receivables and conditional beneficial interests in trusts, both firsts in the Korean market. KDB also played an instrumental role in obtaining financing for the SME sector through the issuance of Primary CBOs for SMEs, as well as for mutual cooperation agreements between large enterprises and SMEs.



• Full Range of Corporate Consulting Services



KDB has been steadily raising its profile in the international arena by participating in syndication deals with counterparts in Hong Kong, Singapore, Taiwan and the Middle East, among others. Using this network, the Bank has issued optimally-hedged cross-border CDOs and ABSs utilizing special purpose companies. KDB spent years building its rating advisory business so as to gain access to overseas underwriting deals.

KDB serves a diverse group of clients, and therefore has to offer a product mix of straight bonds and structured bonds to meet various financing needs. With the implementation of the Financial Investment Services and Capital Markets Act in 2009, KDB can look forward to a dramatic expansion of such businesses. The success of the privatization plan will largely depend on the competitiveness of the Bank. In recognition of this responsibility, KDB is engineering structured products in high-value segments such as Secondary CBOs (S-CBOs). Backed by a global network and sophisticated transaction-structuring abilities, the Bank will strengthen its lead in public and private debt and currency syndication, and establish a strong position in global debt capital markets.

KDB's consulting and deal-advisory business was launched in 2003. The Bank uses its accumulated know-how to help clients navigate various complex projects and access innovative financing options. In 2008, KDB's consulting fee earnings represented a solid source of revenues, totaling KRW 9.7 billion.

KDB is evolving steadily into a top-tier financial firm that operates in sophisticated financial environments, providing high value-added advice on overseas M&A, corporate strategy and business process improvement. These capabilities have strong fee-earning potential, and effectively raise KDB's corporate value in advance of privatization. Other value-enhancing measures include the signing of long-term development agreements with international consulting firms and professional agencies, under which key staffs are exchanged and best practices are shared.

KDB is building a reputation as a company with particular expertise in leading corporate turnarounds and offering pre-M&A consulting. It has expanded its scope of business beyond corporate strategy to become the domestic go-to firm for comprehensive consulting services. One of the Bank's major ongoing projects is in-house strategic consulting on major agenda and action items related to the privatization plan, along with the development of world-class IB capabilities.

- Leader in the Domestic
Private Equity Market

Launched in early 2005, KDB Private Equity now operates four funds and has invested a total of KRW 730 billion, of which KRW 410 billion was transacted in 2008. Along with the high growth rate of its PEF operations, the Bank further expanded its activities in supporting domestic firms with cross-border M&A deals, increased underwriting and entry into carbon fund operations. On an individual affiliate basis, the Bank's PEF is a market leader with an average annual return of 13.5%.

Mando and Starkist are two of KDB's PE deals that drew particular attention in 2008. The Bank's investment in Mando Company, amounting to KRW 199.8 billion, is looked upon as a seminal deal in Korea, one which opened up the PE market in general to larger and more comprehensive deals. KDB won the contract ahead of such foreign heavyweights as Blackstone and Kohlberg Kravis Roberts & Co., culminating three years of recruiting Strategic Investors, underwriting facilities and consulting on strategy for Mando. The deal, in which KDB acquired joint management rights for a price below market value, was honored by *Money Today* at its "2008 Korea Capital Market: the Bell League Table Awards". The Starkist deal, meanwhile, was a USD 100 million cross-border acquisition by Korea's Dongwon Industries Co., Ltd. KDB designed the overall deal structure and participated as a financial investor and underwriter, helping solidify its PE expertise and boost the PE's ability to evolve into a major fee-earner.

The Bank has recently identified opportunities in the area of renewable energy and carbon emissions trading, and recruited outside talent to help explore these markets further. KDB is gearing up for a new era of increased environmental investment in various concrete ways, for example, by participating in the Asian Development Bank's 'Future Carbon Fund'. The Bank is also monitoring the progress of the United Nations Framework Convention on Climate Change (UNFCCC) and other treaties to stay abreast of evolving opportunities in the green economy.

Bolstered by a strong record in PE operation, KDB will steadily expand its private equity assets under management by establishing new funds, including blind funds, in 2009. KDB is especially targeting large-scale M&A deals and offshore local funds for investment in China, along with specialized vehicles such as the 'Green Growth Fund'. And, in keeping with its philosophy of finding opportunities in times of crisis, KDB will continue to be actively involved in the domestic restructurings of large corporations and SMEs throughout 2009.

• Korea's Representative M&A Specialist

In 2008, KDB was intent on establishing sustainable mid- to long-term revenue sources, and actively explored M&A consulting as a strong candidate. It has built on extensive prior experience to strengthen its capabilities in planning and proposals, underwriting and cross-border deal management. The Bank's efforts won contracts to consult on LS Cable's buyout and the sale of Donghae Pulp. To gather intelligence on potential demand for M&A planning and proposals, KDB assigned staff to monitor over thirty mid-sized companies and business groups in various industries, and to maintain close connections with the market by organizing M&A seminars in conjunction with Relationship Managers (RMs) in regional branches.

Another source of revenues has come from being a facilitator of underwriting financing. KDB arranged for KRW 250 billion in financing for Woongjin Coway's acquisition of Saehan Industries, and KRW 400 billion for LS Cable's acquisition of the U.S. cable manufacturer Superior Essex. The Bank also signed associate agreements with well-known global M&A specialists to share consulting work on cross-border deals and assist one another with deal sourcing. Testifying to its status as Korea's premier M&A firm, KDB is the exclusive consultant on the sale of Daewoo Shipbuilding Marine Engineering (DSME), as it was on the LS Cable and Donghae Pulp deals. KDB also recently added Hynix Semiconductor to its client list.

Looking ahead, KDB will continue to develop M&A as one of the main pillars of the Bank's IB business, and press on with preparations to launch as a major M&A firm once the privatization process is underway. KDB's ambitions are broad as it seeks to win consulting contracts in asset deals, capital increases, privatizations, M&A, business group realignment and restructuring.





ADAPT TO

3

Emerging Issues

With global markets on the edge, risk management has belatedly come into focus as a key function imperative for financial companies. While prestigious competitors have collapsed beneath excessive leverage, KDB's sound financial management has left the organization well-prepared to face the volatility and risks that lie ahead.

As the economic situation deteriorated in 2008, KDB met the increased demand for corporate loans and investments with KRW 30.1 trillion in new funds, up 10.7% from the previous year. In preparation for the expected increase in credit delinquencies, the Bank stepped up credit reviews and prepared to take preemptive action to prevent insolvencies. Looking toward promising growth opportunities, KDB is propelling its retirement pension trust business so as to have adequate capacity in place to manage the rapid aging of Korea's population. On the strategy front, KDB relies heavily on the quality research generated by its own Research Institute, one of the country's most talented think tanks. The Institute provides the Bank's management with unique insights into markets, trends and industries, giving KDB a competitive edge as it advances toward privatization.

Corporate Banking

- Credit facilities and working capital loans
- Guarantees and trade finance

Investment Banking

- Bond origination and underwriting
- Debt, equity, commodities, FX and treasury
- PF, M&A, PEF and VC
- Principal Investment (PI)

Restructuring / Consulting

- Corporate restructuring
- Project feasibility studies
- Comprehensive consultancy services

Overseas Operations

- Fixed income origination
- Support for overseas investments
- Financing of natural resources development

CORE BUSINESS AREAS

Corporate Banking



KDB's policy role in the Korean economy has traditionally been its most important function. Through the financing extended to Korean industries, KDB has mitigated the effects of recessions, promoted balanced regional development, backed social infrastructure projects, and supported the creation of new growth industries.

Corporate investment was sluggish in 2008 in the wake of weakening consumer finances, but KDB nonetheless introduced new products to help business customers stimulate real economic activities, supplying KRW 30.1 trillion in new funds, up 10.7% from the previous year. The Bank's role as a market stabilizer involves giving access to investment and operating funds so as to finance the development of growth engines and support small business owners. KDB maximizes the effectiveness of its policy funds by offering them in conjunction with comprehensive financial services for SMEs, which are promoted through cooperative marketing among related divisions and departments.

- **Supporting Economic Growth through Corporate Investment**

KDB took active steps to respond to the deepening economic crisis by expanding the sale of various loan products to strategic sectors. Supply of facility loans was up 0.4% in 2008 to KRW 10.2 trillion. Of the total, KRW 6.7 trillion was classified as preferential facility loans for new strategic initiatives such as 'Fostering Leading Sectors', and for topping up existing specially-directed lending programs.

Looking at facility loan customers in detail, 55.4% were large-sized businesses, 35.9% were SMEs, and the remaining 8.7% were public-sector companies. The high ratio of loans made to large companies reflects the priority placed on minimizing the impact of the economic downturn on the Bank's asset quality. By currency, the provision of foreign currency loans across all currencies was reined in as the domestic supply of foreign

currencies shrank considerably in the wake of the credit crunch. The share of won-denominated loans rose to 73.5%, up 3.2%p from 2007. U.S. dollar loans were down by 2.7%p to 23.6%, Yen loans fell by 0.2%p to 2.8%, and Euro loans edged down by 0.3%p to 0.1%.

- **Ample Support for Businesses**

Corporations facing a sudden liquidity crunch raised their demand for working capital loans in 2008, prompting KDB to increase its total distribution by 52.1% to KRW 11.0 trillion. By borrower, 55.3% were distributed to large-sized businesses and 44.7% to SMEs. 95.5% of working capital loans were made in Korean won, 2.7% in Yen and 1.8% in U.S. dollars. The share of won loans went up in 2008 due to high exchange rate risks.

- **Balanced Support across Industries**

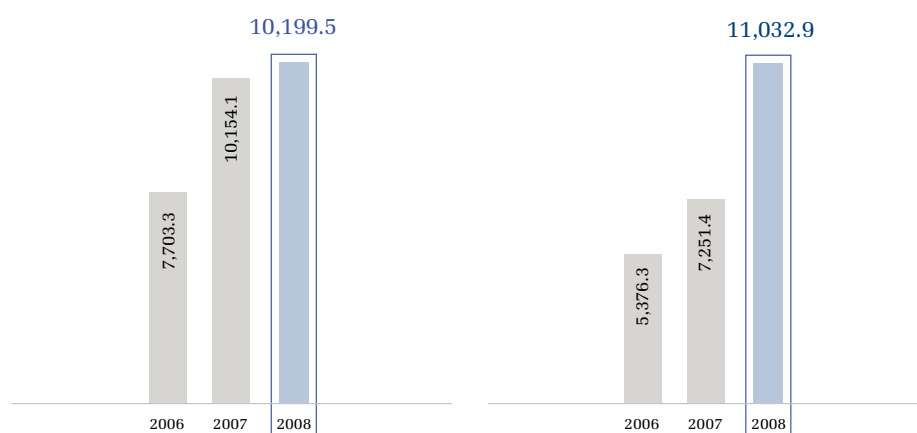
KDB's total loans and investments to support Korea's corporate and SME sectors in 2008 amounted to KRW 30.1 trillion. Out of this figure, KRW 16.5 trillion (54.7%) went to manufacturing companies and KRW 13.6 trillion (45.3%) was provided to non-manufacturing companies, demonstrating the Bank's commitment to balanced support for the national economy.

Facility and Working Capital Loans

(Unit: KRW Billion)

Facility Loans

Working Capital Loans



Among manufacturing sector loans, 28.1% went to firms involved in chemicals, petroleum products, rubber and plastics. Assembled metal products, machinery and equipment took 24.2%, and automobiles and other transportation equipment manufacturers accounted for 17.0%. Among loans to non-manufacturing companies, 42.4% were targeted at finance, insurance, real estate and service-sector companies. Transportation, warehousing and telecommunications service companies received 19.1%, and construction companies 17.1%.

- **Promoting Balanced Regional Development**

KDB has for many years been in charge of special funds created to support balanced regional development. One of these funds includes the Community Development Fund, to which KRW 1.0 trillion was newly added in 2008. Backed by the Fund, KRW 523 billion in economic development loans were extended in 2006, KRW 1.2 trillion in 2007 and KRW 1.2 trillion in 2008. By year-end 2008, the Bank had signed a cumulative total 44 MOUs with institutions and regional governments. Through the MOUs, the Bank supported local specialization projects by injecting KRW 3 trillion, which included financial arrangements of KRW 2.7 trillion for industrial complex projects such as Daedeok Techno Valley and KRW 0.2 trillion in investments associated with regional government projects.



Risk Management



Financial institutions face a variety of risks emanating from multiple sources: credit and liquidity risks, operational risk, market risk and more. Risk cannot be eliminated, but can be managed using advanced tools to measure risk and set contingency plans in place.

The worldwide crisis in financial markets has again highlighted the importance of risk management, and KDB has responded by reviewing and reinforcing its overall risk management systems. In particular, credit risk management has been strengthened to deal with the general economic slump, and market risk management tightened to better control KDB's exposure to derivatives. The Bank received approval from the Financial Supervisory Service to apply the Foundation Internal Ratings-based Approach to credit risk measurement in July 2008. KDB adopted the Foundation IRB in January 2008 to preemptively control its capital adequacy in line with the Basel II Accord.

- **Tools and Systems for Effective Credit Risk Management**

At the micro level, KDB manages credit risk through credit review systems, including the CO/RM system and the Credit Review Committee. At the macro level, credit risk is managed by setting exposure limits that reflect each industry's conditions, the size of the enterprise and its credit rating. Risk-adjusted return on capital is continuously monitored and analyzed for clients and client categories. In 2007, KDB overhauled its credit risk measuring methods to meet BIS standards, and has made every effort to keep them upgraded.

The calculation period for such risk parameters as loss given default (LGD), exposure at default (EaD), transition matrix (TM) and correlations was expanded to take more complete account of business cycles, and the confidence level on target credit ratings was raised

from 99.9% to 99.95%. Credit risk management at KDB has steadily strengthened through methodology improvements and management of exposure on a per-industry basis.

- **Preemptive Action to
Avoid Market Risks**

In preparation of entering the world's financial markets as a full-service Corporate & Investment Bank, KDB has stepped up its trading activities in securities and derivatives. At the same time, it has been careful to implement stringent risk management procedures, covering stock price, interest rate, foreign exchange rate and market movements. With the increasing use of complex financially-engineered products and the global integration of capital markets, comprehensive risk management systems have become more crucial than ever.

KDB measures market risk by applying VaR (Value-at-Risk) using historical simulation methodology. The strengths of the historical simulation method lie in its ease of use to measure non-linear risk and capture yield movements in abnormal situations. The VaR model calculates maximum loss exposure in terms of potential single-day losses at a 99% confidence level. Historical data on single-year yields are used to execute the simulations. From the second half of 2008, the Bank began upgrading its Risk-Adjusted Performance Measure (RAPM) systems so as to better access and manage performance and profitability.

KDB sets market risk limits based on a scale of acceptable trading losses, and manages them in accordance with defined exposure limits and stop-loss orders. Following these policies, the Bank has been far less affected by the recent financial crunch than other financial institutions, and it has zero exposure to the Madoff fund. KDB carries out stress tests to ensure capital adequacy even under extreme market conditions, and sets limits to strictly control market risk in consideration of targets for profit and loss, BIS ratio, etc.

- **Mitigating Operational Risk**

Operational risks are defined as exposure to losses arising from inappropriate or faulty work processes, internal workforce or systems and certain external factors. Operational risk has come into the spotlight with the implementation of the Basel II Accord, which includes operational risk assessment criteria. KDB measures operational risk for eight businesses using the Standardized Approach, and is preparing to apply the Advanced Measurement Approach in the near future. In addition, the Bank has improved its operational risk management system in accordance with the Advanced Approach and launched a project to establish a seamless Business Continuity Plan (BCP).

- **Managing Interest-rate and Liquidity Risk**

Market volatility has increased worldwide during the current financial crisis, and is expected to continue in 2009. In response to sudden fluctuations of interest rates and worsening funding conditions, KDB is making every effort to mitigate interest rate risk and liquidity risk, and secure stable funding to protect its revenue base.

Interest rate risk is managed systematically by currency, using VaR and EaR (Earnings at Risk) as indices that complement each other. These are supplemented with Duration Gap and Repricing Gap measures to strengthen interest rate risk management. The Bank's senior management receives regular reports on interest rate risk stemming from domestic and foreign financial market movements, and uses them to take proper countermeasures and establish management strategies.

Liquidity Risk refers to the potential for abnormal losses, including the Bank's near-insolvency, resulting from maturity mismatch between assets and liabilities, and funding with high interest rates to resolve fund deficiency. KDB manages liquidity risk by currency, and measures it on a daily basis using liquidity ratio and cumulative maturity gap ratio. In addition, target ratios are set in consideration of business plans and market conditions. The Risk Management Division acts as a comprehensive risk manager in cooperation with the Funds Management Department to strictly manage liquidity risk within the target range. The Bank also conducts regular stress tests and has contingency plans to prepare for any abnormal market conditions.

- **Preparations for Basel II**

In July 2008, the Financial Supervisory Service gave approval for KDB to adopt the Foundation Internal Ratings-Based approach under Basel II. As a result of this decision, the Bank has improved overall risk management systems, including its credit rating models. KDB will continue to upgrade its credit rating systems so as to make rational credit allocations that reflect the risk levels of individual borrowers, thereby strengthening the Bank's credit risk management.



Financial Management

Sound financial management is what differentiates strong banks from weak ones. KDB establishes efficient funding plans to accurately predict its funding demands and secure a proper matching of assets and liabilities, while ensuring sufficient flexibility to seize upon fresh opportunities.



KDB secures funds through the issuance of Industrial Finance Bonds (IFBs), and from deposits and borrowings. The Bank devises and executes funding plans to secure liquidity in consideration of capital market conditions and the Bank's expected funds supply and demand. In the current financial environment, KDB is applying all its capabilities to ensure efficient management of assets and liabilities, and strengthening funding strategies. Its ability to fund seamlessly during the current liquidity crisis will prove its readiness for privatization and adoption of the global CIB business model.

- ## Tapping Debt Markets to Fund Raising

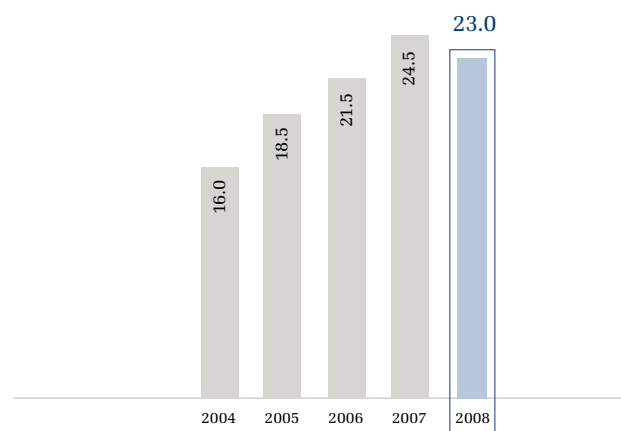
KDB was successful in reaching its 2008 fund-raising target of KRW 23 trillion, despite unfavorable market conditions and the Bank's impending privatization. Demand for IFBs declined due to the privatization issue and an increase in commercial banks' funding through bank debentures, especially following the collapse of Lehman Brothers. However, thanks to book-building block deals and effective marketing, including direct negotiations with the National Pension Service, the Bank was able to meet its funding requirements.

KDB's 2009 target for issuance of IFBs is KRW 25 trillion. The Bank will adjust maturities and coupon rates as needed to achieve this goal in response to market conditions. It is also expanding market-friendly issuance through integrated issuance system and enhanced communication with investors.



Annual Fund-raising
by Won-denominated IFB Issues

(Unit: KRW Trillion)



• Attracting Deposits

Competition to attract new customer deposits was intense in 2008, as financial institutions raced to secure their capital base amid the market turbulence. In response, KDB gave its heads of branch offices authority to flexibly negotiate interest rates on deposits, and strengthened its marketing to government and public institutions, ultimately attracting bank deposits of KRW 17.9 trillion, up 16.2% on an annualized average basis from the previous year.

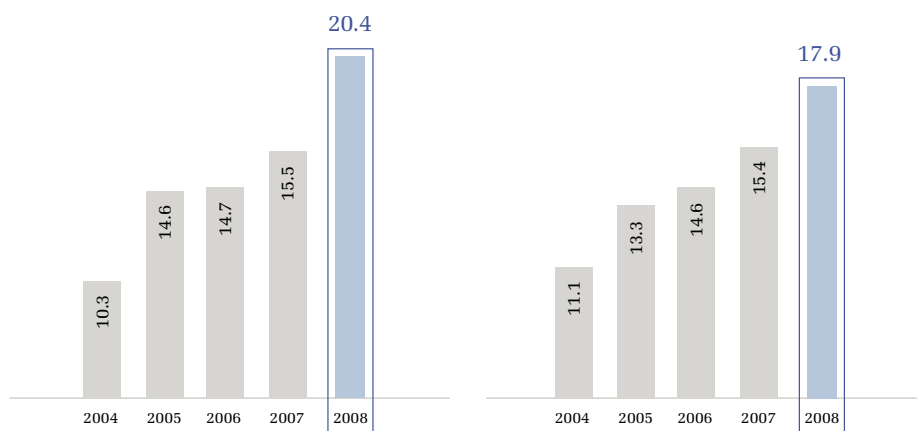
KDB expects low interest rates on deposits to be maintained throughout 2009, while competition will be eased to a certain extent as the banking sector deleverages. The target for 2009 is a 17.3% rise in deposits to KRW 21.0 trillion on an average basis. Market responsiveness will be the Bank's strategy for meeting this goal, with the policy of allowing flexible interest rate negotiation continuing and efforts renewed to develop new, customer-focused products. Thus, KDB will strengthen its customer base and meet the growing demand for CD-interest-rate-linked loans, which will be partially met by rising sales of CDs, which totaled KRW 2.1 trillion in 2008 on an average basis.

Customer Deposit Trends

(Unit: KRW Trillion)

Year-end Balance

Annualized Average Balance



Arranging Fund Loans

Borrowings from policy funds comprised a large share of the Bank's funding portfolio in the initial years following its establishment, but this form of funding activity has fallen steadily since the mid-1990s. Nonetheless, maintaining its role as a market stabilizer, KDB continued to provide a variety of policy loans in 2008 for clients by drawing from various funds including the Tourism Promotion and Development Fund, Energy Use Rationalization Fund and SME Restructuring Fund. Total borrowings amounted to KRW 522 billion for the year. The Bank also financed fund loans worth KRW 50.7 billion for the construction of integrated freight terminals and ship vessel modernization. KDB's target borrowings from policy funds for 2009 is KRW 500 billion to support public policy projects.

Managing Capital for Economic Recovery

In 2008, despite the international financial credit crunch, the Bank strengthened its treasury unit function by managing its capital in an integrated, efficient manner and maintaining liquidity by carefully adjusting the scale and timing of funding activities.

KDB operates its own asset & liability management (ALM) committee to review and report monthly on the status of the Bank's assets and liabilities. The committee helps management to recognize interest rate gaps and maturity gaps in both local and foreign currencies, and develop efficient funding strategies to prevent or mitigate such gaps.

The Bank also holds monthly meetings of the Working-level Council on Funding, whose task is to maintain a stable source of liquidity by advising on preemptive measures to avoid liquidity gaps. Despite the global liquidity crunch of the past year, KDB has maintained an optimal level of liquidity by monitoring market conditions and flexibly adapting to supply-and-demand swings.

The coming year is expected to present a difficult operating environment, but KDB will manage risks by continuously monitoring assets & liabilities as well as fluctuation of foreign exchange rates, taking advance steps to prevent funding gaps. With consideration of risks and profit potential, the Bank will utilize interest rate swaps (IRS) and currency swaps (CRS) to improve its portfolio management, and boost efficiency by adjusting its Fund Transfer Price (FTP). Through these and other prudent risk-management steps, the Bank will enhance its treasury unit.

• Improved Profit Structure and Accounting Standards

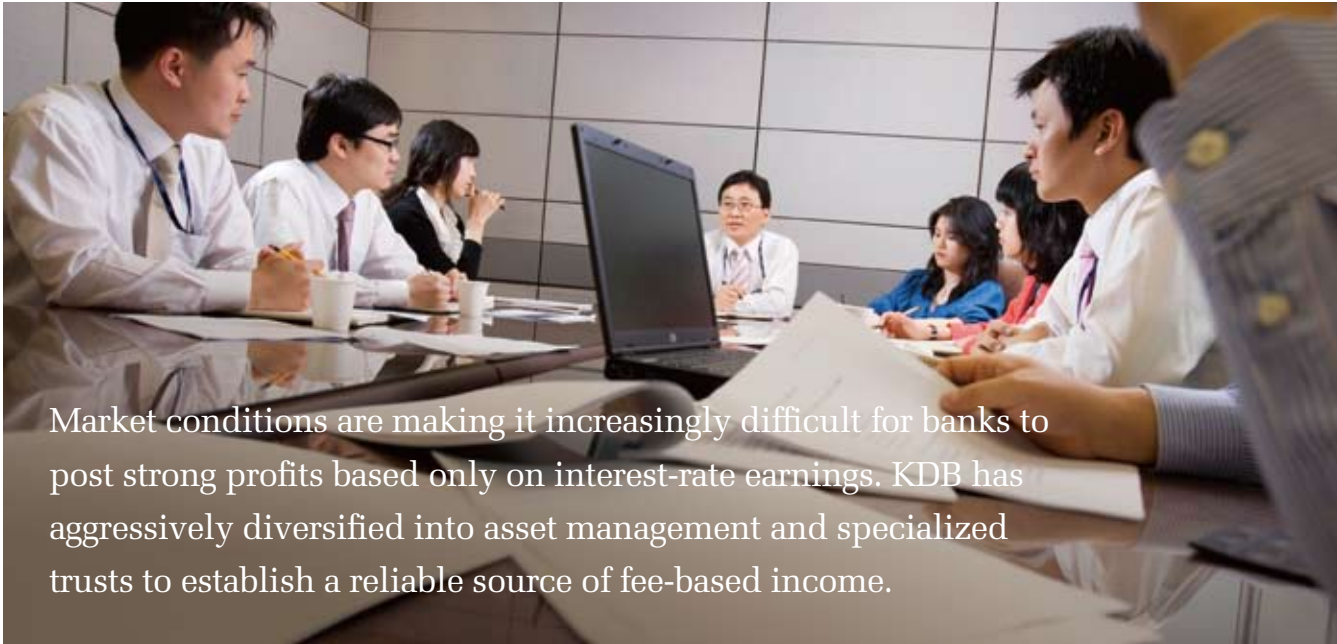
2008 net income amounted to KRW 350 billion due to a large increase in non-performing loans in the second half and the recognition of heavy losses on investments accounted for under the equity method. Despite the shrinkage in annual earnings, KDB recorded higher interest income as a result of its profitability-based asset management. Net non-interest income also increased thanks to higher fee income. Thus, despite the negative impact of investment write-downs, the Bank's profit structure improved.

The critical importance of risk management will be highlighted in 2009 as the global economy struggles to regain momentum and delinquency ratios rise. KDB will carefully manage its profit & loss accounts during these volatile market conditions and work diligently to stabilize earnings. With an eye toward the future as a global CIB, the Bank is already eliminating the risks arising from its policy role by augmenting its portfolio of quality assets and adding capabilities to access new sources of revenue.

In addition, KDB operates an impartial and independent accounting group that contributes to profitability with timely feedback on key performance indicators. The Bank is also setting up a global-standard accounting infrastructure in preparation for the full-scale adoption of International Financial Reporting Standards (IFRS).



Pension/Trust



Market conditions are making it increasingly difficult for banks to post strong profits based only on interest-rate earnings. KDB has aggressively diversified into asset management and specialized trusts to establish a reliable source of fee-based income.

The importance of strong and sustainable pension systems becomes more apparent as the rate of aging of the Korean society accelerates. This seismic demographic trend represents a challenge for financial companies to establish long-term asset management competencies, while presenting an opportunity to tap a stable source of revenues. In the past year, KDB continued to expand its trust-pension business to raise the Bank's proportion of fee income and cement asset management as a future growth driver, improving its asset management work systems.

- **Strengthening Fee Earnings as a Solid Revenue Base**

KDB's retirement pension assets under management grew at an annual rate of 287% in 2008, closing the year at KRW 213.1 billion. In the same period, the list of client companies grew from 102 to 351, aided by the introduction of Pension Marketing Officers (PMOs) and the creation of informative content for potential subscribers. The Bank also developed the first business manual for the pension/trust service, along with an Excel-based standard protocol.

Real estate trust exceeded the 2008 sales target by 139.9%, with revenues of KRW 24.2 billion. One way in which the Bank increased the earning potential of investment was to apply its knowledge about syndicated loans by acting as a financial intermediary. As the financial crisis started to impact the domestic real estate market in the second half, the Bank strengthened its risk management. Revenues from sales of indirect investment

products recorded KRW 2.3 billion on a sales balance of KRW 10.3 trillion in 2008.

Sector-specific funds like the 'Infrastructure Fund' and the 'Real Estate Fund' targeting institutional investors and private banking customers led sales, along with increased MMF subscriptions from corporate clients.

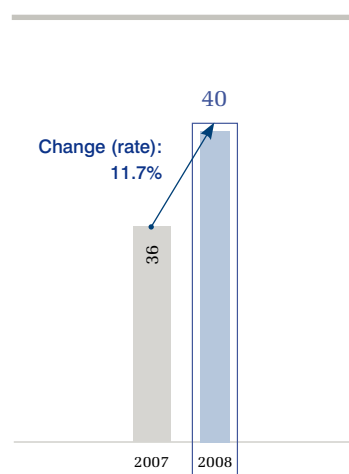
• Establishing an Asset Management Growth Base

KDB solidified its asset management business by using property trusts to develop and market various new products in 2008. In addition, the Bank attracted KRW 942.7 billion in money trust related to ABS, backed by future receivables and loans. Product engineering and legal reviews have been completed in preparation for the launch of a comprehensive trust product linked to specified money trusts, receivables in trust and securities in trust. KDB also met customer demands for specified money trusts for notes payable, and began reviewing measures to attract foreign investors to domestic bonds. While the Financial Investment Services and Capital Markets Act will open up new business opportunities for KDB, it also imposes a higher investor protection standard on financial companies. The Bank has therefore strengthened staff training to prevent incomplete sales under the new regulations.

• Raising Profitability

Despite adverse market conditions and fierce competition to attract deposits, trust revenues in 2008 posted an 11.7% gain year-on-year to reach KRW 40.2 billion. KRW 23.4 billion of the total came from real-estate related business, up 86% from the previous year. Gains were also recorded from money trusts, the primary area of the trust business.

Earnings Growth (Unit: KRW Billion)



The balance of money trusts closed 2008 at KRW 2.7 trillion, falling by KRW 751.7 billion as large clients including Daewoo Shipbuilding & Marine Engineering and Hynix Semiconductor terminated their specified money trusts at maturity. Property trusts also decreased in value by KRW 1.9 trillion year-on-year as companies undergoing corporate restructuring closed their accounts. The total value of all trusts held by the Bank in 2008 recorded an 18% year-on-year decline to KRW 12.2 billion.

Research

As the global credit crisis highlights the shortcomings of focusing too strongly on quarterly results, research is again being recognized as a valuable corporate asset. The financial industry in the future will emphasize on knowledge gathering and long-term planning ahead of quick arbitrage trading.



With the world economy experiencing its worst contraction since World War II, the credit crunch has spread from the financial industry to the real economies of many nations. Before banks can plan their countermeasures to the crisis, they must first have the ability to gather, analyze and interpret a large volume of rapidly-changing market information. At KDB, this role is filled by the KDB Research Institute. It is KDB's knowledge center, acting as a think tank and management advisor that warns of emerging threats and opportunities. The Institute stands out as a key competitive advantage for KDB as it proceeds toward privatization and works to overcome the challenges posed by the current financial crisis.

- ## Providing the Knowledge Assets of a Global CIB

The KDB Research Institute issued several insightful reports and policy recommendations in 2008. These include "Analysis and Significances of Equity Structure of Domestic Banks" and "2008 Corporate Financial Market Analysis and 2009 Outlook" based on macro-level analysis and projections such as "2009 World Economic Outlook and Reviews on the Global Financial Crisis." Reports covering major domestic companies and industries include "Portfolio Analysis on Business Types of Major Domestic Groups" and "A Sluggish Demand for Mobile Phones and Future Outlook of the Component Industry." As such, "Global Trends and Significances of Photovoltaic Power Industry" and "Voluntary Carbon Market Trends and Action Plans in the Domestic Market" have sharpened the Bank's focus on new growth industries, providing insight for the corporate financing and CIB businesses. China's policy directions were reviewed in "A Review on Possibilities of

Changes in China's Management Policies for Foreign Exchange Reserves." Lastly, "Energy Development Trends in Central Asia and Korea's Responsive Tasks" looked at the rising strategic importance of Central Asia and potential roles Korea might play in the region's advancement.

- **Sharing KDB's Knowledge with the World**

The KDB Research Institute has provided valuable input to guide the Bank's management through the process of privatization. It also recommends measures to boost KDB's effectiveness as a policy bank and market stabilizer. Some of its key reports covering the policy field are "Status Quo of the Korean Economy and Urgent Tasks" and "Economic and Financial Pending Issues of Home and Abroad and Roles of Korea Development Bank." Both reports were instrumental in shaping the Bank's preemptive strategies to deal with the financial crisis.

The Bank also published "Have Fun with the Latest Economic Affairs" and "Have Fun with the Latest Financial Affairs," two books for public consumption that turned the Institute into a revenue earner. They explain in layman's terms many of the financial and economic concepts people encounter in the news and want to learn more about. The "2009 KDB's Economic and Industrial Outlook" is published for PR and marketing purposes, suggesting positive steps that can be taken to stimulate and modernize the domestic economy.

- **Growing Our Talent Base**



The KDB Research Institute has enlarged its research capacity with the recent addition of five Economics PhD's to its staff. The Bank also invested in the Institute's information infrastructure by purchasing 16 fee-based content services, including Mergermarket (M&A strategies and case analyses) and OSIRIS (stock and portfolio information).

As KDB embarks on the exciting and challenging path toward privatization, it will rely heavily on the wisdom and advice of the Research Institute. Following the principles of selection and concentration, the Institute will provide advice regarding the Bank's market entry into the global CIB business. Acting as an in-house think tank, it will guide KDB through the changes that lie ahead, supporting the transformation into Asia's leading corporate and investment bank.

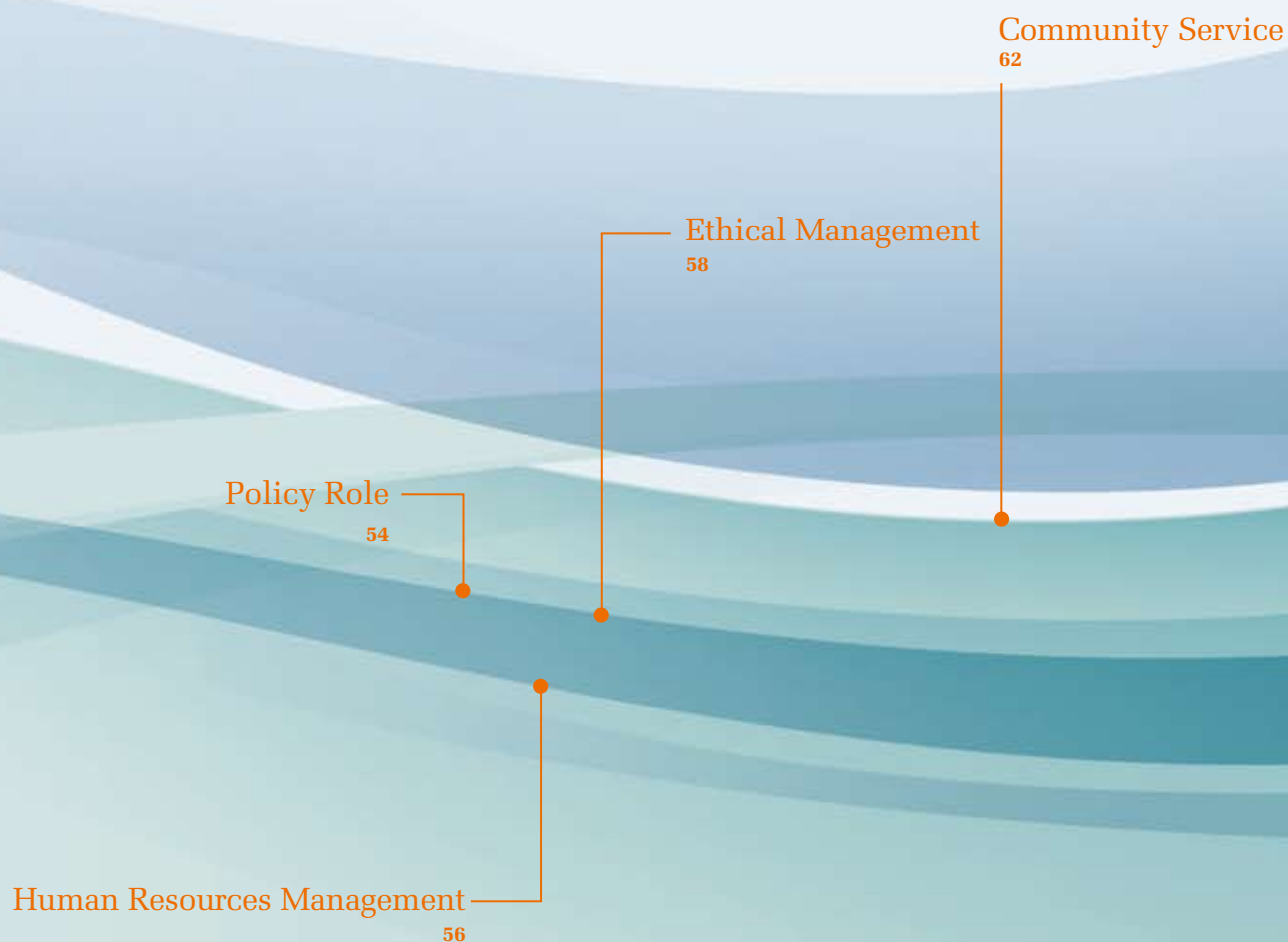
KDB invests its social responsibility budget in sustainable projects that may not necessarily generate double-digit returns, but bring long-term benefits for a larger social segment. KDB is anything but just another ordinary bank. It brings to the development agenda a unique perspective and capacity to create lasting change and build hope for a better tomorrow.

As an active member of the society, KDB strives to enhance the public interest through various activities, including ethical management and support of microcredit, and raise social values.

In 2008, KDB's public role was emphasized due to the financial crisis, and the Bank fulfilled its traditional role as a market stabilizer by cooperating with the government on stimulus measures and executing its own support programs. In addition, KDB actively engaged in social contribution activities such as making voluntary financial donations, teaching for JA-Korea's education programs, forming mutually-supportive ties with rural communities, and supporting arts & culture.

In the process of privatization, KDB will also earnestly try to fulfill its social responsibility and improve social welfare. KDB will continue to help people and communities through financial support, volunteer activities, and collaboration with non profit organizations. Meanwhile, the Bank will set high standards for ethical management and aim for the highest level of accounting and management transparency to meet the global standards and maintain the trust and confidence of the public.

Prosper



Up until privatization, KDB's policy role remains the most important corporate function. KDB will be especially active this year in substituting for reduced private sector investment and credit availability, supporting a wide range of initiatives to boost regional development, assist SMEs, promote green industry and speed up corporate restructuring.

Policy Role



Domestic companies suffered from the combined effects of declining foreign demand for exports and softening domestic demand by worried consumers. SMEs with limited access to direct financing faced particular difficulties in this environment. KDB stepped into this void in its role as a policy bank, securing liquidity for SMEs with the potential for renewed growth and profitability. At the same time, the Bank fulfilled its traditional role as a market stabilizer by cooperating with the government's stimulus measures.

Fulfilling Responsibilities as a Policy Bank

KDB made a KRW 2 trillion investment in the Bond Market Stabilization Fund, which functions to provide financing for high-performing companies facing sudden liquidity shortages. This policy injection helped stabilize the nation's bond market and reduce credit spreads. KDB also participates in the banking industry's 'Fast-Track' program to shore up the finances of SMEs. To meet the program's objective of speedy decision-making, the Bank launched a special SME liquidity support team and set up a 24-hour ombudsman to mediate on financial matters. A further tool for combating the crisis is the 'Creditor Bank Group Agreement', under which the banking sector provides selective support to qualifying companies in the hard-hit construction and shipbuilding sectors, while proceeding rapidly with the restructuring of remaining firms.

Launching Effective Programs to Manage Illiquidity

KDB increased its SME loan portfolio limit from KRW 8 trillion to KRW 10 trillion, supplying funds for facility investment and working capital. It also launched the KRW 1 trillion 'KDB Future Star Program', which provides exclusive financing to high-performing SMEs with strong recovery potential. An additional KRW 30 billion was made available for the support of new-economy venture companies. In addition, any SME that applied for a deposit/loan offset received the offset to reduce their financing costs.

Meeting Needs as a Policy Bank in Times of Crisis

In 2009, KDB expects to supply KRW 11 trillion in facility funds to stabilize the economy, create jobs and ignite growth. It will

also continue to direct policy funding toward innovative SMEs and support regional development projects. Particular emphasis will be placed on investments in green industries, so as to help the private sector establish sustainable engines to drive future growth. KRW 7 trillion of the Bank's total distribution in 2009 will therefore be allocated to six strategic investment categories.

First, the Bank will support the development of high-risk green industries with KRW 1 trillion. Second, KRW 2.5 trillion will be earmarked to support innovative SMEs and venture companies, and to foster the development of promising new technologies. The third and fourth priorities are support of the service industry and measures to raise competitiveness, for which KRW 0.7 trillion and KRW 1.5 trillion in funds are reserved, respectively. Fifth, KRW 1 trillion will be extended to promote regional economic development, and finally, KRW 0.3 trillion will be allocated to Corporate Social Responsibility (CSR) projects.

Providing Dividends to the Government

KDB makes a contribution to government coffers by returning a portion of its revenues to the public each year. Dividend payouts are calculated in consideration of the Bank's need to maintain sufficient reserves to provide seamless financing of its policy obligations, and to ensure the success of its long-term development strategies. KDB also tries to reflect the government's current financial situation in its calculations, and all dividend payouts are made based on mutual agreement. Looking at the past three years, dividends for 2006 were KRW 395.6 billion, followed by KRW 299.2 billion in 2007, and KRW 300 billion in 2008. The latter payout represented approximately a 15% share of annual net income.

In 2009, the Bank will maintain the soundness of its capital base while carrying out government policies to stabilize financial markets and minimize the effects of the recession on SMEs, exporters and weakened financial institutions. In light of the challenges posed by the global financial crisis, KDB has agreed with the government to retain its full earnings in 2009, thereby providing no dividends in the current year. This enables the Bank to fulfill its role as a market stabilizer and stimulator of the economy.

KDB is committed to fostering a pool of financial professionals who will welcome the challenges of operating under the global CIB model. The Bank recruits top internal and external talents, and provides them with knowledge tools and advanced training to have them concentrate on delivering world-class job performance.

Human Resources Management



To foster globally-competitive specialists in finance, KDB recruits the best external talents, and strengthens its internal human resources with advanced training programs. In 2007, the Bank instituted a talent management system known as CDP (Career Development Program), which differentiates employees according to their capabilities, and facilitates the design of training roadmaps that fit the requirements of each worker's job duties.

Intensive Training of Top Financial Professionals

KDB requires not just corporate banking specialists but investment banking specialists as it prepares for privatization. To raise its ability to offer comprehensive financial solutions, KDB trains experts by sector by giving them the opportunity to earn financial MBA degrees at top domestic and foreign universities. KDB also encourages employees to acquire various other professional certifications, giving everyone at KDB the chance to become an expert in their respective fields.

Building a Global CIB with Global Talent

Building a team of CIB professionals with specialized knowledge of derivatives, risk management, industry analysis and legal affairs has required KDB be open to the recruitment of external talent. These recruits have helped KDB to prepare for its new incarnation as a global CIB, and their share of the total workforce is steadily expanding. The Bank has fostered regional specialists with the language and cultural knowledge to lead its advance into selected overseas markets, furthering the goal of securing diversified revenue sources and establishing new growth drivers.

Systematic Knowledge Management

Knowledge at the individual level is naturally required for an employee to perform their job well. What counts for more, however, is what can be accomplished when individuals share their insights and contribute to the broader organizational knowledge.

KDB has partnered with international investment banks to conduct joint employee training, through which the Bank staff can obtain on-site IB experience in overseas offices. A voluntary Community of Practice (CoP) centered on the IB business has been established to systematize the Bank's sharing of knowledge. By giving employees the opportunity to broaden their individual experience and benefit from the shared experiences of their co-workers, KDB has fostered financial professionals with global capabilities.

Performance-based Career Advancement

To inspire employees to embrace the challenges and opportunities of open competition ahead of the Bank's privatization, KDB introduced a profit-sharing program and reorganized its pay groups to reflect job performance, sector-specific performance and individual job requirements. In the mid-to-long run, the pay-for-performance system will convert to a reward system under which different pay groups will have varying shares of their pay comprised by base salaries.

Sound corporate governance is achieved only by working on many fronts. It starts with the top leadership and extends to the newest recruit. It encompasses ethics training, legal compliance, safe reporting systems and clear guidelines. Most of all, it is the commitment to fair business conduct.

Ethical Management



Expectations from societies worldwide for improved corporate governance are heightening, and Korea is no exception. KDB's governance systems are continuously being upgraded to meet global standards and maintain the trust and confidence of the public. As a policy bank, it is even more imperative to set high standards for ethical management and strive for the highest levels of accounting and management transparency.

Meeting Global Standards of Ethical Management

KDB firmly believes that its social responsibility programs and corporate governance systems make meaningful contributions to corporate value. When every employee adheres to the Bank's Code of Ethics, KDB is better able to win trust and effectively support economic growth. The Bank's affiliates and main business partners are asked to ensure that their own governance policies meet KDB's high standards. Additionally, the Bank's managers are required to take the 'Management Pledge' to reinforce their commitment to ethical conduct and business transparency.

Previously part of the Legal Affairs Department, KDB's Ethics Compliance Unit has been strengthened and reorganized as an independent Compliance Department. A Compliance Committee was also launched to draft, review and enforce the company's compliance guidelines.

In recognition of KDB's earnest efforts to raise governance standards, the Korea Independent Commission against Corruption ranked KDB first in 2007 and third in 2008 on its Integrity Survey. The survey monitors central and regional government agencies, municipal and provincial education offices, and various operating units of local governments and public institutions.

Ethical Management Initiatives

Pledging to abide by Ethics Charter

KDB unveiled the Bank's Ethics Charter in 2008, establishing the ethical foundation that underpins the company's vision and strategy. To concentrate employees' awareness on the importance of this issue, all staff agree to abide by the Management Pledge in 'Code of Ethics for KDB Staff'. The Code forms the foundation for the Bank's ethical decision-making, and helps to maintain KDB's favorable reputation in the eyes of the public.

Creating a culture of compliance

All new and existing KDB employees attend mandatory lectures on ethics and compliance, along with training sessions offered as the need arises. The Bank also provides monthly online ethics courses. In 2008, everyone at KDB received online ethics training, and outside speakers were brought in to give lectures on emerging topics.

Strengthening ethics management with online tools

KDB helps its staff to develop ethical decision-making skills and preempt entanglement in ethics violations by offering online consulting services and

operating a hotline to answer questions and receive reports on suspected violations. This type of reporting channel has been proven as an effective means of preventing corruption and reinforcing a culture of compliance within large organizations.

Providing a safe reporting channel

Known as the 'Clean Report' hotline, one of its main functions is to receive reports of attempted bribery. It protects well-intentioned employees who have been offered bribes in the course of their duties, giving them a safe 24-hour telephone or e-mail channel through which to report the uncomfortable event.

Protecting whistleblowers

Employees are encouraged to report any incident they suspect violates the Code of Ethics or relevant laws to KDB's compliance officers. Strict whistleblower guidelines guarantee that the report will remain confidential, and stipulate appropriate rewards to incentivize reporting.

KDB Compliance Programs

Compliance monitoring and review

KDB's Compliance Department conducts regular reviews of individual staff members' compliance with the company's ethical management codes and principles. The Department may issue recommendations for corrective measures and system improvements in case it discovers any problems or shortcomings.

Preemptive action to minimize compliance risk

To minimize the Bank's legal risk, the Compliance Department reviews all new strategies and business activities, including contracts and new products. The Department also reviews requests from outside parties for disclosure of KDB's business information, and complies with requests that satisfy the relevant disclosure regulations. Open information-sharing is a key strategy for reinforcing KDB's image and reputation.

Anti-money laundering measures

KDB employees and executives are strictly forbidden to engage in money laundering activities. Any transaction suspected of involving illegal funds or having any connection to crime or terrorism must be reported immediately to compliance officers and government authorities. The Bank's by-laws include reporting guidelines for large cash transactions and Know-Your-Customer clauses to prevent KDB from being used as a money laundering channel. KDB also strictly observes international policies when conducting transactions with correspondent banks.

KDB will continue to develop and launch various practical systems and campaigns to strengthen the Bank's culture of ethical conduct. Everyone at KDB is committed to ethical business conduct, starting with their own personal actions and decisions. With proper training reinforced by a culture of compliance, KDB will lead the way in strengthening the financial industry and eliminating unfair business practices.

KDB believes the leader of the banking and financial industry should also demonstrate leadership incorporate philanthropy. The Bank earns respect from society by sharing its good fortune through scholarships, microcredit, volunteer work and financial donations for many worthy causes.

Community Service



KDB's contribution to economic and industrial development extends beyond meeting funding needs. As a policy bank, KDB is also expected to operate active and effective social contribution programs that win public trust and respect. As the financial crisis continues and an increasing number of citizens find themselves facing hardship, KDB will set an example as a caring corporate citizen that contributes generously to society and promotes a culture of sharing through volunteer works.

Sharing Good Fortune with the Underprivileged

In addition to year-end financial contributions made by the Bank employees and executives, KDB also runs volunteer programs under which employees donate their time and skills to orphanages and centers for the disabled.

One particularly special event in 2008 was inviting children from Kwidun Elementary School in Gangwon Province to visit the Bank's headquarters and enjoy sightseeing and other fun events. Support levels were raised for low-income families, underfed children and elderly singles. Also, KDB employees give generously each year to the 'Love Sharing – Blood Donation Campaign'. The support for the Campaign is directed to the Korean Association of Children with Leukemia and Cancer (KACLC), which receives blood donor certificates and the Bank's financial donation to contribute to caring for young cancer patients.

Helping Youths Realize Their Dreams

The KDB Scholarship Program is funded by contributions by the Bank and its employees who agree to round down their monthly paychecks to the nearest KRW 10,000, donating the surplus. Sufficient resources are on hand to enable around 300 disabled students to attend elementary, middle and high schools, giving them a chance to pursue dreams for their future. Since August of 2007, KDB has participated in the 'One Company – One School' campaign to raise the quality of public education. The Bank's active support for the campaign has helped to train qualified teachers, launch new education programs, create special-needs classes and fund after-school programs.

Moreover, in collaboration with the Junior Achievement Program in Korea (JA-Korea), a non-profit organization providing economic education free of charge to young students, KDB dispatches volunteers to support JA-Korea's education programs. In addition, KDB delivers on-the-spot training to children of its own employees and customers every year through 'Children's Economics Study Camp' and 'Bank Teller Role-Playing School.'



Mutually-supportive Relationships with Rural Communities

In 2004, KDB joined a national campaign called 'One Company – One Rural Village', setting up a sister community relationship with Yangjiri Village in Gangwon Province. The benefits to the Bank include recreational activities such as rafting, handicrafts, bird watching and hiking through the beautiful mountainous terrain. Another bonus for the city dwellers is the opportunity to purchase the village's home-grown agricultural products. In the summer, the Bank's staff operates a finance & economics camp, and in 2008, KDB invited residents of Yangjiri Village to Seoul. KDB has also funded the construction of an agricultural museum and sponsored a Kimchi-making festival in Yangjiri.



KDB Love Sharing Foundation

Since the launch of the KDB Volunteer Corps in 1996, KDB's employees have participated in numerous activities under the motto 'Healthy Family, Healthy Workplace, Healthy Society'. In 2005, a dedicated Community Service Team was formed to organize and control the Bank's various CSR activities. In October of 2007, KDB established the 'KDB Love Sharing Foundation', earmarking 1% of annual net income (excluding valuation gains) for the Foundation to finance its activities.

KRW 500 million was donated by the KDB Start-up Fund to the Social Solidarity Bank (SSB) for disbursement to low-income families and people experiencing financial hardship. The KDB Start-up Fund was created to offer a second chance to entrepreneurs whose businesses failed to create sufficient cash, provided that they were willing and able to rehabilitate their business model to raise their chances of success. Following a microcredit model, the Bank extends loans up to KRW 20 million per person, offering conditions of 2% interest on a 42-month installment plan, with 6 months of deferred payments. In the past four years, KDB has helped business owners with KRW 1.6 billion in loans.

Mecenat Support for Arts & Culture

KDB is a strong believer in the Mecenat philosophy of partnership between corporations and the arts & culture. The Bank hopes that its efforts will encourage more people to experience and enjoy cultural events. KDB is an enthusiastic supporter of classical music, presenting two to three classical concerts each year. In 2008, KDB sponsored 'Ewha-Wellesley Conference', 'e-Daily's Love Sharing Concert' and the 'Concert for KDB Customers'. Its Mecenat support serves the dual purpose of giving local audiences greater access to high-quality cultural performances and contributing to the globalization of Korean arts.



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Management's Discussion & Analysis

I. Financial Summary of 2008

	(In billions of KRW)	
	2008	2007
Income statement		
Interest Income	5,801	4,479
Net Interest Income	804	241
Operating Income	890	1,142
Net Income	350	2,048
Profitability		
Return on Assets	0.24%	1.75%
Return on Shareholders' Equity	2.05%	11.31%
Net Interest Margin	0.73%	0.20%
Balance Sheet		
Total Assets	157,613	122,616
Total Liabilities	141,897	104,029
Total Shareholders' Equity	15,716	18,587
Asset Quality		
NPL Ratio	1.19%	0.98%
Loan Loss Coverage Ratio	104.24%	126.75%
Capital Adequacy		
BIS Ratio	13.61%	16.50%
Tier I CAR	12.16%	13.99%
Tier II CAR	1.45%	2.51%

The Management's Discussion & Analysis ("MD&A") mainly highlights key information, and therefore may not include all of the information deemed significant by readers of the Annual Report. The MD&A may contain forward-looking statements which are related to Korea Development Bank's business and operational results and reflect its current views with respect to future events and financial performance. These statements are subject to risks and uncertainties, which may cause actual results to differ materially from those anticipated. This MD&A is presented on a non-consolidated basis and has been classified in accordance with Korean GAAP. The term 'the Bank' used herein without any other qualifying description refers to Korea Development Bank.

II. Executive Summary

The sales environment deteriorated in 2008 as the financial crisis led to market volatility and declining economic activity, both in Korea and overseas. Despite the worsening economic picture, KDB increased its support for SMEs experiencing temporary financial hardship. The Bank fulfilled its role as a policy bank to carry out this lending activity, which was based on thorough credit analysis of all applicants. The surge in new loans in 2008 raised the Bank's assets above KRW 150 trillion for the first time. Interest income in 2008 amounted to KRW 5.8 trillion, up 29.5% from the previous year, while NIM increased 0.53%p YoY to 0.73%, helping to stabilize the Bank's revenues.

However, due to net valuation loss on securities accounted for under the equity method recording KRW 510 billion in 2008, net income dropped to KRW 350 billion. Profitability as measured by ROA recorded 0.24%, while ROE came to 2.05%.

Total assets as of year-end 2008 stood at KRW 157.6 trillion, up 28.5% YoY, while liabilities rose 36.4% to KRW 141.9 trillion. Shareholders' equity declined 15.4% to KRW 15.7 trillion due to a sizable write-down of other accumulated comprehensive income.

The Bank's NPL ratio increased 0.21%p YoY to close at 1.19%, owing to rises in NPL figures amid general weakness of the economy. The loan loss coverage ratio accordingly posted a 22.51%p YoY fall to 104.24%. Notably, however, the Bank's total provisions for loan losses remain above the minimum levels set by the Financial Supervisory Service (FSS), indicating that provisions are adequate to absorb any potential further NPL losses.

The BIS ratio closed at 13.61%, down from 16.50% a year earlier. The decline results from an increase in risk-weighted assets following a surge in total loans and investments during 2008, and a fall in capital adequacy due to negative gains on valuation of securities. Nonetheless, KDB maintains the highest BIS ratio among Korea's domestic banks.

III. Summary of Operating Results

The Bank's operating income recorded a decline from KRW 1,142 billion in 2007 to KRW 890 billion in 2008, due largely to a fall in net non-interest income. Net interest income increased 233.6% YoY due to a higher net interest spread (NIS). Net non-interest income recorded a significant decline due to loss from valuation of hedged items, caused by the rapidly falling value of the Korean currency. Moreover, net non-operating income moved to a loss of KRW 518 billion due to precipitous drops in equity method investments particularly in the case of Korea Electric Power Corporation (KEPCO). Net income was, therefore, down significantly from the previous year, closing at KRW 350 billion.

Table 1. Income Statements

(In billions of KRW)

	2008	2007
Operating Income	890	1,142
Net Interest Income	804	241
Net Non-Interest Income	86	901
Net Non-Operating Income	-518	1,465
Income Tax Expense (-)	22	559
Net Income	350	2,048

Management's Discussion & Analysis

1. Net Interest Income

Net interest income posted an increase of KRW 563 billion to KRW 804 billion in 2008 due to higher NIS and the repayment of ABS (asset-backed securities) subordinated bonds worth KRW 433 billion. NIS improved from 0.65% in 2007 to 1.14% in 2008, posting a 0.49%p rise YoY. Excluding the temporary interest income due to the ABS, net interest income grew by KRW 130 billion YoY to reach KRW 371 billion in 2008.

Interest income increased 29.5% YoY to record KRW 5.8 trillion in 2008, in response to higher interest rates. In detail, interest income on operation of securities amounted to KRW 2.0 trillion, while interest income on loans posted KRW 3.7 trillion.

Interest expense in 2008 rose 17.9% YoY to KRW 5.0 trillion from 4.2 trillion in 2007. Interest expense on bonds payable grew 18.5% YoY to KRW 3.1 trillion, attributable to higher financing costs in the wake of the continuing financial crisis. However, with improved management of assets & liabilities and dynamic business activities, interest income growth exceeded growth in interest expense, resulting in significant expansion of net interest income.

Table 2. Net Interest Income

(In billions of KRW)

Category	2008	2007
Interest Income	5,801	4,479
Interest on Loans	3,693	3,082
Interest on Securities	1,966	1,267
Interest on Deposits	118	86
Other Interest Income	24	44
Interest Expense	4,997	4,238
Interest on Bonds Payable	3,062	2,584
Interest on Borrowings	1,323	1,153
Interest on Deposits	582	466
Other Interest Expenses	30	35
Net Interest Income	804	241

2. Net Non-Interest Income

Net non-interest income stood at merely KRW 86 billion for the year. The steep decline from the previous year's total came as a result of losses from valuation of hedged items arising from the Korean won's falling exchange rate despite the increase in net gain for derivatives. By item, net income from fees & commissions rose KRW 7 billion YoY as financial consulting fees & commissions increased by KRW 5.8 billion and syndicated loan income rose by KRW 3.4 billion. Net gain from derivative financial instruments was augmented by 3.8 times YoY to reach KRW 1.4 trillion. Meanwhile, total provisioning inclined by KRW 185 billion YoY to KRW 397 billion in response to increased occurrence of NPLs amid the economic downturn. Other non-interest income swung to a loss of KRW 1.3 trillion as net gain on foreign currency transaction of KRW 1.4 trillion was insufficient to offset losses of KRW 2.6 trillion on valuation of hedged items.

Table 3. Net Non-Interest Income

(In billions of KRW)

	2008	2007
Net Income from Fees & Commissions	284	277
Net Gain from Securities	582	404
Net Gain from Derivative Financial Instruments	1,372	365
Total Provisioning (-)	397	212
General & Administrative Expenses (-)	432	409
Others	-1,323	476
Net Non-Interest Income	86	901

3. Net Credit Expenses

Total provisioning at year-end 2008 climbed 87.3% YoY to KRW 397 billion, driven by depreciation of the won and the rise in NPL occurrences, as well as additional provisioning for the restructuring of SsangYong Motor, and shipbuilding and construction companies. Reversal of provision went up KRW 196 billion YoY to KRW 374 billion, and provision for possible loan losses recorded KRW 328 billion. Provision for possible losses from guarantees & acceptances increased by 46.2% YoY to KRW 38 billion, and provisions for possible losses from unused loan commitments rose by 106.7% YoY to KRW 31 billion.

Despite a higher YoY net gain from disposal of loans, net credit expenses for 2008 posted a 91.9% increase to KRW 378 billion.

Table 4. Net Credit Expenses

(In billions of KRW)

	2008	2007
Total Provisioning	397	212
Provision for Possible Loan Losses	328	171
Provision for Possible Losses from Guarantees & Acceptances	38	26
Provision for Possible Losses from Unused Loan Commitments	31	15
Net Gain from Disposal of Loans (-)	19	15
Net Credit Expenses	378	197

Management's Discussion & Analysis

4. Net Non-Operating Income

In line with the downturn in the real economy, the management performance of companies holding equity investments from the Bank weakened. Accordingly, the 2008 net valuation gain on securities accounted for under the equity method turned to minus KRW 510 billion from positive KRW 1,469 billion a year earlier. This recognition had a significant effect on the Bank's reported net income. In particular, the Bank's large stake in KEPCO, which could not pass on higher raw materials prices to its customers, accounted for KRW 623 billion of the total loss in equity method investments. The Bank did benefit from positive gains on its holdings of Daewoo Shipbuilding & Marine Engineering and STX Pan Ocean, which partially offset the overall decline in non-operating income.

As a result, net non-operating income shifted from a gain of KRW 1,465 billion in 2007 to a loss of KRW 518 billion in 2008.

Table 5. Net Non-Operating Income

(In billions of KRW)

	2008	2007
Net Valuation Gain on Securities Accounted for Under the Equity Method	-510	1,469
Others	-8	-4
Net Non-Operating Income	-518	1,465

IV. Assets

The Bank's total assets surpassed the KRW 150 trillion mark for the first time in 2008, rising KRW 35.0 trillion to record KRW 157.6 trillion at year-end. In detail, cash & due from banks increased KRW 1.5 trillion YoY, while loans receivables rose KRW 19.0 trillion on higher sales. Derivative financial instruments holdings recorded valuation gains owing to volatile exchange rates and interest rates, soaring 384.9% YoY to KRW 16.7 trillion. In contrast, securities holdings declined by KRW 586 billion YoY to close at KRW 53.4 trillion, based largely on the sale of securities and valuation losses under the equity method.

Table 6. Assets

(In billions of KRW)

	2008	2007
Cash & Due from Banks	4,437	2,894
Securities	53,403	53,989
Loans Receivables	76,066	57,032
Derivative Financial Instruments	16,739	3,452
Property & Equipment	637	634
Other Assets	6,331	4,615
Total Assets	157,613	122,616

1. Loans Receivables

Loans receivables amounted to KRW 76.1 trillion, up KRW 19.0 trillion YoY. The rise is attributable to growth in funds supplied to SMEs and large corporations for CAPEX and technology development. Core loans accounted for 70% of total loans receivables.

Core loans balance amounted to KRW 56.1 trillion at year-end, up 42.5% YoY. By currency, loans in Korean won rose 42.1% YoY to KRW 34.9 trillion. Foreign currency loans, in KRW terms, rose 43.2% to KRW 21.2 trillion; in USD terms the same loans posted a 6.8% growth to USD 16.8 billion.

Loans increased to most industrial sectors, including manufacturing. Loans to manufacturing enterprises comprised 57.2% of total core loans, increasing 40.6% YoY. Loans to banking & insurance companies expanded 44.4% YoY, while loans to the transportation & communications sectors grew 42.5%.

Table 7. Core Loans

(In billions of KRW)

	2008	2007
By Currency		
In Local Currency	34,901	24,564
In Foreign Currency	21,180	14,795
Total	56,081	39,359
By Industry		
Manufacturing	32,069	22,807
Banking & Insurance	4,157	2,879
Transportation & Communications	5,982	4,136
Public Administration	2,051	1,807
Electric, Gas & Water Supply	2,976	2,561
Others	8,846	5,169
Total	56,081	39,359

Management's Discussion & Analysis

2. Securities

Securities assets closed at KRW 53.4 trillion, down KRW 586 billion YoY. The decline was due to valuation losses on securities accounted for using the equity method and the sale of foreign currency securities, particularly trading securities.

By item, trading securities posted a 56.7% YoY fall to KRW 426 billion, mostly due to the sale of foreign currency-denominated securities.

Available-for-sale securities notched a 0.7% rise to KRW 37.1 trillion based on rising investments in corporate bonds and private equity funds. Held-to-maturity securities recorded a 15.7% YoY gain to KRW 3.1 trillion, due largely to new investment in government and public bonds.

Securities accounted for under the equity method closed at KRW 12.8 trillion, down 5.2% YoY as invested companies posted weaker performance amid the general economic downturn.

Table 8. Securities

(In billions of KRW)

	2008	2007
Trading Securities	426	983
Available-for-Sale Securities	37,087	36,846
Held-to-Maturity Securities	3,120	2,696
Securities Accounted for Under the Equity Method	12,770	13,464
Total	53,403	53,989

V. Liabilities & Shareholders' Equity

The Bank's liabilities increased to KRW 141.9 trillion, up 36.4% from the previous year, due to expanding deposits and increased issuance of industrial finance bonds (IFBs). IFBs make up the largest portion of liabilities at KRW 68.9 trillion, up 22.3% YoY based on the Bank's active fund-raising to finance loans and venture investments. Deposits, meanwhile, jumped 74.3% YoY to KRW 16.8 trillion following active marketing efforts to raise the Bank's deposit base. Derivative financial instruments liabilities posted a 412.1% YoY rise to KRW 15.7 trillion as exchange rate and interest rate volatility drove up valuation losses.

Shareholders' equity recorded a 15.4% decline YoY, closing at KRW 15.7 trillion. Despite additional paid-in capital of KRW 500 billion from the Korean government and increase in retained earnings, shareholders' equity posted a negative growth due to increase in losses on valuation of available-for-sale securities and losses on the Bank's shares of companies under restructuring acquired through debt-to-equity swap.

Table 9. Liabilities & Shareholders' Equity

(In billions of KRW)

	2008	2007
Deposits	16,769	9,621
Borrowings	31,624	28,038
Industrial Finance Bonds	68,861	56,295
Derivative Financial Instruments	15,748	3,075
Other Liabilities	8,895	7,000
Total Liabilities	141,897	104,029
Total Shareholders' Equity	15,716	18,587
Total Liabilities and Shareholders' Equity	157,613	122,616

VI. Recent Accounting Developments

KDB formed a new IFRS team and adopted K-IFRS at the end of December, 2007 to prepare for the full adoption of IFRS in 2011. IFRS is scheduled to be applied to all listed companies in Korea by 2011, at which time financial statements will be based on records from 2009 onward. KDB's roadmap for IFRS introduction is as follows:

Table 10. KDB's Roadmap for IFRS Introduction

Year	Key Tasks
2008	<ul style="list-style-type: none"> • Prepare preliminary notification guidelines on the impact of K-IFRS (July) • Complete revision of related laws (including the Act on External Audit of Stock Companies and the Financial Investment Services and Capital Markets Act) • Release translated working-level K-IFRS guidelines • Raise general awareness of IFRS introduction
2009	<ul style="list-style-type: none"> • Be the first company to apply K-IFRS • Formulate simplified accounting standards for unlisted companies • Issue first public announcement on the effect of K-IFRS
2010	<ul style="list-style-type: none"> • Issue second public announcement on the effect of K-IFRS
2011	<ul style="list-style-type: none"> • Be the first company in Korea to release IFRS-compliant financial statements • Disclose IFRS-compliant quarterly and semi-annual consolidated financial statements • Initiate the application of standard guidelines for non-listed companies

Management's Discussion & Analysis

VII. Asset Quality

Total credit as of the end of 2008 reached KRW 90 trillion, up 33.7% YoY due to dynamic business activities. In detail, normal credit expanded by KRW 21.9 trillion YoY to KRW 88.1 trillion. Precautionary credit rose KRW 349 billion to KRW 792 billion, driven mainly by the impact of work-out programs imposed on financially weak construction and shipbuilding companies. Substandard & below credit climbed KRW 409 billion to close at KRW 1,069 billion, based on the deteriorating asset quality of indebted companies, including SsangYong Motor. Accordingly, the Bank's NPL ratio (substandard & below/total credit) edged up by 0.21%p YoY to 1.19%, remaining below the Bank's target ceiling of 1.5%.

The loan loss coverage ratio declined by 22.51%p YoY to 104.24% as NPLs occurring in January of 2009 were retroactively posted to the Bank's 2008 statements of account. The Bank has set aside reserves of over KRW 98.9 billion, in excess of the FSS's required minimum reserve, thereby being fully prepared for potential future credit losses.

Table 11. Asset Quality

(In billions of KRW)

	2008	2007
Normal	88,108	66,207
Precautionary	791	443
Substandard	914	629
Doubtful	10	3
Estimated Loss	145	28
Total Credit	89,968	67,310
Substandard & Below	1,069	660
NPL Ratio	1.19%	0.98%
Loan Loss Reserve	1,114	837
Loan Loss Coverage Ratio	104.24%	126.75%
Delinquency Ratio	0.81%	0.73%

VIII. Capital Adequacy

Total BIS capital recorded KRW 17.2 trillion at year-end 2008, down KRW 2.0 trillion despite a capital increase of KRW 500 billion. The decline is attributed to large-scale net valuation losses and the introduction of Basel II, which placed more conservative capital requirements on subordinated securitization exposure. Meanwhile, risk-weighted assets increased by KRW 9.9 trillion YoY to KRW 126.2 trillion based on higher yearly sales. Accordingly, the Bank's BIS ratio decreased by 2.89%p from 16.50% at year-end 2007 to 13.61% in 2008.

Korea's FSS introduced the Basel II Accord in January 2008, first adopting the standard approach and the foundation internal-ratings based approach (F-IRB). The advanced approach is scheduled to be applied from 2009. KDB acquired approval to apply the F-IRB approach to credit risk starting from July 2008. The Bank uses the standard approach to manage market risk and operational risk.

Table 12. Capital Adequacy

(In billions of KRW)

	2008	2007
Total Risk-Weighted Assets	126,181	116,299
Total Risk-based Capital	17,173	19,193
Tier I Capital	15,338	16,272
Tier II Capital	1,835	2,921
BIS Ratio (%)	13.61%	16.50%
Tier I CAR	12.16%	13.99%
Tier II CAR	1.45%	2.51%

Report of Independent Auditors

RSM International

5th FL, Samwhan Kamu Bldg, 17-3,
Yoido-Dong, Youngdeungpo-Ku, Seoul, 150-010, Korea

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, 2008, and the related non-consolidated statements of income, appropriations of retained earnings, and cash flows and changes in shareholders' equity for the year ended December 31, 2008, 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. The financial statements of the Bank for the year ended December 31, 2007, presented herein for comparative purposes, were audited by Samil Pricewaterhouse Coopers whose report dated March 27, 2008, expressed an unqualified opinion on those statements.

We conducted our audits in conformity with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform our audits 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 non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Korea Development Bank as of December 31, 2008 and the results of its operations, the changes in its retained earnings, the changes in its shareholders' equity and its cash flows for the years ended December 31, 2008 in conformity with accounting principles generally accepted in the Republic of Korea.

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, changes in shareholders' equity 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 financial statements are for use by those who are informed about Korean accounting principles or auditing standards and their application in practice.



Seoul, Korea
January 23, 2009

This report is effective as of January 23, 2009, 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 non-consolidated 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.

Non-Consolidated Balance Sheets

December 31, 2008 and 2007

(in millions of Korean won)

	2008	2007
Assets		
Cash and due from banks (Note 3)	4,437,123	2,893,757
Securities (Note 4)	53,402,994	53,988,638
Loans receivable, net of allowance for possible loan losses of ₩1,047,704 million (2007: ₩810,371 million) (Note 5)	76,065,772	57,031,868
Property and equipment, net (Note 6)	636,565	634,598
Derivative financial instruments (Note 14)	16,739,420	3,451,594
Other assets, net (Note 7)	6,330,827	4,615,490
Total assets	157,612,701	122,615,945
Liabilities and Shareholders' Equity		
Deposits (Note 8)	16,768,529	9,621,272
Borrowings (Note 9)	31,624,230	28,037,860
Industrial finance bonds, gross of premium on bonds of ₩5,251 million (2007: ₩8,085 million) and net of discount on bonds of ₩33,323 million (2007: ₩45,842 million) (Note 10)	68,860,778	56,295,271
Allowance for possible guarantee losses (Note 12)	113,669	75,944
Allowance for unused loan commitment (Note 12)	102,960	71,559
Accrued severance benefits, net	87,244	73,083
Derivative financial instruments (Note 14)	15,748,415	3,075,374
Other liabilities (Note 11)	8,591,541	6,778,898
Total liabilities	141,897,366	104,029,261
Commitments and contingencies (Note 13)		
Shareholders' equity		
Paid-in capital (Note 15)	8,741,861	8,241,861
Capital surplus (Note 15)	44,373	44,373
Accumulated other comprehensive income (Note 15)	(249,014)	3,203,747
Retained earnings	7,178,115	7,096,703
Total shareholders' equity	15,715,335	18,586,684
Total liabilities and shareholders' equity	157,612,701	122,615,945

The accompanying notes are an integral part of these non-consolidated financial statements.
See Report of Independent Auditors.

Non-Consolidated Statements of Income

Years ended December 31, 2008 and 2007

(in millions of Korean won)

	2008	2007
Interest income		
Interest on loans	3,693,332	3,082,062
Interest on due from banks	118,035	86,418
Interest on trading securities	46,538	84,791
Interest on available-for-sale securities	1,752,822	1,073,064
Interest on held-to-maturity securities	165,949	109,204
Other interest income	24,204	43,496
	5,800,880	4,479,035
Interest expense		
Interest on deposits	581,471	466,352
Interest on borrowings	1,323,066	1,153,441
Interest on bonds payable	3,062,445	2,583,734
Other interest expenses	30,097	34,841
	4,997,079	4,238,368
Net interest income	803,801	240,667
Provision for loan losses (Note 5)	328,059	171,118
Net interest income after provision for loan losses	475,742	69,549
Non-interest revenue		
Fees and commissions	318,629	301,279
Gain from trading securities	51,123	37,441
Gain from available-for-sale securities	724,016	482,935
Gain from derivative financial instruments	33,843,552	5,625,685
Others (Note 16)	3,392,792	1,652,296
	38,330,112	8,099,636
Non-interest expense		
Fees and commissions	34,942	24,804
Loss from trading securities	59,980	54,328
Loss from available-for-sale securities	132,921	61,674
Loss from derivative financial instruments	32,471,100	5,260,762
General and administrative expenses (Note 17)	432,208	408,509
Others (Note 16)	4,784,619	1,217,397
	37,915,770	7,027,474
Operating income	890,084	1,141,711
Non-operating income, net (Note 18)	(517,439)	1,464,530
Income before income tax expense	372,645	2,606,241
Income tax expense (Note 19)	22,316	558,637
Net income	350,329	2,047,604

The accompanying notes are an integral part of these non-consolidated financial statements.
See Report of Independent Auditors.

Non-Consolidated Statements of Appropriations of Retained Earnings

Years ended December 31, 2008 and 2007

DATES OF APPROPRIATION : MARCH 4, 2009 AND MARCH 31, 2008
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007, RESPECTIVELY)

(in millions of Korean won)

	2008	2007
Retained earnings before appropriations		
Unappropriated retained earnings carried over from prior year	-	(385,809)
Effects on valuations of equity method investments	31,083	1,160
Net income	350,329	2,047,604
	381,412	1,662,955
Appropriation of retained earnings		
Legal reserve	381,412	1,362,955
Dividends	-	300,000
	381,412	1,662,955
Unappropriated retained earnings carried forward to subsequent year	-	-

The accompanying notes are an integral part of these non-consolidated financial statements.
See Report of Independent Auditors.

Non-Consolidated Statement of Changes in Shareholder's Equity

Years ended December 31, 2008 and 2007

(in millions of Korean won)

	Paid-in capital	Capital surplus	Accumulated other comprehensive income	Retained earnings	Total
January 1, 2007	8,241,861	44,373	2,481,174	5,347,118	16,114,526
Adjustments to retained earnings from equity method investments	-	-	-	1,160	1,160
Dividends	-	-	-	(299,179)	(299,179)
Net income	-	-	-	2,047,604	2,047,604
Gain on valuation of available-for-sale securities	-	-	815,185	-	815,185
Gain on valuation of equity method investments	-	-	(92,612)	-	(92,612)
December 31, 2007	8,241,861	44,373	3,203,747	7,096,703	18,586,684
January 1, 2008	8,241,861	44,373	3,203,747	7,096,703	18,586,684
Adjustments to retained earnings from equity method investments	-	-	-	31,083	31,083
Dividends	-	-	-	(300,000)	(300,000)
Investment in kind	500,000	-	-	-	500,000
Net income	-	-	-	350,329	350,329
Gain on valuation of available-for-sale securities	-	-	(3,110,858)	-	(3,110,858)
Gain on valuation of equity method investments	-	-	(341,903)	-	(341,903)
December 31, 2008	8,741,861	44,373	(249,014)	7,178,115	15,715,335

The accompanying notes are an integral part of these non-consolidated financial statements.
See Report of Independent Auditors.

Non-Consolidated Statements of Cash Flows

Years ended December 31, 2008 and 2007

(in millions of Korean won)

	2008	2007
Cash flows from operating activities		
Net income	350,329	2,047,604
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	21,154	20,401
Provision for loan losses	328,059	171,118
Loss(Gain) on trading securities, net	(9,490)	18,129
Loss(Gain) on available-for-sale securities, net	299,667	278,052
Loss(Gain) on equity method investments, net	509,882	(1,530,545)
Gain on foreign currencies translation, net	(1,267,148)	(223,643)
Gain from derivative financial instruments, net	(753,986)	(338,006)
Loss on valuation of hedged items, net	2,598,822	500,813
Retirement allowance	31,008	27,886
Others, net	(118,386)	(248,318)
	1,639,582	(1,324,113)
Changes in operating assets and liabilities		
Increase in other accounts receivable	(2,292,138)	(951,387)
Increase in other accounts payable	2,514,601	959,119
Disposal of trading securities	566,099	561,774
Acquisition of available-for-sale securities	(4,143,647)	(5,457,447)
Acquisition of held-to-maturity securities	(423,895)	(1,248,058)
Disposal(Acquisition) of equity method investments	(355,083)	649,794
Acquisition of loans receivable	(18,090,030)	(6,244,910)
Net increase in derivative financial instruments	(2,459,621)	(564,046)
Payment of severance benefits	(17,552)	(11,044)
Receipt of dividends	271,564	250,435
Others, net	1,038,983	310,506
	(23,390,719)	(11,745,264)
Net cash used in operating activities	(21,400,808)	(11,021,773)

Non-Consolidated Statements of Cash Flows

Years ended December 31, 2008 and 2007

(in millions of Korean won)

	2008	2007
Cash flows from investing activities		
Acquisition of property and equipment, net	(25,427)	(6,711)
Others, net	(1,560,793)	(1,442,127)
Net cash provided by(used in) investing activities	(1,586,220)	(1,448,838)
Cash flows from financing activities		
Decrease in deposits, net	7,147,257	(303,681)
Increase in borrowings, net	4,306,827	1,728,906
Increase in bonds issued, net	12,537,063	9,205,980
Others, net	(1,006,602)	1,847,039
Net cash provided by financing activities	22,984,545	12,478,244
Net increase(decrease) in cash and cash equivalents	(2,483)	7,633
Cash and cash equivalents		
Beginning of year	60,763	53,130
End of year	58,280	60,763

The accompanying notes are an integral part of these non-consolidated financial statements.
See Report of Independent Auditors.

Notes to Non-Consolidated Financial Statements

December 31, 2008 and 2007

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 manufacturing industry and others. The Bank has 44 local branches, seven overseas branches, five overseas subsidiaries and two overseas offices as of December 31, 2008. The Bank is engaged in the banking business under the Korea Development Bank Act and in the trust business in accordance with 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 non-consolidated financial statements are summarized below:

Basis of Financial Statement Presentation

The Bank operates both commercial banking business and 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 accounting records in Korean won and prepares statutory financial statements in the Korean language in conformity with 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 non-consolidated 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 non-consolidated financial statements, but not required for a fair presentation of the Bank's financial position, results of operations, or cash flows is not presented in the accompanying non-consolidated financial statements.

Accounting Estimates

The preparation of the non-consolidated financial statements requires management to make estimates and assumptions that affect amounts reported herein. Although these estimates are based on management's best knowledge of current events and actions that the Bank may undertake in the future, actual results may differ from those estimates.

Application of the Statements of Korean Financial Accounting Standards

The Korean Accounting Standards Board has published a series of Statements of Korean Financial Accounting Standards (SKFAS), which will gradually replace the existing financial accounting standards established by the Korean Financial Supervisory Commission. Significant accounting policies adopted by the Bank for the financial statement are identical to the accounting policies followed by the Bank for the annual financial statements for the year ended December 31, 2007.

Notes to Non-Consolidated Financial Statements

December 31, 2008 and 2007

By following 06-2 of the Korean Accounting Statement Implementation, '*accounting treatment for taxable earnings associated with investment in subsidiaries, associates, and joint ventures*,' which was revised on February 22, 2008, method of recognizing deferred income taxes associated with equity method investment has changed. The beginning balance of the previous year retroactively reflects this policy change. Impact from the policy change includes ₩391,640 million increase in deferred income tax payable and decrease in retained earnings, capital adjustment in equity investment, and negative capital adjustment in equity method investment by ₩385,809 million, ₩7,160 million, ₩1,329 million in each respect. Accumulated effects from the policy change have been handled prospectively, since the accumulated effects can not be measured rationally.

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.

Allowance 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 financial and non-financial factors of borrowers and classifies the borrowers' credit risk. Allowances are determined by applying the following minimum percentages to the various credit risk ratings:

Loan classifications	Minimum provision percentages
Normal	0.85%
Precautionary	7%
Substandard	20%
Doubtful	50%
Expected loss	100%

Loan Origination Fees and Costs

Loan origination fees are deferred and subtracted from the relevant loans whereas the costs corresponding to the loans which may expect recognizable economic value are deferred and added. It is added to or subtracted from the interest income in accordance with the amortization schedule using the effective interest rate.

Securities

Securities that are bought and held principally for the purpose of generating profits on short-term differences in price, which are actively and frequently bought and sold, are classified as trading securities. Debt securities with fixed or determinable payments and fixed maturity that the Bank has the intent and ability to hold to maturity are classified as held-to-maturity securities. Investments classified as neither trading securities nor held-to-maturity securities are classified as available-for-sale securities.

Trading and available-for-sale securities are carried at fair value, except for non-marketable equity securities classified as available-for-sale securities, which are carried at cost. The fair value of debt securities, which do not have a quoted market value, are calculated using the present value of future cash flows, discounted at a reasonable interest rate determined based on the credit ratings provided by independent credit rating institutions.

Unrealized holding gains or losses on trading securities are charged to current operations and those resulting from available-for-sale securities are recorded as accumulated other comprehensive income, the accumulated amount of which shall be charged to current operations when the related securities are sold or when an impairment loss on the securities is recognized.

Held-to-maturity securities are generally carried at amortized cost. Premiums and discounts on debt securities are amortized until their maturity using the effective interest rate method.

Impairment losses are recognized in the statement of income when the recoverable amounts are less than the acquisition cost of equity securities or amortized cost of debt securities.

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

- Investees having total assets of less than ₩7,000 million
- Investees under court receivership or bankruptcy
- Investees under the process of being sold
- Converted shares of stock with a restriction on disposal under the corporate restructuring law

The Bank discontinues the equity method of accounting for investments in associates when the Bank's share of accumulated losses equals the costs of the investments. The Bank continues to do so until the subsequent cumulative changes in its proportionate net income of the associate equal its cumulative proportionate net losses not recognized during the periods when the equity method was suspended.

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

Property and Equipment, and Related Depreciation

Property 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:

Classifications	Estimated useful lives
Buildings	20 ~ 50 years
Furniture and fixture	10 ~ 40 years
Computer equipment	4 years
Vehicles	4 years
Others	4 years

Notes to Non-Consolidated Financial Statements

December 31, 2008 and 2007

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.

The Bank recognizes an impairment loss when the carrying amount of an asset exceeds its recoverable amount. The impairment loss is recognized in the statement of income and is deducted from the acquisition cost of the impaired asset. If there is subsequent recovery from the impairment, a reversal of the previous write-down is made limited to the amount of the original cost. The reversal amount of the previously recognized loss is credited to current operations as a gain.

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 to five years.

Present Value Discount

Receivables and payables arising from long-term installment transactions and other similar trading 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 an 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 a bad debt expense in the year incurred.

Foreign Currency Translation

Assets and liabilities denominated in foreign currencies are translated into Korean won at the foreign exchange rates(US\$1:₩1,257.50) as announced by the Seoul Money Brokerage Service, Ltd. in effect 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.

Accrued Severance Benefits

Employees and directors with at least one year of service are entitled to receive 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.

Allowance for Possible Guarantee Losses and Allowance for Loan Commitments

Provisions for possible losses on guarantees, acceptances and endorsed notes are based on the credit rating of the companies. The allowances for such losses are calculated by applying minimum provision percentage described as follows and credit conversion ratio. These allowances are shown in the liability section.

Additionally, the Bank provides a provision for possible loss on unused loan commitments classified as “normal.”

Classifications	Minimum provision percentages
Normal	0.85%
Precautionary	7%
Substandard	20%
Doubtful	50%
Expected loss	100%

Deferred Income Taxes

Income tax expense consists of taxes payable for the year and the change in deferred income tax assets and liabilities for the year. The Bank records deferred income tax assets or liabilities which arise from temporary differences between the amount reported for financial reporting purposes and income tax purposes. Temporary differences which increase the amount of taxable income in the future, are recognized as deferred income liabilities unless in exceptional cases. Deferred tax assets are recognized when it is more likely that they will be realized in the future. Deferred tax effects applicable to items in the shareholders' equity are directly reflected in the shareholders' equity account.

Bonds Purchased under Resale Agreement 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 is 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.

Compensation to Trust Accounts

The Bank receives management fees from trust accounts for management and custodial 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 under the banking accounts and other income under the trust accounts in accordance with the relevant laws and regulations applicable to trust operations.

Statement of Cash Flows

In the preparation of the statement of cash flows, the Bank has presented net amounts of cash inflows and cash outflows for items where the turnover is quick and the amounts are material.

Notes to Non-Consolidated Financial Statements

December 31, 2008 and 2007

3. Cash and Due from Banks

Cash and due from banks as of December 31, 2008 and 2007, are as follows:

(in millions of Korean won)

	Annual interest rates (%) as of Dec. 31, 2008	2008	2007
Cash on hand in local currency	-	50,319	56,784
Cash on hand in foreign currencies	-	7,961	3,979
Due from banks in local currency	0 ~ 6.01	2,998,737	1,825,393
Due from banks in foreign currencies	0 ~ 4.57	1,380,106	1,007,601
		4,437,123	2,893,757

Due from banks in local currency as of December 31, 2008 and 2007, are as follows:

(in millions of Korean won)

	Annual interest rates (%) as of Dec. 31, 2008	2008	2007
The Bank of Korea	-	541,119	694,695
Korea Exchange Bank	-	189	307
Kookmin Bank	6.01	91,716	125,835
Others	"	2,365,713	1,004,556
		2,998,737	1,825,393

Due from banks in foreign currencies as of December 31, 2008 and 2007, are as follows:

(in millions of Korean won)

	Annual interest rates (%) as of Dec. 31, 2008	2008	2007
The Bank of Korea	-	94,117	25,811
Shinhan Bank	4.57	12,575	49,680
Hana Bank	"	6,288	29,084
Korea Exchange Bank	"	79,223	46,764
Woori Bank	"	12,575	32,837
KDB Asia (HK) Ltd.	"	-	125,719
KDB Ireland Ltd.	"	64,676	69,396
Others		1,110,652	628,310
		1,380,106	1,007,601

Restricted deposits included in due from banks as of December 31, 2008, are as follows:

(in millions of Korean won)

Deposits	
Reserve deposits with the Bank of Korea	541,119
Kookmin Bank	91,716
Shinhan Bank	30,222
Industrial & Commercial Bank of China (ICBC) and others	137,827
	800,884

Deposits with Kookmin Bank and Shinhan Bank are pledged as collaterals. Reserve deposits with the Bank of Korea represent amounts required under the Banking Act for the payment of deposits. Reserve deposits with ICBC Shanghai represent amounts required under the related banking regulations of the People's Republic of China.

The maturities of due from banks as of December 31, 2008, are as follows:

(in millions of Korean won)

	Due from banks in local currency	Due from banks in foreign currencies	Total
Within 3 months	2,320,000	353,932	2,673,932
More than 3 ~ 6 months	57,598	92,930	150,528
More than 6 months ~ 1 year	64,340	36,064	100,404
More than 1 ~ 2 years	-	282,768	282,768
More than 2 ~ 5 years	-	100,600	100,600
More than 5 years	556,799	513,812	1,070,611
	2,998,737	1,380,106	4,378,843

4. Securities

Securities as of December 31, 2008 and 2007, are as follows:

(in millions of Korean won)

	2008	2007
Trading securities	425,691	982,509
Available-for-sale securities	37,087,395	36,845,694
Held-to-maturity securities	3,119,932	2,696,038
Equity method investments	12,769,975	13,464,397
	53,402,994	53,988,638

Notes to Non-Consolidated Financial Statements

December 31, 2008 and 2007

Trading securities as of December 31, 2008 and 2007, are as follows:

(in millions of Korean won)

	Annual interest rates (%) as of Dec. 31, 2008	2008	2007
Equity investments	-	-	33,997
Government and public bonds	5.32	277,350	157,076
Corporate bonds	5.26	141,707	264,693
Commercial papers and others	-	-	176,829
Securities in foreign currencies	6.68	6,634	349,914
		425,691	982,509

Par value, acquisition cost and fair value of trading debt securities as of December 31, 2008 and 2007, are as follows:

(in millions of Korean won)

	Par value		Acquisition cost		Fair value (Book value)	
	2008	2007	2008	2007	2008	2007
Government and public bonds	259,000	160,000	269,628	157,971	277,350	157,076
Corporate bonds	140,000	269,000	138,589	267,751	141,707	264,693
Commercial papers	-	180,000	-	176,871	-	176,829
Trading securities in foreign currencies	6,692	413,261	7,072	358,160	6,634	349,502
	405,692	1,022,261	415,289	960,753	425,691	948,100

Trading securities in foreign currencies as of December 31, 2008 and 2007, are as follows:

(in millions of Korean won ; thousands of US\$, EUR, JPY, GBP and HKD)

Foreign currencies				Equivalent in Korean won			
2008		2007		2008		2007	
US\$	5,275	US\$	84,702	₩	6,634	₩	79,467
EUR	-	EUR	19,642	-	-	-	27,131
JPY	-	JPY	30,200	-	-	-	252
GBP	-	GBP	129,611	-	-	-	242,904
HKD	-	HKD	1,331	-	-	-	160
				₩	6,634	₩	349,914

Available-for-sale securities as of December 31, 2008 and 2007, are as follows:

(in millions of Korean won)

	Annual interest rates (%) as of Dec. 31, 2008	2008	2007
Equity investments	-	10,138,197	13,448,663
Government and public bonds	4.67 ~ 6.03	819,884	911,749
Corporate bonds	5.15 ~ 7.79	19,891,132	17,972,481
Beneficiary certificates ¹	-	1,852,797	340,338
Other securities in foreign currencies	5.62	4,385,385	4,172,463
		37,087,395	36,845,694

¹ As of December 31, 2008, the Bank has investments of ₩827,234 million in private equity funds, and the details of their main assets and the operating profits are as follows:

(in millions of Korean won)

	Name of fund	Main assets	Book value	Operating profits
KDB Asset Management Co., Ltd.	KDB private placement bonds 62 and others	Government and public bonds and others	92,212	3,367
CJ Investment Trust Management Co., Ltd.	CJ private placement bonds 6-42 and others	Government and public bonds and others	81,689	2,403
Hanwha Investment Trust Management Co., Ltd.	Hanhwa boomerang private placement bonds 126	Government and public bonds and others	102,005	3,287
Others			551,328	17,095
			827,234	26,152

The above other securities in foreign currencies include the following which loses their marketability and reclassified from trade securities:

(in millions of Korean won)

	Fair value	Income/loss	Unrealized income/loss	Book value
AKERYS HOLDINGS SA	3,734	(1,123)	(1,457)	2,277

Notes to Non-Consolidated Financial Statements

December 31, 2008 and 2007

Available-for-sale equity securities, not using the equity method, as of December 31, 2008, are as follows:

(in millions of Korean won ; shares in thousands)

	Number of shares	Percentage of ownership (%)	Acquisition cost	Book value	Fair value or net book value
Korea Expressway Corporation	193,010	9.28	1,930,100	1,930,184	1,943,332
Hynix Semiconductor Inc.	32,413	7.05	286,059	199,793	199,793
Hyundai Engineering & Construction Co., Ltd.	16,290	14.66	311,384	830,130	830,130
Industrial Bank of Korea - preferred stock	46,915	-	326,906	324,701	324,701
SK Networks - common stock	28,948	11.91	150,207	230,862	230,862
Doosan Heavy Industries & Construction Co., Ltd.	12,129	11.56	205,655	762,944	762,944
GM Daewoo Auto & Technology Company - preferred stock(*)	122	-	265,259	244,411	359,482
Industrial Bank of Korea - common stock	10,490	2.37	73,094	80,668	80,668
Daewoo International Corp.	5,047	5.31	25,237	103,320	103,320
Hyundai corporation Co., Ltd.	5,032	22.53	59,113	66,117	66,117
Ssangyong Cement Industry Co., Ltd.	11,091	14.86	186,434	67,455	67,455
Others			1,669,707	1,354,648	673,651
			5,489,155	6,195,233	5,642,455

(*) GM Daewoo Auto & Technology Company -preferred stock has evaluated in accordance with the statement 28 of "Equity method" in the Statements of Korean Financial Accounting Standards. KRW 115,071million resulting from the change of investment's equity has subtracted from its book value.

Available-for-sale debt securities as of December 31, 2008 and 2007, are as follows:

(in millions of Korean won)

	Par value		Acquisition cost		Book value	
	2008	2007	2008	2007	2008	2007
Government and public bonds	807,000	963,000	817,012	970,602	819,884	911,749
Corporate bonds	20,509,822	18,617,733	20,444,392	18,470,376	19,891,132	17,972,481
Beneficiary certificates	1,824,283	314,855	1,843,042	334,026	1,852,797	340,338
Investment debt securities in foreign currencies	5,098,712	4,239,620	5,116,403	4,248,209	4,367,723	4,141,450
	28,239,817	24,135,208	28,220,849	24,023,213	26,931,536	23,366,018

Held-to-maturity debt securities as of December 31, 2008 and 2007, are as follows:

(in millions of Korean won)

	Par value		Acquisition cost		Carrying value	
	2008	2007	2008	2007	2008	2007
Government and public bonds	3,050,608	2,660,140	3,042,846	2,622,111	3,049,301	2,657,846
Corporate bonds	70,000	30,000	70,000	30,000	70,000	30,000
Investment debt securities in local currency	631	695	628	692	631	694
Investment debt securities in foreign currencies	-	7,506	-	7,468	-	7,498
	3,121,239	2,698,341	3,113,474	2,660,271	3,119,932	2,696,038

Equity method investments as of December 31, 2008 and 2007, are as follows:

(in millions of Korean won; shares in thousands)

	Number of shares	Percentage of ownership (%)	Acquisition cost		Book value		Net book value	
			2008	2007	2008	2007	2008	2007
Korea Electric Power Corporation	192,160	29.95	4,491,411	4,491,411	8,734,991	9,403,531	12,261,895	13,187,909
Daewoo Securities Co., Ltd.	74,309	39.09	548,252	548,252	931,756	915,762	931,756	915,762
Daewoo Shipbuilding & Marine Engineering Co., Ltd.	59,826	31.26	288,383	288,383	668,428	573,290	646,391	553,745
The KDB Capital Corp.	62,125	99.92	761,593	761,593	431,130	522,737	428,023	512,043
GM Daewoo Auto & Technology Company	70,706	27.97	213,206	213,206	-	364,980	-	364,980
STX Pan Ocean Co., Ltd.	32,000	15.54	31,907	31,907	346,578	275,916	352,442	282,338
KDB Asia (HK) Ltd.	140,000	100.00	135,577	135,577	183,896	173,680	183,896	173,680
Korea Tourism Organization	2,824	43.58	35,529	35,529	182,522	170,874	182,522	170,874
Korea Aerospace Industries, Ltd.	25,890	30.11	133,900	133,900	141,907	137,394	138,908	130,894
KDB Bank (Hungary) Ltd.	1,534	100.00	86,980	86,980	158,488	127,109	158,488	127,025
Others			838,696	660,493	990,279	799,124	1,015,466	785,815
			7,565,434	7,387,231	12,769,975	13,464,397	16,299,787	17,205,065

The Bank has used the most recent provisional financial statements of the investees as their respective audited financial statements were not readily available.

Notes to Non-Consolidated Financial Statements

December 31, 2008 and 2007

Details of valuation on securities using the equity method as of and for the year ended December 31, 2008, are as follows:

(in millions of Korean won)

	Jan. 1, 2008 book value	Acquisition (Disposal)	Dividends	Valuation gain(loss)	Retained earnings	Capital adjustment	Dec. 31, 2008 book value
Korea Electric Power Corporation	9,403,531	-	144,120	(622,587)	(12)	98,179	8,734,991
Daewoo Securities Co., Ltd.	915,762	-	29,724	67,606	-	(21,888)	931,756
Daewoo Shipbuilding & Marine Engineering Co., Ltd.	573,290	-	25,426	126,401	1,772	(7,609)	668,428
The KDB Capital Corp.	522,737	-	24,850	20,682	-	(87,439)	431,130
GM Daewoo Auto & Technology Company	364,980	-	-	(243,914)	-	(121,066)	-
STX Pan Ocean Co., Ltd.	275,916	-	14,720	85,662	(29)	(251)	346,578
KDB Asia (HK) Ltd.	173,680	59,109	-	(4,964)	248	(44,177)	183,896
Korea Tourism Organization	170,874	-	3,581	15,132	-	97	182,522
Korea Aerospace Industries, Ltd.	137,394	-	-	4,513	-	-	141,907
KDB Bank (Hungary) Ltd.	127,109	28,255	-	3,856	(402)	(330)	158,488
Others	799,124	189,402	29,144	37,731	29,506	(36,340)	990,279
	13,464,397	276,766	271,565	(509,882)	31,083	(220,824)	12,769,975

Financial information of investees as of and for the year ended December 31, 2008, follows:

(in millions of Korean won)

	Total assets	Total liabilities	Sales (Operating income)	Net income
Korea Electric Power Corporation	66,868,200	25,929,200	31,522,400	(2,952,500)
Daewoo Securities Co., Ltd.	13,051,355	10,668,033	4,109,300	109,471
Daewoo Shipbuilding & Marine Engineering Co., Ltd.	15,953,600	13,885,700	11,074,600	401,700
The KDB Capital Corp.	3,701,658	3,273,283	525,834	23,719
GM Daewoo Auto & Technology Company	8,848,955	7,771,652	12,310,655	(862,127)
STX Pan Ocean Co., Ltd.	4,017,305	1,705,014	6,544,898	553,853
KDB Asia (HK) Ltd.	605,117	458,877	40,409	(3,948)
Korea Tourism Organization	805,685	386,911	299,956	35,576
Korea Aerospace Industries, Ltd.	1,054,964	600,354	910,126	19,059
KDB Bank (Hungary) Ltd.	977,424	818,937	192,292	3,940

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

The accumulated unamortized equity method adjustments as of December 31, 2008 and 2007, are as follows:

(in millions of Korean won)

	2008		2007	
	Equity method adjustment debit	Equity method adjustment credit	Equity method adjustment debit	Equity method adjustment credit
Beginning balance	26,663	3,796,035	295,214	4,054,088
Increase(decrease)	9,978	52,202	(256,717)	3,698
Amortization	(13,270)	(265,779)	(11,834)	(261,751)
Ending balance	23,371	3,582,458	26,663	3,796,035

Investees in which the Bank holds more than 15% of voting shares but are not valued using the equity method as of December 31, 2008, are as follows:

(in millions of Korean won; shares in thousands)

	Number of shares	Percentage of ownership (%)	Acquisition cost	Book value	Fair value or net book value
Korea Land Corp. ¹	-	26.66	1,161,903	1,191,329	1,680,802
Hyundai Corporation	5,032	22.53	59,113	66,117	66,117
Others			452,226	388,210	243,976
			1,673,242	1,645,656	1,990,895

¹ Notwithstanding its ownership of more than 15 % in the investees as presented above, the Bank is not considered as having a significant influence over the management of these companies because the aggregate ownership percentage held by the Korean government exceeds 2/3 of the total shares of these companies.

Notes to Non-Consolidated Financial Statements

December 31, 2008 and 2007

Changes in unrealized holding gains and losses on equity method investments as of and for the years ended December 31, 2008 and 2007, are as follows:

(in millions of Korean won)

	2008				2007			
	Beginning balance	Accrual	Reversal	Ending balance	Beginning balance	Accrual	Reversal	Ending balance
KDB Capital Corporation	5,320	-	(2,213)	3,107	5,229	91	-	5,320
Daewoo Shipbuilding & Marine Engineering Co., Ltd.	19,545	2,491	-	22,036	11,162	8,383	-	19,545
Korea Aerospace Industries, Ltd.	2,410	-	(137)	2,273	1,568	842	-	2,410
KDB Bank Ireland Ltd.	1,343	517	-	1,860	1,035	308	-	1,343
KDB Bank (Hungary) Ltd.	84	-	(84)	-	64	20	-	84
	28,702	3,008	(2,434)	29,726	19,058	9,644	-	28,702

Marketable securities under the equity method as of December 31, 2008, are as follows:

(in millions of Korean won)

	Fair value	Book value
Korea Electric Power Corporation	5,687,934	8,734,991
Daewoo Shipbuilding & Marine Engineering Co., Ltd.	918,323	668,428
Daewoo Securities Co., Ltd.	951,158	931,756
STX Pan Ocean Co., Ltd.	300,798	346,578
Sewon Corporation	3,956	12,890
Donghae Pulp Co., Ltd.	30,965	22,844
	7,893,134	10,717,487

Investment debt securities denominated in foreign currencies as of December 31, 2008 and 2007, are as follows:

(in millions of Korean won ; US \$, JPY, GBP, EUR, and CNY in thousands)

Foreign currencies		Equivalent in Korean won	
2008	2007	2008	2007
Available-for-sale debt securities			
US\$ 2,194,273	2,646,763	₩ 2,759,298	₩ 2,483,193
JPY 45,531,355	66,757,483	634,657	556,310
GBP 352,589	372,715	640,884	698,504
EUR 187,411	292,083	332,884	403,443
	₩	4,367,723	₩ 4,141,450
Held-to-maturity debt securities			
US\$ -	7,992	₩ -	₩ 7,498

As of December 31, 2008, investment securities amounting to ₩17,117,701 million are pledged as collateral to KDB First Securitization Specialty Co., Ltd. and others.

With regard to futures trading, 10,235,130 shares of Korea Electric Power Corporation are pledged as a substitute for the deposits to KB Futures Co., Ltd. and others as of December 31, 2008.

The maturities of investments in available-for-sale and held-to-maturity debt securities as of December 31, 2008, are as follows:

(in millions of Korean won)

	Available-for-sale debt securities	Held-to-maturity debt securities
Within 1 year	8,043,585	1,142,458
More than 1 ~ 5 years	17,776,227	1,974,488
More than 5 ~ 10 years	1,040,376	2,986
More than 10 years	71,348	-
	26,931,536	3,119,932

Notes to Non-Consolidated Financial Statements

December 31, 2008 and 2007

Impairment losses on securities for the year ended December 31, 2008, are as follows:

(in millions of Korean won)

	Amortized cost	Impairment loss	Book value
Equity Securities			
INDTEK Co., Ltd.	4,297	4,297	-
Dream to Reality Co., Ltd.	2,000	2,000	-
Pixelchips Co., Ltd.	1,999	1,999	-
Roa Tech Co., Ltd.	1,000	1,000	-
Kwangwon Tech Co., Ltd.	1,000	1,000	-
Others	22,756	22,521	235
	33,052	32,817	235
Debt Securities			
KDB First Securitization Specialty Co., Ltd.	7,350	3,292	4,058
WASHINGTON MUTUAL INC	5,990	5,987	3
Lehman Brothers Holdings Inc	47,663	43,614	4,049
Others	3,748	3,104	644
	64,751	55,997	8,754
Beneficiary Certificate			
KDB Asset Management Corp.	6,720	800	5,920

The risk concentrations of securities held by the Bank as of December 31, 2008 and 2007, are as follows:

(in millions of Korean won)

By Country	2008	2007	Ratio (%) as of Dec. 31, 2008
Republic of Korea	51,024,776	50,429,073	95.55
USA	409,434	583,144	0.77
Thailand	61,482	58,158	0.11
Others	1,907,302	2,918,262	3.57
	53,402,994	53,988,637	100.00

(in millions of Korean won)

By Issuer	2008	2007	Ratio (%) as of Dec. 31, 2008
Korea Electric Power Corporation	8,736,820	9,403,531	16.36
Korea National Housing Corp.	1,339,838	1,311,700	2.51
Korea Expressway Corporation	1,946,359	1,462,658	3.65
Korea Land Corp.	1,191,329	1,191,329	2.23
Korea Asset Management Corp.	146,240	103,870	0.27
Others	40,042,408	40,515,549	74.98
	53,402,994	53,988,637	100.00

(in millions of Korean won)

By Industry	2008	2007	Ratio (%) as of Dec. 31, 2008
Banking and insurance	18,516,435	7,874,143	34.67
Electric, gas and water supply	10,574,095	9,721,942	19.80
Manufacturing	8,202,487	11,347,832	15.36
Construction	6,907,044	6,898,376	12.94
Public administration	1,288,351	1,945,473	2.41
Others	7,914,582	16,200,871	14.82
	53,402,994	53,988,637	100.00

Notes to Non-Consolidated Financial Statements

December 31, 2008 and 2007

5. Loans Receivable

Loans receivable as of December 31, 2008 and 2007, are as follows:

	(in millions of Korean won)	
	2008	2007
Loans receivable in local currency	34,901,217	24,564,587
Loans receivable in foreign currencies	21,179,887	14,794,765
Other loans receivable	21,032,372	18,482,887
	77,113,476	57,842,239
Less : Allowance for possible loan losses ¹	(1,047,704)	(810,371)
	76,065,772	57,031,868

¹ Present value discount and loan origination fees are included under the allowance for possible loan losses.

Loans receivable in local and foreign currencies as of December 31, 2008 and 2007, are as follows:

(in millions of Korean won)			
Annual interest rates (%) as of Dec. 31, 2008		2008	2007
Loans receivable in local currency			
Loans for working capital			
Industrial fund loans	6.69	12,705,994	8,183,554
Government fund loans	5.62	170,588	221,261
Overdraft	7.45	320,938	63,354
Others	6.69 ~ 7.13	1,916,558	1,427,102
		15,114,078	9,895,271
Loans for facilities			
Industrial fund loans	6.71	16,275,271	11,058,034
Government fund loans	5.62	779,422	820,502
Others	4.44 ~ 5.55	2,732,446	2,790,780
		19,787,139	14,669,316
		34,901,217	24,564,587

(in millions of Korean won)

Loans receivable in foreign currencies	Annual interest rates (%) as of Dec. 31, 2008	2008	2007
Loans for working capital			
Local currency loans denominated in foreign currencies	4.41	659,713	684,649
Foreign currency loans	5.34	2,464,709	2,023,888
Others	3.17	20,411	48,398
		3,144,833	2,756,935
Loans for facilities			
Local currency loans denominated in foreign currencies	4.73	3,594,709	2,445,821
Foreign currency loans	4.90	8,832,298	5,443,814
Offshore loans in foreign currencies	5.43	3,680,755	2,411,585
Loans to International Bank for Reconstruction and Development	4.69	1,927,292	1,736,610
		18,035,054	12,037,830
		21,179,887	14,794,765

(in millions of Korean won)

Other loans receivable	2008	2007
Notes purchased	5,400	4,205
Bills purchased	2,388,011	1,677,762
Advances for customers	71,508	40,514
Bonds purchased under repurchase agreements	1,395,132	429,154
Domestic import usance bills	3,684,616	2,251,451
Call loans	2,795,450	878,862
Debentures accepted by private subscription	9,436,648	11,801,594
Inter-bank loans	988,898	1,207,625
Others	266,709	191,720
	21,032,372	18,482,887

Notes to Non-Consolidated Financial Statements

December 31, 2008 and 2007

The maturities of loans receivable in local currency and foreign currencies as of December 31, 2008, are as follows:

(in millions of Korean won)

	Loans for working capital in local currency	Loans for facilities in local currency	Loans for working capital in foreign currencies	Loans for facilities in foreign currencies	Total
Within 3 months	3,491,709	606,180	395,411	624,741	5,118,041
More than 3 ~ 6 months	2,635,724	545,641	690,945	765,478	4,637,788
More than 6 months ~ 1 year	4,977,389	1,468,789	1,040,866	1,486,164	8,973,208
More than 1 ~ 2 years	1,754,677	4,041,822	380,057	3,581,024	9,757,580
More than 2 ~ 3 years	887,749	4,180,742	139,839	2,761,098	7,969,428
More than 3 ~ 4 years	164,632	2,385,383	88,866	3,630,594	6,269,475
More than 4 ~ 5 years	182,453	2,222,479	40,190	1,749,541	4,194,663
More than 5 years	1,019,745	4,336,103	368,659	3,436,414	9,160,921
	15,114,078	19,787,139	3,144,833	18,035,054	56,081,104

Changes in the allowance for possible loan losses for the years ended December 31, 2008 and 2007, are as follows:

(in millions of Korean won)

	2008			2007
	Loans	Other assets	Total	Total
Balance at the beginning of the year	779,941	2,806	782,747	620,923
Increase in allowance for overseas branches due to foreign currency translation	10,280	-	10,280	(507)
Allowance carryover from loan acquisition	129,485	-	129,485	105,305
Increase in allowance for possible losses	1,269	-	1,269	836
Decrease in allowance due to loan disposal	(1,639)	-	(1,639)	(312)
Increase in allowance due to loan restructuring	(4)	-	(4)	(1,886)
Increase in allowance due to early redemption	3,655	-	3,655	1,771
Current write-offs	(227,075)	-	(227,075)	(114,501)
Current provision	327,815	244	328,059	171,118
	1,023,727	3,050	1,026,777	782,747

The difference (KRW 23,977 million) between the above allowance for possible loan loss (KRW 1,023,727 million) and that in the balance sheets (KRW 1,047,704 million) consists of:

- KRW 22,408 million of present value discounts reclassified to the allowance for possible loan loss to comply with “debt restructuring” in the Statements of Korean Financial Accounting Standards
- KRW 1,569 million of Loan Origination Fees

As of December 31, 2008 and 2007, the allowances for possible loan losses and other assets are as follows:

(in millions of Korean won)

	2008	2007
Loans receivable in local and foreign currencies and notes purchased	804,275	586,173
Bills purchased	24,751	25,218
Advances for customers	17,589	17,133
Domestic import usance bills	56,531	29,797
Debentures accepted by private subscription	114,915	116,295
Other loans receivable	5,666	5,325
	1,023,727	779,941
Other assets	3,050	2,806
	1,026,777	782,747

As of December 31, 2008, the classification of loans and allowances for possible loan losses are as follows:

(in millions of Korean won)

Classification	Loans ¹	Allowances for possible loan losses	Ratio (%) as of Dec. 31, 2007
Normal	66,003,749	595,579	0.90
Precautionary	449,142	56,493	12.58
Substandard	912,699	223,630	24.50
Doubtful	10,339	5,333	51.58
Estimated loss	142,692	142,692	100.00
Others ²	9,570,877	-	-
	77,089,498	1,023,727	1.33

¹ Net of present value discounts.

² Loans to or loans guaranteed by the Korean government and call loans, bond purchased under repurchase agreements and inter bank loans classified as “normal”.

Notes to Non-Consolidated Financial Statements

December 31, 2008 and 2007

The ratio of allowance to total loans and the ratio of allowance to non-performing loans as of December 31, 2008 and 2007, are as follows:

	(in millions of Korean won)	
	2008	2007
Total loans	77,089,498	57,811,809
Allowances for possible losses	1,023,727	779,941
Ratio of allowance to total loans (%)	1.33	1.35
Non-performing loans	1,065,730	649,033
Allowances for possible losses	371,655	282,328
Ratio of allowance to total non-performing loans (%)	34.87	43.50

Restructured loans receivable as of December 31, 2008 and 2007, due to court receivership, court mediation or other financial restructuring process are as follows:

	(in millions of Korean won)	
	2008	2007
Loans converted into equity securities	13,043	21,260

When the contractual terms, such as the principal, interest rate, and maturity of impaired loans are restructured, the Bank adjusts the carrying amount of the impaired loans to its present value determined based on the restructured terms. The Bank recognizes losses arising from the restructuring of the impaired loans as incurred.

Loans receivable restructured due to changes in contractual terms for the years ended December 31, 2008 and 2007, are as follows:

	(in millions of Korean won)	
	2008	2007
Beginning balance		
Original amount before restructuring	167,041	175,923
Present value	(136,611)	(139,597)
Present value discount	30,430	36,326
Present value discount		
Increase	4	2,026
Decrease(amortization)	(8,026)	(7,922)
	(8,022)	(5,896)
Ending balance		
Original amount before restructuring	132,676	167,041
Present value	(110,268)	(136,611)
Present value discount	22,408	30,430

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

The Bank's local and foreign currencies loan portfolios by country, major customers and industry as of December 31, 2008 and 2007, are as follows:

(in millions of Korean won)

By Country	2008	2007	Ratio (%) as of Dec. 31, 2008
Republic of Korea	48,317,609	34,571,583	86.16
China	1,964,527	1,257,833	3.50
USA	437,150	205,756	0.78
Others	5,361,818	3,324,180	9.56
	56,081,104	39,359,352	100.00

(in millions of Korean won)

By Customer	2008	2007	Ratio (%) as of Dec. 31, 2008
Korea Electric Power Corporation	1,258,135	1,160,371	2.24
Small Business Corp.	1,690,381	1,473,894	3.01
Korean Airline Co., Ltd.	1,715,578	1,361,287	3.06
Doosan Heavy Industries & Construction Co., Ltd.	320,954	253,906	0.57
Dongbu Electronics Co., Ltd.	844,896	873,978	1.51
Doosan Holdings, Europe	1,058,893	790,262	1.89
Korea Deposit Insurance Corp.	628,750	717,220	1.12
Kia Motors Corporation	90,483	606,382	0.16
Others	48,473,034	32,122,052	86.44
	56,081,104	39,359,352	100.00

(in millions of Korean won)

By Industry	2008	2007	Ratio (%) as of Dec. 31, 2008
Manufacturing	32,068,742	22,807,104	57.18
Banking and insurance	4,156,974	2,878,542	7.41
Transportation and communications	5,981,822	4,136,208	10.67
Public administration	2,050,672	1,807,324	3.66
Electric, gas and water supply	2,976,598	2,561,289	5.31
Others	8,846,296	5,168,885	15.77
	56,081,104	39,359,352	100.00

Changes in the Loan Origination Fees during 2008 are as follows:

(in millions of Korean won)

	Beginning balance	Increase	Decrease	Ending balance
Loan Origination Fees	-	1,590	21	1,569

Notes to Non-Consolidated Financial Statements

December 31, 2008 and 2007

6. Property and Equipment

Changes in property and equipment for the years ended December 31, 2008 and 2007, are as follows:

(in millions of Korean won)

2008	Beginning balance	Acquisition	Disposal	Depreciation	Ending balance
Land	311,094	13,548	5,444	-	319,198
Buildings	296,783	2,272	1,021	(9,224)	288,810
Furniture and fixtures	8,525	57	42	(439)	8,101
Computer equipment	10,894	8,416	15	(8,246)	11,049
Vehicles	291	226	16	(217)	284
Construction-in-progress	-	1,795	1,746	-	49
Others	7,011	5,950	859	(3,028)	9,074
	634,598	32,264	9,143	(21,154)	636,565

(in millions of Korean won)

2008	Beginning balance	Acquisition	Disposal	Depreciation	Ending balance
Land	313,323	101	2,330	-	311,094
Buildings	305,243	5,298	4,562	(9,196)	296,783
Furniture and fixtures	9,002	67	93	(451)	8,525
Computer equipment	12,027	6,514	92	(7,555)	10,894
Vehicles	359	106	-	(174)	291
Construction-in-progress	145	3,866	4,011	-	-
Others	7,905	2,870	739	(3,025)	7,011
	648,004	18,822	11,827	(20,401)	634,598

The government-valued price of the Bank's land as of December 31, 2008, is ₩423,422 million (2007: ₩397,327 million).

As of December 31, 2008, the Bank's premises, equipment and other assets are insured against fire and other casualty losses for up to approximately ₩284,030 million.

7. Other Assets

Other assets as of December 31, 2008 and 2007, are as follows:

(in millions of Korean won)

	2008	2007
Intangible assets	29,182	30,834
Other accounts receivable	4,433,294	2,141,156
Accrued income	619,502	524,399
Prepaid expense	203,269	165,295
Deferred income tax assets	42,048	11,047
Others	1,006,582	1,745,565
	6,333,877	4,618,296
Less: Allowance for possible losses for other accounts receivable	(3,050)	(2,806)
	6,330,827	4,615,490

Notes to Non-Consolidated Financial Statements

December 31, 2008 and 2007

8. Deposits

Deposits as of December 31, 2008 and 2007, are as follows:

(in millions of Korean won)

	Annual interest rates (%) as of Dec. 31, 2008	2008	2007
Local currency deposits			
Demand deposits			
Checking accounts	-	2,733	1,348
Temporary deposits	0.01	162,072	470,833
Passbook deposits	0.24	5,723	5,907
Others	0.25	1,316	2,552
		171,844	480,640
Time and savings deposits			
Time deposits	5.79	5,384,983	2,139,814
Installment savings deposits	3.96	104,146	121,532
Corporate savings deposits	4.46	3,972,845	2,527,764
Savings deposits	2.11	89,857	113,475
Others	4.26	2,625	4,658
		9,554,456	4,907,243
Total local currency deposits		9,726,300	5,387,883
Foreign currencies deposits			
Checking accounts	-	7,987	1,036
Temporary deposits	-	2,174	369
Passbook deposits	2.33	321,784	220,142
Time deposits	4.14	2,466,693	525,599
Others	1.51	87,869	7,074
		2,886,507	754,220
Negotiable certificates of deposits			
	5.61	4,155,722	3,479,169
		16,768,529	9,621,272

The maturities of time and savings deposits in local and foreign currencies as of December 31, 2008, are as follows:

(in millions of Korean won)

	Time deposits	Installment savings deposits	Time deposits in foreign currencies	Total
Within 3 months	2,692,706	10,769	2,367,782	5,071,257
More than 3 ~ 6 months	1,276,703	31,426	35,064	1,343,193
More than 6 months ~ 1 year	989,590	33,797	41,617	1,065,004
More than 1 ~ 2 years	371,842	19,605	14,189	405,636
More than 2 ~ 3 years	52,545	8,546	5,281	66,372
More than 3 years	1,597	3	2,760	4,360
	5,384,983	104,146	2,466,693	7,955,822

9. Borrowings

Borrowings as of December 31, 2008 and 2007, are as follows:

(in millions of Korean won)

	Annual interest rates (%) as of Dec. 31, 2008	2008	2007
Local currency borrowings			
Ministry of Strategy and Finance	5.06	1,015,734	1,099,028
Industrial Bank of Korea	4.62	170,613	237,810
Small Business Corp.	4.13	538,840	523,867
Ministry of Culture and Tourism	3.63	1,118,318	1,067,893
Korea Energy Management Corporation	3.60	862,243	817,106
Local governments	4.22	129,896	112,420
Others	1.68 ~ 4.38	1,529,396	883,304
		5,365,040	4,741,428
Foreign currencies borrowings			
KFW group in Germany	5.49	898	2,010
International Bank for Reconstruction and Development	4.44	2,099,003	1,940,985
Others	3.38 ~ 4.96	14,368,264	10,841,955
		16,468,165	12,784,950
Other borrowings			
Bonds sold under repurchase agreements	5.02	8,968,536	9,099,782
Notes sold	3.80	132	102
Call money	5.04	822,357	1,411,598
		9,791,025	10,511,482
		31,624,230	28,037,860

Notes to Non-Consolidated Financial Statements

December 31, 2008 and 2007

The maturities of borrowings in local and foreign currencies as of December 31, 2008, are as follows:

(in millions of Korean won)

	Borrowings in local currency	Borrowings in foreign currency	Offshore borrowings in foreign currencies	Total
Within 3 months	423,477	5,692,788	702,187	6,818,452
More than 3 ~ 6 months	157,812	3,251,296	223,225	3,632,333
More than 6 months ~ 1 year	442,643	1,140,092	547,013	2,129,748
More than 1 ~ 2 years	580,220	1,749,503	163,475	2,493,198
More than 2 ~ 3 years	573,625	1,625,004	402,311	2,600,940
More than 3 ~ 4 years	538,333	605,353	-	1,143,686
More than 4 ~ 5 years	450,703	251,500	-	702,203
More than 5 years	2,198,227	18,092	96,326	2,312,645
	5,365,040	14,333,628	2,134,537	21,833,205

The subordinated debts included in borrowings as of December 31, 2008 and 2007, are as follows:

(in millions of Korean won)

	Annual interest rates (%) as of Dec. 31, 2008	2008	2007	Repayment terms
Government funds	5.06	1,015,734	1,099,028	Installment reimbursement
International Bank for Reconstruction and Development re-lending facilities	4.44	2,099,003	1,940,985	Installment reimbursement
		3,114,737	3,040,013	

10. Industrial Finance Bonds

Industrial finance bonds (IFB) as of December 31, 2008 and 2007, are as follows:

(in millions of Korean won)

	Annual interest rates (%) as of Dec. 31, 2008	2008	2007
IFB in local currency	5.41	49,645,878	41,487,854
IFB in foreign currencies	3.55	15,761,854	11,741,743
Offshore IFB in foreign currencies	4.33	3,481,119	3,103,431
		68,888,851	56,333,028
Premiums on IFB		5,250	8,085
Discounts on IFB		(33,323)	(45,842)
		68,860,778	56,295,271

Under the Korea Development Bank Act, the Bank has authority to issue industrial finance bonds. The amount of issued bonds and guarantees outstanding by the Bank is limited to 30 times the amount 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 if guarantees are executed, the limit is temporarily suspended. There are no issued bonds guaranteed by the Korean government for the years ended December 31, 2008 and 2007.

The maturities of IFB as of December 31, 2008, are as follows:

(in millions of Korean won)

	IFB in local currency	IFB in foreign currency	Offshore IFB in foreign currencies	Total
Within 3 months	5,325,757	1,130,052	73,183	6,528,992
More than 3 ~ 6 months	4,932,782	637,736	426,573	5,997,091
More than 6 months ~ 1 year	10,215,971	2,262,688	513,526	12,992,185
More than 1 ~ 2 years	15,902,238	3,260,355	612,207	19,774,800
More than 2 ~ 3 years	6,379,580	1,862,808	225,173	8,467,561
More than 3 ~ 4 years	934,434	2,269,187	675,820	3,879,441
More than 4 ~ 5 years	2,584,158	2,248,952	322,703	5,155,813
More than 5 years	3,353,617	2,082,262	629,016	6,064,895
	49,628,537	15,754,040	3,478,201	68,860,778

Notes to Non-Consolidated Financial Statements

December 31, 2008 and 2007

11. Other Liabilities

Other liabilities as of December 31, 2008 and 2007, are as follows:

	(in millions of Korean won)	
	2008	2007
Trust account debit	421,700	695,509
Other accounts payable	4,618,238	2,103,637
Accrued expense	1,123,981	921,878
Advanced income	78,152	69,283
Guarantee deposits	52,133	35,388
Others	2,297,337	2,953,203
	8,591,541	6,778,898

12. Guarantees Outstanding and Commitments

The Bank provides guarantees for its customers. Outstanding guarantees and the related allowance for possible losses as of December 31, 2008 and 2007, are as follows:

	(in millions of Korean won)			
	Guarantees		Allowance for possible losses	
	2008	2007	2008	2007
Settled guarantees and commitments	18,107,048	12,029,665	90,199	56,180
Unsettled guarantees and commitments	13,259,297	11,195,150	23,469	19,761
Endorsed notes	87	298		3
	31,366,432	23,225,113	113,669	75,944

Unused loan commitments and the related allowances for possible losses as of December 31, 2008 and 2007, are as follows:

	(in millions of Korean won)			
	Unused loan commitment		Allowance for possible losses	
	2008	2007	2008	2007
Loans receivable	3,841,639	2,696,690	15,844	11,585
Guarantees and acceptances	16,555,910	12,112,458	67,940	44,064
Loan commitment	4,802,193	4,300,041	19,176	15,910
	25,199,742	19,109,189	102,960	71,559

The unsettled commitments provided by the Bank as of December 31, 2008 and 2007, are as follows:

(in millions of Korean won)

	2008	2007
Commitments		
in local currency	4,775,584	3,670,126
in foreign currencies	1,026,609	629,915
	5,802,193	4,300,041
Bonds sold under repurchase agreements	750,570	750,570

13. Commitments and Contingencies

The Bank has entered into agreements to provide certain syndicated loans with foreign banks. The total amounts available under such loans are US\$ 2,642 million, JPY 2,576 million, EUR 38 million, CHF 5 million, CNY9 million and GBP 5 million (equivalent to ₩6,996,442 million) and ₩1,604,930 million, of which US\$ 387 million, JPY 641 million, CHF 0.3 million and CNY 9 million (equivalent to ₩1,381,422 million) and ₩1,279,715 million have not been withdrawn by borrowers as of December 31, 2008.

Loans sold to KDB First Securitization Specialty Co., Ltd. and others in accordance with the Asset Securitization Plan as of December 31, 2008, are as follows:

(in millions of Korean won)

	Disposal date	Book value	Selling price	Retained subordinated debt securities	Collateral ¹
KDB First SPC	June 8, 2000	950,627	600,000	126,400	121,947
KDB Second SPC	November 8, 2000	914,764	423,600	143,348	81,451
KDB Third SPC	September 20, 2001	1,793,546	949,900	-	-
KDB Fifth SPC	December 13, 2001	765,358	528,400	74,200	101,381
		4,424,295	2,501,900	343,948	304,779

¹ Investment securities are pledged as collaterals (Note 4).

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

The Bank has provided credit lines to several securitization specialty companies amounting to ₩5,802,193 million, of which ₩29,145 million was withdrawn as of December 31, 2008.

As of December 31, 2008, the Bank still has the valid legal right to seek indemnity for ₩1,632,330 million as part of the loans receivable written off.

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The Bank has outstanding loans receivable amounting to ₩540,266 million, and securities amounting to ₩83,382 million as of December 31, 2008, from companies under workout, court receivership, court mediation or other restructuring process. The Bank recorded ₩82,098 million as allowances for possible loan losses. Actual losses from these loans may differ from the allowances recorded.

As of December 31, 2008, the Bank faces 19 legal cases involving an aggregate amount of ₩3,767,502 million, and has filed 23 lawsuits, with an aggregate amount of ₩21,925 million. The final outcome of these cases cannot yet be determined as of the report date.

14. Derivative Financial Instruments and Related Contracts

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

For 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, trading derivatives include derivatives used to hedge the exchange rate of the Bank's foreign currency denominated assets and liabilities, and interest rate of the Bank's loans and borrowings, whose underlying assets and liabilities are already valued at fair market value, and hedging derivatives that are not specifically identified to an underlying transaction.

Hedging instruments generally include cross currency swaps and/or interest rate swaps used to hedge 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 interest rate swaps used to reduce interest rate risks of the Industrial Finance Bonds issued in Korean won.

The unsettled contract amounts of the Bank's derivatives and the related valuation gain(loss) as of and for the year ended December 31, 2008, are as follows:

(in millions of Korean won)

	Unsettled contract amount			Valuation gain/loss (P/L)			Valuation asset(liability) (B/S)
	Trading purpose	Hedging purpose	Total	Trading purpose	Hedging purpose	Total	
Interest rate							
Forward	-	-	-	-	-	-	-
Futures	3,139,330	-	3,139,330	-	-	-	-
Swap	222,218,086	7,980,810	230,198,896	(465,680)	473,285	7,605	(323,706)
Option							
Buy	646,200	1,160,000	1,806,200	17,085	-	17,085	46,386
Sell	1,616,200	1,780,000	3,396,200	(43,415)	(8,515)	(51,930)	(84,633)
	227,619,816	10,920,810	238,540,626	(492,010)	464,770	(27,240)	(361,953)
Currency							
Forward	57,994,151	-	57,994,151	3,936,015	-	3,936,015	4,042,834
Futures	713,694	-	713,694	-	-	-	-
Swap	58,014,149	6,614,539	64,628,688	(3,658,461)	320,673	(3,337,788)	(2,935,684)
Option							
Buy	7,365,527	-	7,365,527	797,706	-	797,706	1,031,654
Sell	8,256,078	-	8,256,078	(615,910)	-	(615,910)	(784,274)
	132,343,599	6,614,539	138,958,138	459,350	320,673	780,023	1,354,530
Stock price index							
Futures	8,154	-	8,154	-	-	-	-
Option							
Buy	1,035,840	-	1,035,840	(4,324)	-	(4,324)	411,092
Sell	1,099,960	-	1,099,960	8,024	-	8,024	(410,785)
	2,143,954	-	2,143,954	3,700	-	3,700	307
Commodity							
Forward	114,447	-	114,447	(222)	-	(222)	(222)
Swap	241,987	-	241,987	(2,306)	-	(2,306)	(1,657)
Futures	776	-	776	-	-	-	-
Option							
Buy	53,576	-	53,576	(169)	-	(169)	2,320
Sell	53,576	-	53,576	200	-	200	(2,320)
	464,362	-	464,362	(2,497)	-	(2,497)	(1,879)
	362,571,731	17,535,349	380,107,080	(31,457)	785,443	753,986	991,005

Notes to Non-Consolidated Financial Statements

December 31, 2008 and 2007

15. Shareholders' Equity

Paid-in Capital

The Korean government shall provide the entire paid-in capital of the Bank in accordance with the Korea Development Bank Act. The authorized paid-in capital amounts to ₩10,000 billion as of December 31, 2008.

The Korean government has increased the Bank's paid-in-capital by contributing KEPCO shares of ₩695 billion, subscription certificates of Korea Water Resources Corporation of ₩305 billion on April 30, 2004, and Korea Expressway Corporation shares of ₩5,000 billion on December 18, 2008. Consequently, the total paid-in capital of the Bank outstanding as of December 31, 2008 amounts to ₩8,741,861 million.

Capital Surplus

The Bank has reduced ₩5,178,600 million of shareholders' equity in 1998 and 2000 to offset the accumulated deficit and recorded capital surplus of ₩44,373 million.

Accumulated Other Comprehensive Income

The changes in valuation gain and loss from investment securities recorded as accumulated other comprehensive income for the years ended December 31, 2008 and 2007, are as follows:

(in millions of Korean won)

	2008						2007	
	Available-for-sale securities			Equity method investments				
	Accumulated unrealized holding gain (loss)	Deferred tax assets (liabilities)	Balance	Accumulated unrealized holding gain (loss)	Deferred tax assets (liabilities)	Balance	Total	Total
Beginning balance	4,523,854	(1,244,060)	3,279,794	(98,179)	22,132	(76,047)	3,203,747	2,487,005
Accumulated effect by accounting change	-	-	-	-	-	-	-	(5,831)
Increase(decrease) due to disposals and others ¹	(635,980)	388,727	(247,253)	(65)	(5)	(70)	(247,323)	(279,646)
Valuation gain(loss) during the period	(3,671,290)	807,684	(2,863,606)	(335,896)	(5,936)	(341,832)	(3,205,438)	1,002,219
Ending balance	216,584	(47,649)	168,935	(434,140)	16,191	(417,949)	(249,014)	3,203,747

¹ It includes deferred tax effect by change in the corporate tax rate.

Legal Reserve

The Korea Development Bank Act requires the Bank to appropriate at least 40% of 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.

Dividends

No dividend is paid for the year ended December 31, 2008. Accordingly, all of the unappropriated retained earnings is accumulated to the legal reserve.

16. Other Non-interest Revenue and Expenses

Other non-interest revenue and expenses for the years ended December 31, 2008 and 2007, are as follows:

(in millions of Korean won)

	2008	2007
Other non-interest revenue		
Gain on disposal of equity method investments	32,813	896,464
Gain on foreign currency transactions	3,125,976	585,825
Gain on disposal of loans receivable	18,646	14,797
Gain on valuation of hedged items	199,508	135,449
Others	15,849	19,761
	3,392,792	1,652,296
Other non-interest expense		
Loss on foreign currency transactions	1,763,487	403,806
Provision for losses from guarantees and acceptances	37,633	25,622
Provision for losses from unused loan commitments	31,294	14,836
Loss on valuation of hedged items	2,798,330	636,262
Others	153,875	136,871
	4,784,619	1,217,397

Notes to Non-Consolidated Financial Statements

December 31, 2008 and 2007

17. General and Administrative Expenses

General and administrative expenses for the years ended December 31, 2008 and 2007, are as follows:

(in millions of Korean won)

	2008	2007
Salaries	230,655	222,141
Retirement allowance	31,008	27,886
Employee benefits	21,000	17,991
Rent	13,477	9,300
Depreciation	21,154	20,401
Taxes and dues	18,259	17,206
Printing	5,217	4,452
Travel	3,844	3,362
Commission	17,347	14,317
Others	70,247	71,453
	432,208	408,509

18. Non-operating Income and Expenses

Non-operating income and expenses for the years ended December 31, 2008 and 2007, are as follows:

(in millions of Korean won)

	2008	2007
Non-operating income		
Gain on disposal of premises and equipment	164	745
Rental income	1,868	1,739
Valuation gain on equity method investments	370,679	1,476,012
Others	3,736	1,684
	376,447	1,480,180
Non-operating expenses		
Loss on disposal of premises and equipment	2,470	460
Valuation loss on equity method investments	880,561	7,372
Others	10,855	7,818
	893,886	15,650
	(517,439)	1,464,530

19. Income Tax

Income tax expense for the years ended December 31, 2008 and 2007, consists of:

(in millions of Korean won)

	2008	2007
Income tax	116,515	9,628
Change in deferred income tax due to temporary difference	(1,352,391)	14,327
Income tax expense accounted for as accumulated other comprehensive income	1,190,470	286,623
Change in deferred income tax due to tax loss	67,722	248,059
	22,316	558,637

The tax adjustments for the year ended December 31, 2008, are as follows:

(in millions of Korean won)

	Temporary difference	Permanent difference
Prior year valuation gain on equity method investments	6,077,165	-
Prior year financial derivative assets	3,192,422	-
Financial derivative liabilities	15,560,594	-
Prior year gain and loss on foreign currency translation of hedged item	225,540	-
Valuation gain and loss on hedged items	2,358,612	-
Others	785,112	108,737
	28,199,445	108,737

(in millions of Korean won)

	Temporary difference	Permanent difference
Valuation gain on equity method investments	5,204,542	-
Financial derivative assets	16,432,776	-
Prior year financial derivative liabilities	2,896,775	-
Gain and loss on foreign currency translation of hedged item	1,770,893	-
Prior year valuation gain and loss on hedged items	182,666	-
Others	1,037,126	411,648
	27,524,778	411,648

Notes to Non-Consolidated Financial Statements

December 31, 2008 and 2007

The relations between income before income tax expenses and income tax expenses for the year ended December 31, 2008, are as follows:

(in millions of Korean won)

	2008
Income before income tax expenses	372,645
Income tax at the statutory income tax rates	102,444
The tax adjustments :	
Non-deductible expenses and non taxable income	(98,839)
Effect of no recognition of deferred income tax assets	175,328
other	(156,617)
	(80,128)
Income tax expenses	22,316
The effective income tax rate	5.99%

The changes of temporary differences and deferred tax assets and liabilities for the year ended December 31, 2008, are as follows:

(in millions of Korean won)

	Temporary differences and tax loss			Deferred tax assets and liabilities		
	Beginning balance	Changes	Ending balance	Beginning balance	Changes	Ending balance
Equity method investments ¹	(6,015,261)	810,719	(5,204,542)	(1,373,768)	295,919	(1,077,849)
Financial derivative assets	(3,181,778)	(13,250,998)	(16,432,776)	(874,989)	(2,740,222)	(3,615,211)
Financial derivative liabilities	2,889,057	12,671,537	15,560,594	794,491	2,628,840	3,423,331
Gain and loss on valuation of hedged items	178,859	2,179,753	2,358,612	49,186	469,707	518,894
Gain and loss on foreign currency translation of hedged items	(225,778)	(1,545,115)	(1,770,893)	(62,089)	(327,507)	(389,596)
Provision for loan losses ²	1,140,251	(136,448)	1,003,803	192,408	(51,569)	140,839
Impairment loss on debt securities	360,589	36,028	396,617	99,162	(11,906)	87,256
Impairment loss on equity securities	772,889	(412,705)	360,184	212,544	(133,304)	79,240
Others	556,967	250,646	807,613	102,446	31,963	134,409
	(3,524,205)	603,417	(2,920,788)	(860,609)	161,921	(698,687)

¹ Deferred tax effects, which are accounted for under the shareholder's equity or adjusted to overseas account, are not included in above changes of temporary differences and deferred tax assets and liabilities.

² Deferred tax effect amounting to ₩120,574 million related with provision for loan losses due to the remote possibility of realization is not recognized as temporary differences are deemed to have no future benefits.

As the bank anticipates that taxable income which arises in the future will exceed tax loss and others, it recorded deferred income tax assets. The changes of deferred income tax assets related to tax loss and others for the year ended December 31, 2008, are as follows:

(in millions of Korean won)

	Temporary differences and tax loss			Deferred tax assets and liabilities		
	Beginning balance	Increase	Ending balance	Beginning balance	Changes	Ending balance
Tax loss and others	246,263	(246,263)	-	67,722	(67,722)	-

The changes of deferred tax assets and liabilities accounted for as capital adjustment for the year ended December 31, 2008, are as follows:

(in millions of Korean won)

	Temporary differences and tax loss			Deferred tax assets and liabilities		
	Beginning balance	Changes	Ending balance	Beginning balance	Changes	Ending balance
Gain on valuation of available-for-sale securities	(5,344,173)	3,719,011	(1,625,162)	(1,469,648)	1,112,112	(357,536)
Loss on valuation of available-for-sale securities	820,319	588,259	1,408,578	225,588	84,299	309,887
Gain on valuation of equity method investments(B/S)	(122,482)	44,085	(78,397)	(33,526)	16,640	(16,886)
Loss on valuation of equity method investments(B/S)	220,661	291,876	512,537	55,658	(22,581)	33,077
	(4,425,675)	4,643,231	217,556	(1,221,928)	1,190,470	(31,458)

Notes to Non-Consolidated Financial Statements

December 31, 2008 and 2007

20. Average Amounts of Assets and Liabilities Related to Interest Income and Expenses

Interest income or expense and the average amounts of related assets or liabilities for the years ended December 31, 2008 and 2007, are as follows:

(in millions of Korean won)

	2008		2007	
	Average amount	Interest income or expense	Average amount	Interest income or expense
Assets				
Due from banks	2,663,917	118,035	1,978,386	86,418
Securities	29,428,165	1,965,309	25,683,332	1,267,059
Loans receivable	66,139,838	3,693,332	53,683,838	3,082,061
Others		24,203		43,497
		5,800,879		4,479,035
Liabilities				
Deposits	11,784,974	581,471	10,335,803	466,352
Borrowings	31,070,603	1,323,066	24,914,661	1,153,441
Bonds	62,394,936	3,062,445	52,926,561	2,583,733
Others		30,097		34,842
		4,997,079		4,238,368

21. Assets and Liabilities Denominated in Foreign Currencies

Significant assets and liabilities denominated in foreign currencies as of December 31, 2008 and 2007, are as follows:

(in millions of Korean won, US\$ in thousands)

	Foreign currency ¹		Equivalent in Korean won	
	2008	2007	2008	2007
Asset				
Cash	US\$ 6,331	US\$ 4,241	₩ 7,961	₩ 3,979
Due from banks	1,097,497	1,073,973	1,380,106	1,007,601
Trading securities	5,275	372,963	6,634	349,914
Investment securities (available-for-sale)	3,473,340	4,447,308	4,367,723	4,172,464
Investment securities (held-to-maturity)	-	7,992	-	7,498
Equity method investments	399,340	430,112	501,813	403,531
Bills bought	1,899,010	1,788,278	2,388,011	1,677,762
Call loans	2,142,817	935,849	2,694,592	878,014
Loans receivable	16,846,158	15,769,308	21,179,887	14,794,765
Domestic import usance bills	2,930,116	2,399,756	3,684,616	2,251,451
Receivables	2,260,703	1,301,543	2,842,825	1,221,108
Other assets	3,082,957	2,977,303	3,876,818	2,793,306
	US\$ 34,143,544	US\$ 31,508,626	₩ 42,930,986	₩ 29,561,393
Liabilities				
Deposits	US\$ 2,295,426	US\$ 803,901	₩ 2,886,507	₩ 754,220
Borrowings	13,088,870	13,627,105	16,349,440	12,784,950
Bonds sold under repurchase agreements	1,211,026	1,790,937	1,522,868	1,680,257
Call money	256,348	543,699	322,357	510,098
Bonds	14,922,632	15,814,316	17,098,735	14,836,991
Other liabilities	2,118,870	2,805,564	2,667,617	2,632,180
	US\$ 33,893,172	US\$ 35,385,522	₩ 40,847,524	₩ 33,198,696

¹ Assets or liabilities denominated in foreign currencies other than in US dollars have been converted into US dollars using the exchange rate in effect on December 31, 2008.

Notes to Non-Consolidated Financial Statements

December 31, 2008 and 2007

22. Related Party Transactions

The subsidiaries and equity-method investees as of December 31, 2008, are as follows:

Related Companies	
Domestic Companies	The KDB Capital Corp., Daewoo Shipbuilding & Marine Engineering Co., Ltd., Daewoo Securities Co., Ltd., Korea Infrastructure Fund, Korea Infra Asset Management Co., Ltd., KDB Venture M&A Co., Ltd., KDB Value Private Equity Fund I, Korea Aerospace Industries, Ltd., KDB Value Private Equity Fund II, KDB Value Private Equity Fund III, Samwon Industrial Co., Ltd. Korea Asset Management Corporation
Overseas Companies	KDB Asia (HK) Ltd., KDB Ireland Ltd., KDB Bank (Hungary) Ltd., KDB Brazil Ltd., KDB Uzbekistan Ltd.

The significant transactions which occurred in the normal course of business with related companies for the years ended December 31, 2008 and 2007, and the related account balances as of December 31, 2008 and 2007, are as follows:

(in millions of Korean won)

	Interest income and others		Interest expense and others		Loans receivable and others		Borrowings and others	
	2008	2007	2008	2007	2008	2007	2008	2007
Subsidiaries	113,334	137,824	56,910	123,074	6,772,279	6,954,493	680,086	783,739
Equity-method investees	297,494	337,682	19,796	17,315	5,590,926	7,019,393	164,053	241,555
	410,828	475,506	76,706	140,389	12,363,205	13,973,886	844,139	1,025,294

23. Comprehensive Income

Comprehensive income for the years ended December 31, 2008 and 2007, consists of:

(in millions of Korean won)

	2008	2007
Net income	350,329	2,047,604
Other comprehensive income	(3,452,761)	722,573
Gain(loss) on valuation of equity method investments ¹	(341,902)	(92,612)
Gain(loss) on valuation of available-for-sale securities ²	(3,110,859)	815,185
	(3,102,432)	2,770,177

¹ Related tax effect in 2008 amounts to ₩(5,941) million (2007: ₩22,585 million).

² Related tax effect in 2008 amounts to ₩1,196,411 million (2007: ₩(309,208) million).

24. Operating Results of Trust Accounts

The revenue and expenses of the trust accounts for the years ended December 31, 2008 and 2007, are as follows:

(in millions of Korean won)

	2008	2007
Revenue		
Interest income	208,067	218,534
Gain from securities	14,120	457,927
Others	25,284	32,044
	247,471	708,505
Expenses		
Dividends of trust profits to beneficiaries	187,910	653,752
Commissions paid	2,314	4,862
Loss from securities	33,687	17,901
Trust fee to the Bank	12,486	16,490
Provisions for possible loan losses	55	20
Others	11,019	15,480
	247,471	708,505

25. Supplemental Cash Flow Information

Transactions not involving any inflow or outflow of cash for the years ended December 31, 2008 and 2007, are as follows:

(in millions of Korean won)

	2008	2007
Loans converted into equity securities	13,043	21,260
Investment in kind	500,000	-

26. Operating Results for the Final Interim Period

Significant operating results for the three-month period ended December 31, 2008, are as follows:

(in millions of Korean won)

	4 th quarter, 2008	4 th quarter, 2007
Operating income	17,089,078	3,599,684
Operating profit(loss)	552,068	19,565
Net income	(49,434)	39,724

Report of Independent Auditors

RSM International

5th FL, Samwhan Kamu Bldg, 17-3,
Yoido-Dong, Youngdeungpo-Ku, Seoul, 150-010, Korea

To the Board of Directors of The Korea Development Bank

We have audited the accompanying balance sheets of The Korea Development Bank Trust Accounts ("the Trust Accounts"), which The Korea Development Bank ("the Bank") operates, as of December 31, 2008, and the related statements of income 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. The financial statements of the Trust Accounts for the year ended in December 31, 2007, presented herein for comparative purposes, were audited by Samil PricewaterhouseCoopers whose report dated February 15, 2008, expressed unqualified opinion on those statements.

We conducted our audits in accordance with auditing standards for trust funds 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 positions of the Trust Accounts as of December 31, 2008, and the results of its operations for the years then ended in conformity with trust accounting principles generally accepted in the Republic of Korea.



Seoul, Korea
February 15, 2009

This report is effective as of February 15, 2009, 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.

Trust Accounts Balance Sheets

December 31, 2008 and 2007

(in millions of Korean won)

	2008	2007
Assets		
Cash deposits (Note 5)	669,636	53,953
Securities (Note 6)	3,965,895	5,595,743
Loans receivable (Note 7)	47,937	45,476
Monetary claims for collection (Note 8)	6,253,110	7,607,151
Real estate in trust (Note 9)	1,109,203	1,041,703
Accrued income	40,046	46,510
Due from banking accounts (Note 15)	265,982	665,549
Other assets (Note 13)	2,005	2,168
Allowance for possible loan losses	(8,891)	(9,290)
Total assets	12,344,923	15,048,963
Liabilities		
Money trusts	2,689,784	3,441,568
Monetary claims in trust	6,409,566	7,795,699
Securities in trust (Note 10)	2,029,582	2,654,842
Real estate collateral trusts	1,109,203	1,011,703
Mortgage bond trusts	-	30,000
Accrued trust dividends	84,050	94,375
Other liabilities (Note 13)	8,668	8,736
Reserve for future trust losses (Note 3)	14,070	12,040
Total liabilities	12,344,923	15,048,963

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

Trust Accounts Statements of Income

Years ended December 31, 2008 and 2007

(in millions of Korean won)

	2008	2007
Revenue		
Interest on securities	173,764	191,919
Interest on loans	2,748	2,658
Interest on due from banking accounts (Note 15)	18,333	24,197
Other interest income	31,556	23,958
	226,401	242,732
Gains on derivatives transactions	80	3,859
Gains on securities	14,121	457,927
Other income (Note 14)	6,416	3,242
Reversal of provision for possible loan losses	453	745
	247,471	708,505
Expenses		
Commission expenses	2,314	4,862
Losses on derivatives transactions	7,487	10,307
Losses on securities	33,687	17,901
Trust fees to the Bank (Note 15)	12,486	16,490
Other expenses (Note 14)	3,533	5,173
Reserve for possible loan losses	55	20
	59,562	54,753
Dividends of trust profit to beneficiaries	187,909	653,752

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

Trust Accounts Notes to Financial Statements

December 31, 2008 and 2007

1. The Trust

The Korea Development Bank (the "Bank") was established in 1954 by the Korea Development Bank Act for the purpose of supplying and managing major industrial capital to develop the Korean manufacturing industry and others. 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 regulation in the Republic of Korea.

The Korea Development Bank trust accounts ("the Trust Accounts"), which the Bank operates, manage and dispose of the entrusted rights of property for the benefit of the trusters, acting as the legal fiduciary.

The trusts are classified into money trusts or property trusts. Cash is entrusted for money trusts and distributions to the beneficiaries are made in cash at trust maturity. Among the money trusts, there are specified money trusts where the truster specifically determines how the trust is to be managed, and unspecified money trusts where the management is totally entrusted to the trustee. Properties, including securities or other monetary claims, are entrusted for property trusts and distributions are made in cash or properties according to the instructions of the trusters or the beneficiaries.

Due to the amendment of the Indirect Investment Asset Management Business Act, asset management company should satisfy new requirements to be entitled to manage and sell unspecified money trusts. The Bank did not meet the new requirements and has not sold unspecified money trusts from January 5, 2004.

The financial position of the Bank and the Trust Accounts, as of December 31, 2008 and 2007 are as follows:

(in millions of Korean won)

Bank Accounts			Trust Accounts		
	2008	2007		2008	2007
Cash and due from banks	4,437,123	2,893,757	Cash deposits	669,636	53,953
Securities	53,402,994	53,988,637	Securities	3,965,895	5,595,743
Loans receivable	76,065,772	57,031,868	Loans receivable	47,937	45,476
Other assets	23,706,812	8,701,683	Due from banking accounts	265,982	665,549
Assets	157,612,701	122,615,945	Monetary claims for collection	6,253,110	7,607,151
Deposits	16,768,529	9,621,272	Other assets	1,151,254	1,090,381
Borrowings	100,485,008	84,333,130	Allowance for possible loan losses	(8,891)	(9,290)
Other liabilities	24,643,829	10,074,859	Assets	12,344,923	15,048,963
Liabilities	141,897,366	104,029,261	Money trusts	2,689,784	3,441,568
Shareholder's equity	15,715,335	18,586,684	Property trusts	9,548,351	11,462,244
			Other liabilities	106,788	145,151
			Liabilities	12,344,923	15,048,963

Trust Accounts Notes to Financial Statements

December 31, 2008 and 2007

2. Summary of the Trust Accounts

Major assets of the Trust Accounts, as of December 31, 2008 and 2007 are as follows:

(in millions of Korean won)				
	Amount		Ratio (%)	
	2008	2007	2008	2007
Cash deposits	669,636	53,953	5.4	0.4
Securities	3,965,895	5,595,743	32.1	37.2
Loans receivable	47,937	45,476	0.4	0.3
Due from banking accounts	265,982	665,549	2.2	4.4
Monetary claims for collection	6,253,110	7,607,151	50.7	50.6
Other assets	1,151,254	1,090,381	9.3	7.2
Allowance for possible loan losses	(8,891)	(9,290)	(0.1)	(0.1)
	12,344,923	15,048,963	100.0	100.0

3. Summary of Significant Accounting Policies

Under the Trust Business Act, the Trust Accounts are managed separately from the banking accounts. The financial statements of the Trust Accounts are prepared in accordance with the Trust Business Act, except for certain items not specified in the Act, which were prepared in accordance with the trust accounting principles generally accepted in the Republic of Korea. The significant accounting policies applied in the preparation of the accompanying financial statements of the Trust Accounts are summarized as follows.

Basis of Financial Statement Presentation

The Trust Accounts maintain its accounting records in Korean won and prepares statutory financial statements in the Korean language in conformity with Trust Business Act and related regulations in 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 Trust Account that conform with trust accounting standards and accounting principles generally accepted in the Republic of Korea may not conform with trust accounting standards generally accepted in other countries. Accordingly, these financial statements are intended for use by those who are informed about Korean trust accounting principles and practices. Certain information attached to the Korean language financial statements, but not required for a fair presentation of the Trusts Accounts' financial position, results of operations, is not presented in the accompanying financial statements.

Interest Income Recognition

The Trust Accounts recognize interest income on loans and debt securities on an accrual basis. While, interest income on overdue and dishonored loans and securities, except for those guaranteed by financial institutions or collateralized, 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 unspecified money trust accounts organized before November 15, 1998, are valued at cost, net of possible losses in accordance with the transitional allowance of Trust Business Act and related regulations.

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	Unit type money trusts
Installment money trusts	Additional money trusts
Development trusts	Retirement money trusts
Corporation money trusts	New individual pension trusts
Household money trusts	New old-age living pension trusts
Old-age living pension trusts	Pension trusts
Individual pension trusts	Real estate investments trusts
Household long-term trusts	Long-term trusts for housing
Labor preferential trusts	Retirement pension trusts
Specified money trusts	
New installments trust	

Marketable equity securities held by the trusts except for specified money trusts are carried at fair value.

Allowance for Possible Loan Losses

The Trust Accounts provide allowance 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. Allowance for possible loan losses in the Trust Accounts are determined by applying the following minimum percentage to the various credit risk ratings:

Loan classifications	Allowance percentages	
	Loans to enterprise	loans to households
Normal ¹	0.85 %	1.0 %
Precautionary	7.0 % or more	10 % or more
Substandard	20 % or more	20 % or more
Doubtful	50 % or more	55 % or more
Loss	100 %	100 %

¹ The percentage is only applicable to "Normal" loans in guaranteed rate of return.

Trust Accounts Notes to Financial Statements

December 31, 2008 and 2007

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 allowance 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 Trust Accounts deposit certain amounts with the banking accounts for short-term cash management purposes. Such deposits are recorded as due from banking accounts by the Trust Accounts. Interest on these deposits is calculated at rates predetermined by the Bank and recorded daily.

Reserve for Future Trust Losses

Under the Trust Business Act, the Trust Accounts provide more than 25% of the trust fees as reserve for future trust losses up to 5% of invested capital for each type of money trust with guarantees of principal or a minimum rate of return. When reserve for future losses are used to compensate principal or minimum rate of return, reversal of reserve for future trust losses are recorded and when there is excessive reserve for future trust losses, excessive reserves are transferred to trust fees. As of December 31, 2008, reserve for future trust losses amounts to ₩14,070 million (2007: ₩12,040 million).

Revenue and Expense of Trust Accounts

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

Trust Fees

The Bank's banking accounts receive trust 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.

Performance Yield and Standard Price

Performance yield and standard price calculated according to the Trust Business Act are as follows:

- 1) **Performance Yield** Performance yield is the standard compound yield rate adjusted for the trust fees to be paid and the effects of gain (losses) on disposal of securities and allowance (reversal) for possible loan losses. Standard compound yield rate is the weighted average of the earnings rates of the operating assets held by each fund.
- 2) **Standard Price** Standard price is calculated per 1,000 units and computed as total asset less total liability divided by total number of beneficial certificate units issued.

Monetary Claims for Collection

The Trust Accounts record entrusted receivables as monetary claims for collection in the asset section and monetary claims in 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 trust fees.

Real Estates in Trust

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

Securities in Trust

The 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.

Trust Accounts Notes to Financial Statements

December 31, 2008 and 2007

4. Nature of Money Trust Accounts

The details of the Bank's money trust accounts as of December 31, 2008 and 2007 are as follows:

(in millions of Korean won)

Trusts	Trust terms of maturity (Years)	2008	2007
General unspecified money trusts	over 1.5 ¹	11	11
Installment money trusts	over 1.5 ³	49	82
Corporation money trusts	1.5 ³	1	1
Household money trusts	1.5 ³	179	215
Old-age living pension trusts	over 5 ²	1,705	2,586
Specified money trusts	-	1,291,483	2,189,206
Individual pension trusts	over 10 ²	187,389	186,398
Household long-term trusts	3 ~ 5	277	409
Labor preferential trusts	3 ~ 5	52	55
New installment trusts over	1.5	405	409
Unit-type money trusts	1	-	100
Retirement trusts	- ²	894,997	903,867
Additional money trusts	1	1,913	2,685
New individual pension trusts	over 10 ²	16,576	17,732
New old-age living pension trusts	over 5 ²	2,094	3,850
Pension trusts	over 10 ²	66,245	61,592
Long-term trusts for housing	7 ~ 10	23,519	22,084
Retirement pension trusts	-	202,889	50,285

¹ Fixed rate of return is guaranteed by the Bank.

² Repayment of principal is guaranteed by the Bank.

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

5. Cash deposits

Cash deposits as of December 31, 2008 and 2007 are as follows:

(in millions of Korean won)

	Annual interest rate(%) as of December 31, 2008	2008	2007
Cash deposits			
Bank of New York	-	15,767	-
The Korea Development Bank and others	4.0 ~ 11.5	653,869	53,953
		669,636	53,953

6. Securities

Securities as of December 31, 2008 and 2007 are as follows:

(in millions of Korean won)

	Annual interest rate(%) as of December 31, 2008	2008	2007
Equity securities	-	1,878,553	1,855,816
Government bonds	3.00 ~ 5.75	83,854	193,051
Monetary stabilization bonds	-	-	19,810
Other financial bonds	5.09 ~ 7.35	493,411	956,783
Corporate bonds	0.0 ~ 13.00	649,623	1,184,036
Issuance of bills	4.05 ~ 4.07	526,000	-
Foreign currency securities	1.92	6,257	22,534
Commercial paper	4.55 ~ 7.44	265,253	1,327,023
Beneficiary certificates	0.0 ~ 9.5	15,618	8,366
Certificate of deposit	5.52 ~ 5.76	47,326	28,324
		3,965,895	5,595,743

Investments in bonds classified by valuation methods as of December 31, 2008 are as follows:

(in millions of Korean won)

	Trusts by cost methods	Trusts by fair value methods	Total
Government bonds	21,297	62,557	83,854
Other financial bonds	339,255	154,156	493,411
Corporate bonds	320,214	329,409	649,623
Others	555,184	305,270	860,454
	1,235,950	851,392	2,087,342

The information on securities according to country, type and customer as of December 31, 2008 are as follows:

(in millions of Korean won)

By Country	Amount	Ratio(%)
Korea	3,959,638	99.84
Foreign countries	6,257	0.16
	3,965,895	100.00

Trust Accounts Notes to Financial Statements

December 31, 2008 and 2007

(in millions of Korean won)

By Type	Amount	Ratio(%)
Fixed rate bonds	1,226,888	30.94
Floating rate bonds	6,257	0.16
Equity securities	1,878,553	47.37
Beneficiary certificates	15,618	0.39
Commercial papers	791,253	19.95
Certificate of deposit	47,326	1.19
	3,965,895	100.00

(in millions of Korean won)

By Customer	Amount	Ratio(%)
Government investment organization	83,854	2.11
Financial institution	1,493,645	37.66
Manufacturing and service industries	2,335,855	58.90
Others	52,541	1.33
	3,965,895	100.00

The aggregate maturities of debt securities outstanding at December 31, 2008 are as follows:

(in millions of Korean won)

	Government bonds	Financial bonds	Corporate bonds	Foreign currency securities	Commercial paper	Other securities	Total
Within 3 months	-	9,944	136,624	-	189,997	535,439	872,004
Within 6 months	11,081	14,508	106,087	6,257	19,406	37,888	195,227
Within 1 year	10,107	67,428	141,604	-	55,850	-	274,989
Within 2 years	51,544	81,580	156,116	-	-	-	289,240
Within 3 years	10,258	19,951	80,940	-	-	-	111,149
Within 4 years	864	-	-	-	-	-	864
Within 5 years	-	-	-	-	-	-	-
More than 5 years	-	300,000	28,252	-	-	15,617	343,869
	83,854	493,411	649,623	6,257	265,253	588,944	2,087,342

As of December 31, 2008, the allowance for possible loan losses and details of classification of related securities are as follows:

(in millions of Korean won)

	Normal	Precautionary	Substandard	Doubtful	Loss	Total
Government bonds						
Book value	83,854	-	-	-	-	83,854
Allowance for possible loan losses	-	-	-	-	-	-
Allowance ratio	-	-	-	-	-	-
Financial bonds						
Book value	493,411	-	-	-	-	493,411
Allowance for possible loan losses	-	-	-	-	-	-
Allowance ratio	-	-	-	-	-	-
Corporate bonds						
Book value	640,673	-	-	-	8,950	649,623
Allowance for possible loan losses	2	-	-	-	8,844	8,846
Allowance ratio	-	-	-	-	98.82%	1.36%
Foreign currency securities						
Book value	6,257	-	-	-	-	6,257
Allowance for possible loan losses	-	-	-	-	-	-
Allowance ratio	-	-	-	-	-	-
Commercial papers						
Book value	791,253	-	-	-	-	791,253
Allowance for possible loan losses	-	-	-	-	-	-
Allowance ratio	-	-	-	-	-	-
Equity securities						
Book value	1,878,553	-	-	-	-	1,878,553
Allowance for possible loan losses	-	-	-	-	-	-
Allowance ratio	-	-	-	-	-	-
Other securities						
Book value	62,944	-	-	-	-	62,944
Allowance for possible loan losses	-	-	-	-	-	-
Allowance ratio	-	-	-	-	-	-
Total						
Book value	3,956,945	-	-	-	8,950	3,965,895
Allowance for possible loan losses	2	-	-	-	8,844	8,846
Allowance ratio	-	-	-	-	98.82%	0.22%

Trust Accounts Notes to Financial Statements

December 31, 2008 and 2007

7. Loans Receivable

Loans receivable as of December 31, 2008 and 2007 are as follows:

(in millions of Korean won)

	Annual interest rate(%) as of December 31, 2008	2008	2007
Loans collateralized by:			
Marketable securities	5.25 ~ 10.83	11,350	6,211
Real estates	5.00 ~ 18.00	30	31
Bonds	5.50 ~ 11.33	1,598	5,171
Beneficiary certificates	3.31 ~ 11.33	34,954	34,058
Other loans	9.00	5	5
		47,937	45,476

As of December 31, 2008, the allowance for possible loan losses and details of classification of related loans are as follows:

(in millions of Korean won)

	Normal	Precautionary	Substandard	Doubtful	Loss	Total
Marketable securities loans						
Book value	11,350	-	-	-	-	11,350
Allowance for possible loan losses	-	-	-	-	-	-
Allowance ratio	-	-	-	-	-	-
Bonds loans						
Book value	1,598	-	-	-	-	1,598
Allowance for possible loan losses	-	-	-	-	-	-
Allowance ratio	-	-	-	-	-	-
Beneficiary certificates loans						
Book value	34,954	-	-	-	-	34,954
Allowance for possible loan losses	-	-	-	-	-	-
Allowance ratio	-	-	-	-	-	-
Real estates loans and others						
Book value	20	-	-	-	15	35
Allowance for possible loan losses	-	-	-	-	15	15
Allowance ratio	-	-	-	-	100.00%	42.86%
Total						
Book value	47,922	-	-	-	15	47,937
Allowance for possible loan losses	-	-	-	-	15	15
Allowance ratio	-	-	-	-	100.00%	0.03%

(*) We reserved KRW 31 million of allowance for possible loan loss for the total asset which has transferred to KAMCO. The relevant asset is recorded in other assets not in loans.

8. Monetary Claims for Collection

Monetary claims for collection, as of December 31, 2008 and 2007 are as follows:

(in millions of Korean won)

	2008	2007
Receivables trusted by:		
Asiana Airlines (5th)	363,739	-
Dream line	172,934	272,463
LG Card	-	1,341,184
Asiana Airlines (OZ)	1,710	3,283
Asiana Airlines (5th)	-	747,966
Erae Electronics Industry	96,285	96,339
Dongyang Major	-	232,106
Choongwae Pharma (3th)	-	50,585
Save Zone	352,932	474,314
Save Zone Libera	170,709	213,151
LG Card (foreign bond 2)	652,364	611,015
LG Card (foreign bond 3)	547,810	420,980
Special Real Estate Investment Trust (KDB plus 4)	-	16,000
Special Real Estate Investment Trust (KDB plus 6)	-	5,000
Hyundai Capital Services	462,482	568,024
LG Card (foreign bond)	418,217	574,786
Special Real Estate Investment Trust (KDB plus 7)	-	7,000
Doosan Industrial Development (13th)	133,433	172,565
Eland World	290,636	867,434
Real Estate 8th (Gunsan Vivaldi)	-	7,500
Real Estate 9th (KDB Opo fill you)	-	7,000
Real Estate 10th (Daegu Sangdong Hi)	-	30,000
SK Enclean (6th)	924,489	764,032
Choongwae Pharma	47,827	48,346
Daewoo Securities (Realestate)	-	25,000
Daewoo Shipbuilding & Marine Engineering Co.	2,000	2,000
Dongbu Express (1st)	32,155	49,078
Retail Mortgage (1st)	110,000	-
Dongyang Major	459,179	-
KDB Hwasung Namyang-dong (Woolim)	24,000	-
KDB Yangpyoung-dong (Woolim)	21,000	-
Choongwae Pharma (5th)	50,616	-
Eland World (2nd)	328,694	-
Shinhan Card	589,899	-
	6,253,110	7,607,151

Trust Accounts Notes to Financial Statements

December 31, 2008 and 2007

9. Real Estate in Trust

Real estates in trust as of December 31, 2008 and 2007 are as follows:

	(in millions of Korean won)	
	2008	2007
Trusted by:		
SKC	-	30,000
Chunan sungseongdong	195,000	195,000
Daejeon hakha town	64,520	64,520
Daejeon hakha town 2nd	20,283	20,283
Mangwoo-dong LIG-Gunyoung	97,500	-
Youngdeungpo-gu Yangpyeong-dong	36,400	36,400
Yongin Gongseri	390,000	390,000
Changwon APT factory	149,500	149,500
Suwon Songjuk-dong	156,000	156,000
	1,109,203	1,041,703

10. Securities in Trust

Securities in trust as of December 31, 2008 and 2007 are as follows:

(in millions of Korean won)

2008						
Trusted securities	Stocks	Financial bonds	Corporate bonds	Government bonds	Others	Total
GM-Daewoo	1,643,731	-	-	-	-	1,643,731
MIC 7th(*1)	-	100,000	-	-	-	100,000
MIC 8th	-	100,000	-	-	-	100,000
MIC 14th	-	100,000	-	-	-	100,000
DSME	-	-	49,791	-	9	49,800
C&H Auto (11st)	-	-	12,181	-	-	12,181
Small business investment funds	-	-	21,561	993	1,316	23,870
	1,643,731	300,000	83,533	993	1,325	2,029,582

(*1) MIC: The Ministry of Information and Communication

(in millions of Korean won)

2007						
Trusted securities	Stocks	Financial bonds	Corporate bonds	Government bonds	Others	Total
GM-Daewoo	1,617,672	-	-	-	-	1,617,672
Provalue	-	-	8,500	-	-	8,500
MIC 7th(*1)	-	100,000	-	-	-	100,000
MIC 8th	-	100,000	-	-	-	100,000
MIC 10th	-	100,000	-	-	-	100,000
MIC 11th	-	100,000	-	-	-	100,000
MIC 12th	-	100,000	-	-	-	100,000
MIC 13th	-	100,000	-	-	-	100,000
MIC 14th	-	100,000	-	-	-	100,000
DSME	-	-	-	-	49,800	49,800
Provalue (C series)	-	-	100,000	-	-	100,000
Provalue (D series)	-	-	150,000	-	-	150,000
Small business investment funds	-	-	28,036	834	-	28,870
	1,617,672	700,000	286,536	834	49,800	2,654,842

(*1) MIC: The Ministry of Information and Communication

Trust Accounts Notes to Financial Statements

December 31, 2008 and 2007

11. Derivatives

The notional amounts outstanding for derivatives contracts as of December 31, 2008 and 2007 are as follows:

(in millions of Korean won)

2008					
	Amount outstanding	Gain	Loss	Assets	Liabilities
Currency forward (selling)	6,349	19	-	19	-
	6,349	19	-	19	-

(in millions of Korean won)

2007					
	Amount outstanding	Gain	Loss	Assets	Liabilities
Currency forward (selling)	22,897	11	36	11	36
Interest Futures (selling)	31,755	-	-	-	-
	54,652	11	36	11	36

All derivative instruments of The Accounts are classified as trading derivatives.

The Account enters into foreign currency forward contracts to manage the exposure to changes in currency exchange rates for the foreign currency securities, and interest futures contracts to manage the exposure to changes in interest rates for bonds. Also, in order to reduce the impact of changes in stock price. The Account enters into KOSPI futures contracts. Some hedging transactions do not qualify for hedge accounting and are thus accounted for as trading derivatives. These transactions include hedge relationships where the hedged item is an asset or liability that is re-measured with the changes in fair value attributable to the hedged risk reported in current operations or where the hedged item cannot be specifically identified.

12. Collateral of Securities

The securities pledged as collaterals for consignment guarantee money of futures as of December 31, 2008 and 2007 are as follows:

(in millions of Korean won)

	2008		
	Face value	Substitute price	Mortgagee
Corporate bond			
Kumho Industrial 240	50	41	Eugene Securities
Kumho Petrochemical 121	3,550	2,858	Hanmag Futures and others
Kia Motors 270	4,100	3,366	Hyundai Futures and others
Kia Motors 271	100	86	JPMorgan Futures
Doosan 273	500	418	JPMorgan Futures
Jinro 109	2,400	1,990	Hanmag Futures and others
Hynix 201	3,350	2,797	KB Futures and others
Hansol paper 212	2,950	2,422	Hanmag Futures and others
Hanhwa Construction 30	3,190	2,619	JPMorgan Futures and others
Hanhwa L&C 33	40	33	Samsung Futures
Hyosung Capital 19	200	186	JPMorgan Futures
SK chemicals 163	100	85	Hanmag Futures
SKC116	450	384	KB Futures and others
	20,980	17,285	
Equity securities			
Samsung Electronics Co.	1	96	Hana IB Securities
ETF			
KORDEX200	-	97	Mirae Asset Securities
	20,981	17,478	

(in millions of Korean won)

	2007		
	Face value	Substitute price	Mortgagee
Corporate bond			
SKC107	6,850	5,644	Eugene Securities and others
SKC116	450	383	Samsung Futures and others
Nexen tire 38th	3,200	2,704	KB Futures and others
Hynix 201	3,300	2,736	Eugene Securities and others
Hanhwa Construction 30	2,850	2,348	JPMorgan Futures and others
Hanhwa 178	2,750	2,321	Hanmak Futures and others
Woori Capital 156	1,550	1,439	JPMorgan Futures and others
Hyosung Capital 19, 23	1,050	973	Hyundai Futures and others
Others	250	220	Hanmag Futures and others
	22,250	18,768	

Trust Accounts Notes to Financial Statements

December 31, 2008 and 2007

13. Other Asset and Liabilities

As of December 31, 2008 and 2007, details of other assets and other liabilities are as follows:

(in millions of Korean won)		
Other assets	2008	2007
Other accounts receivables	1,705	1,647
Prepaid expenses	250	479
Derivatives financial instruments	19	11
Others	31	31
	2,005	2,168

(in millions of Korean won)		
Other liabilities	2008	2007
Other accounts payables	1,696	1,742
Accrued payable trust fees	6,672	6,528
Accrued insurance fees on trusts	254	-
Accrued expenses	12	322
Discounted present value	34	107
Advanced income	-	1
Derivatives financial instruments	-	36
	8,668	8,736

14. Other Income and Other Expenses

For the years ended December 31, 2008 and 2007, details of other income and other expenses are as follows:

(in millions of Korean won)		
Other income	2008	2007
Commission received	9	11
Transfer form special provision	133	478
Others	6,274	2,753
	6,416	3,242

(in millions of Korean won)

Other expenses	2008	2007
Provision for special provision	2,164	2,267
Insurance fees on trusts	1,026	1,035
Contribution to Credit Guarantee Fund	4	4
Others	339	1,867
	3,533	5,173

15. Related Party Transactions

The ultimate parent company of the trust is the Korea Development Bank which is responsible for the consolidated financial statements.

The significant transactions with the ultimate parent company for the years ended December 31, 2008 and 2007 are as follows:

(in millions of Korean won)

	2008	2007
Assets or Liabilities		
Due from banking accounts	265,982	665,549
Revenues or Expenses		
Interest on due from banking accounts	18,333	24,197
Trust fee	12,486	16,490

The significant transactions with related companies for the years ended December 31, 2008 and 2007, and the related account balances as of December 31, 2008 and 2007 are as follows:

(in millions of Korean won)

	Account	2008	2007
KDB Capital – Bonds	Bonds	-	13,313
	Interest income	-	3,651
KDB Capital – Money Trust (Retirement Trust)	The amount deposited into the Money Trust	4,919	4,861
	Trust profit	230	128
Daewoo Shipbuilding and Marine Engineering – Money Trust(Retirement Trust)	The amount deposited into the Money Trust	107,241	122,031
	Trust profit	7,723	5,270

Transactions and transfers among trust accounts for the year ended December 31, 2008, amounted to ₩1,190million (2007: ₩46,129 million).

Trust Accounts Notes to Financial Statements

December 31, 2008 and 2007

16. Detail of the Trust Accounts

The condensed balance sheets as of December 31, 2008 and 2007, and statements of operations for the years then ended of the Trust Accounts by category are as follows:

(in millions of Korean won)

Condensed Balance Sheets	Guaranteed principal or rate of return trusts	Non-guaranteed trusts ¹	Property trusts	Total
Cash deposits	108,000	489,557	72,078	669,635
Securities	978,215	959,423	2,028,257	3,965,895
Loans receivable	47,803	134	-	47,937
Money receivables for collection	-	-	6,253,110	6,253,110
Real estate trusted	-	-	1,109,203	1,109,203
Due from banking accounts	63,405	109,003	93,574	265,982
Other assets	15,875	17,622	8,555	42,052
Allowance for possible loan losses	(8,891)	-	-	(8,891)
Total in 2008	1,204,407	1,575,739	9,564,777	12,344,923
Total in 2007	1,204,741	2,353,280	11,490,942	15,048,963
Money and other trusts	1,169,016	1,520,768	9,548,351	12,238,135
Accrued trust dividends	14,521	53,987	15,542	84,050
Reserve for future trust losses	14,062	8	-	14,070
Others	6,808	976	884	8,668
Total in 2008	1,204,407	1,575,739	9,564,777	12,344,923
Total in 2007	1,204,741	2,353,280	11,490,942	15,048,963

¹ Guaranteed trusts organized before April 30, 1996, such as installment money trusts (on performance basis), corporate money trusts and household money trusts, were included.

(in millions of Korean won)

Condensed Statements of Income	Guaranteed principal or rate of return trusts	Non-guaranteed trusts ¹	Property trusts	Total
Revenue				
Interest on securities	54,766	75,382	43,616	173,764
Interest on loans	2,746	2	-	2,748
Gains on securities	12,844	1,254	23	14,121
Interest on due from banking accounts	2,234	11,975	4,124	18,333
Reversal of provision for possible loan losses	454	-	-	454
Other revenues	11,906	13,207	12,938	38,051
	84,950	101,820	60,701	247,471
Expenses				
		137		
Loss on securities	2,592	28,954	2,141	33,687
Trust fees to the Bank	7,379	2,336	2,771	12,486
Reserve for future trust losses	2,164	-	-	2,164
Reserve for possible loan losses	55	-	-	55
Other expenses	8,696	20	2,453	11,170
	20,886	31,310	7,365	59,562
Dividends of trust profit to beneficiaries				
2008	64,064	70,510	53,336	187,909
2007	36,846	524,341	92,565	653,752

¹ Guaranteed trusts organized before April 30, 1996, such as installment money trusts (on performance basis), corporate money trusts and household money trusts, were included.

Report of Independent Auditors

RSM International

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Yoido-Dong, Youngdeungpo-Ku, Seoul, 150-010, Korea

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, 2008, and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year ended December 31, 2008, 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. For our audit opinion, we used other auditor's audit report on the financial statements of Daewoo shipbuilding & Marine Engineering Co., Ltd. and 15 subsidiaries for the year ended December 31, 2008. The financial statements of the Bank and its subsidiaries for the year ended December 31, 2007, presented herein for comparative purposes, were audited by Samil Pricewaterhouse Coopers whose report dated March 27, 2008, expressed an unqualified opinion on those statements.

We conducted our audits in conformity with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audits 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 and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, 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, 2008, and the results of their operations, their cash flows and the changes in its shareholders' equity for the year ended December 31, 2008, in conformity with accounting principles generally accepted in the Republic of Korea.

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 changes in shareholders' equity 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 consolidated 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 informed about Korean accounting principles or auditing standards and their application in practice.

Seoul, Korea
February 20, 2009



This report is effective as of February 20, 2009, 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 consolidated 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, 2008 and 2007

(in millions of Korean won)

	2008	2007
Assets		
Cash and due from banks (Note 3)	7,829,798	6,487,772
Securities (Note 4)	62,213,292	62,442,306
Loans receivable, net (Note 5)	79,042,540	60,689,258
Property and equipment, net (Note 6)	4,775,777	3,633,810
Intangible assets, net	323,546	377,793
Guarantee deposits	255,444	217,649
Derivative financial instruments (Note 14)	20,843,622	3,705,223
Trade accounts receivable, net	4,152,334	2,195,802
Prepaid expenses	269,112	261,568
Other assets, net (Note 7)	10,172,470	6,883,945
Total assets	189,877,935	146,895,126
Liabilities and Shareholders' Equity		
Deposits (Note 8)	19,582,698	12,042,398
Borrowings (Note 9)	37,925,537	34,154,326
Debentures, net (Note 10)	70,090,694	57,708,082
Allowance for possible guarantee losses (Note 12)	113,669	75,944
Allowance for unused loan commitments (Note 12)	102,967	71,932
Accrued severance benefits, net	383,728	298,256
Other accounts payable	5,602,075	2,744,261
Accrued expenses	1,326,207	1,091,658
Derivative financial instruments (Note 14)	21,035,328	3,156,186
Unearned income	114,775	113,256
Trade accounts payable	1,020,122	734,561
Other liabilities (Note 11)	13,611,944	13,049,673
Total liabilities	170,909,744	125,240,533
Commitments and contingencies (Note 13)		
Shareholders' equity (Note 15)		
Capital stock	8,741,861	8,241,861
Capital adjustments	(159,675)	(163,422)
Accumulated other comprehensive income	(16,732)	3,445,220
Retained earnings	7,110,544	7,070,518
Minority interest in consolidated subsidiaries	3,292,193	3,060,416
Total shareholders' equity	18,968,191	21,654,593
Total liabilities and shareholders' equity	189,877,935	146,895,126

The accompanying notes are an integral part of these consolidated financial statements.
See Report of Independent Auditors.

Consolidated Statements of Income

Years ended December 31, 2008 and 2007

(in millions of Korean won)

	2008	2007
Interest income		
Interest on loans receivable	3,876,099	3,255,146
Interest on due from banks	344,945	216,815
Interest on trading securities	477,520	333,464
Interest on available-for-sale securities	1,878,931	1,140,446
Interest on held-to-maturity securities	167,418	113,734
Other interest income	64,048	71,567
	6,808,961	5,131,172
Interest expenses		
Interest on deposits	661,763	533,950
Interest on borrowings	1,823,446	1,400,157
Interest on bonds payable	3,186,541	2,646,553
Other interest expenses	104,949	52,078
	5,776,699	4,632,738
Net interest income	1,032,262	498,434
Provision for loan losses	380,311	177,278
Net interest income after provision for loan losses	651,951	321,156
Non-interest revenue		
Fees and commissions	901,205	1,092,656
Gain from trading securities	2,197,153	1,669,380
Gain from available-for-sale securities	856,553	649,871
Gain on disposal of equity method securities	32,855	896,478
Gain from derivative financial instruments	35,055,297	6,834,608
Gain on foreign currency transactions	4,143,770	886,719
Sales from manufacturing activities	13,324,037	8,354,418
Others (Note 16)	273,335	278,545
	56,784,205	20,662,675
Non-interest expenses		
Fees and commissions	100,698	92,055
Loss from trading securities	1,579,254	1,610,335
Loss from available-for-sale securities	154,521	75,302
Loss from derivative financial instruments	38,692,220	6,900,879
Loss on foreign currency transactions	3,125,638	652,320
General and administrative expenses (Note 17)	1,466,319	1,376,073
Cost of sales from manufacturing activities	11,620,632	7,709,200
Others (Note 16)	296,765	233,224
	57,036,047	18,649,388
Operating income	400,109	2,334,443

(in millions of Korean won)

	2008	2007
Non-operating income, net	400,817	991,751
Income before income taxes	800,926	3,326,194
Income tax expense (Note 18)	271,420	806,878
Net income	529,506	2,519,316
Attributable to:		
Equity holders of the parent	330,171	2,048,695
Minority interests	199,335	470,621
	529,506	2,519,316

The accompanying notes are an integral part of these consolidated financial statements.
See Report of Independent Auditors.

Consolidated Statement of Changes in Shareholder's Equity

Years ended December 31, 2008 and 2007

(in millions of Korean won)

	Capital stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Minority interest in consolidated subsidiaries	Total
December 31, 2006 (Reported amount)	8,241,861	-	(171,080)	2,703,709	5,713,187	2,747,147	19,234,824
Changes in accounting policies	-	-	-	(5,831)	(385,809)	-	(391,640)
January 1, 2007 (Restated amount)	8,241,861	-	(171,080)	2,697,878	5,327,378	2,747,147	18,843,184
Increase in investment to subsidiaries	-	(6,064)	-	-	-	-	(6,064)
Changes in capital surplus of equity method investees	-	(19,631)	-	19,631	-	-	-
Transfer from retained earnings to offset capital deficiency	-	25,695	-	-	(25,695)	-	-
Net income	-	-	-	-	2,048,695	-	2,048,695
Dividend payments	-	-	-	-	(299,180)	-	(299,180)
Changes in retained earnings from equity method investments	-	-	-	-	1,160	-	1,160
Changes in retained earnings of subsidiaries	-	-	-	-	11,339	-	11,339
Increase in special allowance for trust accounts	-	-	-	-	1,792	-	1,792
Changes from currency exchange rate differences	-	-	-	-	5,029	-	5,029
Changes in capital adjustments	-	-	7,658	-	-	-	7,658
Changes in accumulated other comprehensive income	-	-	-	727,711	-	-	727,711
Changes in minority interest in consolidated subsidiaries	-	-	-	-	-	313,269	313,269
December 31, 2007	8,241,861	-	(163,422)	3,445,220	7,070,518	3,060,416	21,654,593
January 1, 2008	8,241,861	-	(163,422)	3,445,220	7,070,518	3,060,416	21,654,593
Investment in kind	500,000						500,000
Changes in capital surplus of equity method investees	-	14,402	-	(14,402)	-	-	-
Changes in capital surplus of subsidiaries	-	(61,344)	-	-	-	-	(61,344)
Transfer from retained earnings to offset capital deficiency	-	46,942	-	-	(46,942)	-	-
Net income	-	-	-	-	330,171	-	330,171
Dividend payments	-	-	-	-	(300,000)	-	(300,000)
Amount due to addition of affiliated companies to be combined					1,115		1,115

(in millions of Korean won)

	Capital stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Minority interest in consolidated subsidiaries	Total
Changes in retained earnings from equity method investments	-	-	-	-	29,503	-	29,503
Changes in retained earnings of subsidiaries	-	-	-	-	(4,121)	-	(4,121)
Increase in special allowance for trust accounts	-	-	-	-	2,032	-	2,032
Changes from currency exchange rate differences	-	-	-	-	28,268	-	28,268
Changes in capital adjustments	-	-	3,747	-	-	-	3,747
Changes in accumulated other comprehensive income	-	-	-	(3,447,550)	-	-	(3,447,550)
Changes in minority interest in consolidated subsidiaries	-	-	-	-	-	231,777	231,777
December 31, 2008	8,741,861	-	(159,675)	(16,732)	7,110,544	3,292,193	18,968,191

The accompanying notes are an integral part of these consolidated financial statements. See Report of Independent Auditors.
See Report of Independent Auditors.

Consolidated Statements of Cash Flows

Years ended December 31, 2008 and 2007

(in millions of Korean won)

	2008	2007
Cash flows from operating activities		
Net income	330,171	2,048,695
Adjustments to reconcile net income to net cash provided by operating activities		
Gain on trading securities, net	(862,230)	(9,898)
Loss(Gain) on available-for-sale securities, net	90,696	(30,274)
Loss on held-to-maturity securities, net	-	1,668
Loss(Gain) on disposal of equity method securities	743,171	(1,026,300)
Provision for loan losses	380,311	177,278
Depreciation on property and equipment	64,655	63,548
Gain on foreign currency translation, net	(1,267,148)	(223,643)
Loss from derivative financial instruments	3,751,030	93,799
Others, net	350,769	559,700
	3,251,254	(394,122)
Changes in operating assets and liabilities		
Disposal(Acquisition) of trading securities, net	899,087	(1,331,794)
Acquisition of other investment securities, net	(5,201,179)	(6,872,532)
Acquisition of loans receivable, net	(17,439,296)	(8,220,649)
Net increase in derivative financial instruments	(2,969,139)	(456,752)
Increase in other accounts receivable	(2,474,168)	(791,975)
Increase in other accounts payable	589,978	93,629
Increase(Decrease) in prepaid expenses	(7,545)	31,924
Increase in accrued expenses	234,549	256,921
Others, net	1,051,874	4,066,633
	(25,315,839)	(13,224,595)
Net cash used in operating activities	(21,734,414)	(11,570,022)
Cash flows from investing activities		
Acquisition in due from banks, net	(993,249)	(2,345,859)
Acquisition of property and equipment, net	(1,211,565)	(149,830)
Disposal(Acquisition) of intangible assets, net	5,705	(55,064)
Others, net	(11,158)	(949,596)
Net cash provided by (used in) investing activities	(2,210,267)	(3,500,349)

(in millions of Korean won)

	2008	2007
Cash flows from financing activities		
Receipt of deposits, net	7,540,301	147,702
Receipt of borrowings, net	3,963,996	2,332,121
Issuance of bonds, net	12,354,168	9,991,487
Others, net	434,992	2,782,230
Net cash provided by (used in) financing activities	24,293,457	15,253,540
Net increase in cash and cash equivalents	348,776	183,169
Cash and cash equivalents		
Beginning of period	258,126	74,957
End of period	606,902	258,126

The accompanying notes are an integral part of these consolidated financial statements.
See Report of Independent Auditors.

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

1. General Information

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" or "KDB") and its subsidiaries. General information of the Bank and its subsidiaries is described below.

The 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 manufacturing industry and others. The Korea Development Bank Act prescribes that the Korean government owns the entire capital of the Bank.

The Bank has 44 local branches, seven overseas branches, five overseas subsidiaries and two overseas offices as of December 31, 2008. The Bank is engaged in the banking business under the Korea Development Bank Act and in the trust business in accordance with the Trust Business Act and other related regulations.

Consolidated Subsidiaries

Information on investments in consolidated subsidiaries as of December 31, 2008 and 2007 is as follows:

(in millions of Korean won)

Subsidiaries	Invested amount		Percentage of ownership (%) as of December 31, 2008
	2008	2007	
Domestic			
KDB Capital Corporation	761,593	761,593	99.92
Daewoo Securities Co., Ltd.	548,252	548,252	39.09
Daewoo Shipbuilding & Marine Engineering Co., Ltd.	288,383	288,383	31.26
Korea Infrastructure Fund	57,007	56,719	85.00
KDB Asset Management Co., Ltd. (*)	47,378	47,378	93.52
Korea Infrastructure Investment Asset Management Co., Ltd.	9,010	-	90.10
KDB Value Private Equity Fund 1	93,900	175,900	68.49
KDB Value Private Equity Fund 2	157,200	14,000	50.26
KDB Value Private Equity Fund 3	63,465	-	67.07
KDB Venture M&A (*)	14,050	-	73.33
Korea Aerospace Industries Co., Ltd.	133,900	133,900	30.11
Samwon Industrial Co., Ltd. (*)	575	575	42.31
DSEC Co., Ltd.	14,117	19,153	70.07
Welliv Corp.	23,617	23,617	100.00
Shinhan Machinery Co., Ltd.	62,981	67,389	89.22
DSME E&R	35,973	-	100.00
DSME Construction Co., Ltd. (*)	30,797	30,797	87.99
	2,342,198	2,167,656	

(*) Samwon Industrial Co., Ltd. is a subsidiary of the Bank and KDB Capital Corporation. DSME Construction Co., Ltd. is a subsidiary of Daewoo Shipbuilding & Marine Engineering Co., Ltd. and KDB Value Private Equity Fund 1. KDB Asset Management Co., Ltd. is a subsidiary of the Bank and Daewoo Securities Co., Ltd. KDB Venture M&A is a subsidiary of the Bank and Daewoo Securities Co., Ltd.

(in thousands)

Subsidiaries	Invested amount				Percentage of ownership (%) as of December 31, 2008
	2008		2007		
Overseas					
KDB Asia (HK) Ltd.	US\$	140,000	US\$	140,000	100.00
KDB Ireland Ltd.	US\$	20,000	US\$	20,000	100.00
KDB Bank (Hungary) Ltd.	HUF	17,289,757	HUF	17,289,757	100.00
Banco KDB do Brasil S.A.	BRL	67,554	BRL	67,554	100.00
KDB Bank (Uzbekistan) Ltd.	US\$	8,949	US\$	8,949	61.11
Metropolitan Industrial Leasing Co., Ltd.	THB	24,500	THB	50,000	49.00
Vietnam International Leasing Co., Ltd.	US\$	3,854	US\$	3,854	60.00
Daewoo Securities (Europe) Ltd.	US\$	18,365	US\$	18,365	100.00
Daewoo Securities (America) Inc.	US\$	12,000	US\$	12,000	100.00
Daewoo Securities (Hong Kong) Ltd.	US\$	9,999	US\$	9,999	100.00
Daewoo Mangalia Heavy Industries	Lei	156,138,000	Lei	156,138,000	51.00
DSME-Shandong Co., Ltd.	US\$	79,900	US\$	79,900	100.00

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

Information on the consolidated subsidiaries' capital and primary business follows:

(in millions of Korean won, other currencies in thousands)

Subsidiaries	Incorporation date	Outstanding capital				Major business
		2008		2007		
KDB Capital Corporation	December 1972	₩	310,877	₩	310,877	Leasing industrial machinery, equipment, aircrafts, ship, automobiles; and investing in and providing financing services to venture capital companies.
Daewoo Securities Co.,Ltd.	September 1970	₩	1,020,883	₩	1,020,883	Trading, subscribing and selling securities.
Daewoo Shipbuilding & Marine Engineering Co., Ltd.	October 2000	₩	961,954	₩	961,954	Manufacturing naval ships, submarines, and other special purpose vessels.
Korea Infrastructure Fund	December 1999	₩	70,939	₩	70,601	Investing and financing for companies operating social infrastructure.
KDB Asia (HK) Ltd.	January 1986	US\$	140,000	US\$	140,000	Providing financing services to Korean companies and investing in securities. Also conducting international securities operations.
KDB Ireland Co.,Ltd.	June 1997	US\$	20,000	US\$	20,000	Supporting to introduce commercial loans to Korean companies. Investing in securities.
KDB Bank (Hungary) Ltd.	February 1990	HUF	15,340,100	HUF	15,340,100	Providing commercial banking service.
KDB Asset Management Co., Ltd	May 1996	₩	38,895	₩	38,895	Security investment management operation and investment consulting service.
KDB Value Private Equity Fund 1	March 2005	₩	137,100	₩	263,500	Investing in securities.
Banco KDB do Brasil S.A.	October 2005	BRL	67,531	BRL	67,531	Providing financing services to Korean companies and investing in securities.
KDB Uzbekistan, Ltd.	March 1997	US\$	6,902	US\$	4,685	Providing financing services to Korean companies and investing in securities.
KDB Value Private Equity Fund 2	September 2006	₩	312,800	₩	28,000	Investing in securities.
Samwon Industrial Co., Ltd.	January 1971	₩	1,250	₩	1,250	Manufacturing dye and interface activator
Korea Aerospace Industries, Ltd.	October 1999	₩	429,860	₩	429,860	Manufacturing aircraft components.
KDB Value Private Equity Fund 3	September 2008	₩	94,620		-	Investing in securities.
Korea Infrastructure Investment Asset Management Co., Ltd.	October 2003	₩	10,000		-	Providing asset management service for Korea Infrastructure fund.
KDB Venture M&A	May 2007	₩	19,160	₩	150	Investing in securities.

Equity-Method Investments

The equity method investments included in the consolidated financial statements as of December 31, 2008, are as follows:

(in millions of Korean won)

Investees	Investors	Invested amount	Percentage of ownership (%) as of Dec. 31, 2008	Major business
Korea Electric Power Corporation	KDB	4,491,411	29.95	Generation of electricity
GM Daewoo Auto & Technology Company	KDB	213,206	27.97	Manufacture of automobiles
STX Pan Ocean Co., Ltd.	KDB	31,907	15.54	Providing sea transportation service
Donghae Pulp Co., Ltd.	KDB	17,891	18.66	Business for paper and lumber
Korea Asset Management Corporation	KDB	70,000	26.92	Management of public funds
Korea Tourism Organization	KDB	35,529	43.58	Promotion of tourism
Sewon Industry Co., Ltd.	KDB	4,220	16.62	Manufacture of automobile parts
AddPac Technology Co., Ltd.	KDB	3,000	20.00	Manufacture of wire communication instruments
Air Code Co., Ltd.	KDB	3,000	19.35	Digital broadcasting service
Korea Marine Fund Corp.	Daewoo Shipbuilding & Marine Engineering Co., Ltd.	2,000	23.53	Marine transport business
Daeil Inotech Co., Ltd.	KDB Capital Corporation	7,000	38.89	Manufacture of automobile parts
Hanmi Fine Chemical Co., Ltd.	KDB Capital Corporation	1,500	25.00	Manufacture of medicines

Use of the Report of Other Auditors

Other auditors audited financial statements for the year ended December 31, 2008 of Daewoo Shipbuilding & Marine Engineering Co., Ltd., Daewoo Securities Co., Ltd., KDB Capital Corp., Korea Infrastructure Fund, Korea Infrastructure Investment Asset Management Co., Ltd., KDB Asia (HK) Ltd., KDB Asset Management Co., Ltd., KDB Ireland Ltd., KDB Bank (Hungary) Ltd., KDB Value Private Equity Fund 1, KDB Value Private Equity Fund 2, KDB Value Private Equity Fund 3, KDB venture M&A, Banco KDB do Brasil S.A., KDB Uzbekistan, Ltd. and Korea Aerospace Industries, Ltd. were used in the preparation of the December 31, 2008 consolidated financial statements of the Bank.

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

2. Summary of Significant Accounting Policies

The significant accounting policies followed by the Bank and its subsidiaries in the preparation of the accompanying consolidated financial statements are summarized below.

Basis of Consolidated 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 and its domestic subsidiaries maintain their accounting records in Korean won and prepare statutory financial statements in the Korean language in conformity with accounting principles generally accepted in the Republic of Korea. The accompanying consolidated financial statements have been condensed, restructured and translated into English from the Korean language consolidated financial statements. Certain accounting principles applied by the Bank and its domestic 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. 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 consolidated financial statements, but not required for a fair presentation of the Bank and its domestic subsidiaries' financial position, results of operations, changes in shareholder's equity or cash flows are not presented in the accompanying consolidated financial statements.

Accounting Estimates

The preparation of the financial statements requires management to make estimates and assumptions that affect amounts reported therein. Although these estimates are based on management's best knowledge of current events and actions that the Bank and its subsidiaries may undertake in the future, actual results may differ from those estimates.

Application of the Statements of Korean Financial Accounting Standards

The Korean Accounting Standards Board has published a series of Statements of Korean Financial Accounting Standards (SKFAS), which will gradually replace the existing financial accounting standards established by the Korean Financial Supervisory Commission. Significant accounting policies adopted by the Bank for the financial statement are identical to the accounting policies followed by the Bank for the annual financial statements for the year ended December 31, 2007.

By following 06-2 of the Korean Accounting Statement Implementation, '*accounting treatment for taxable earnings associated with investment in subsidiaries, associates, and joint ventures*,' which was revised in February 22nd 2008, method of recognizing deferred income taxes associated with equity method investment has changed. The beginning balance of the previous year retroactively reflects this policy change. Impact from the policy change includes ₩391,640 million increase in deferred income tax payable and decrease in retained earnings, capital adjustment in equity investment, and negative capital adjustment in equity method investment by ₩385,809 million, ₩7,160 million, ₩1,329 million in each respect. Accumulated effects from the policy change have been handled prospectively, since the accumulated effects can not be measured rationally.

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 during consolidation.

The investment account of the controlling company is eliminated against the corresponding capital accounts of its 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 arise from additional investments acquired in consolidated subsidiaries are reported as 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 subsidiaries is decreased or increased since the acquisition date. Losses applicable to the minority interest in a consolidated subsidiary may exceed the minority interest in the subsidiary's equity. The excess, and any further losses attributable to the minority interest shall be allocated to the minority interest and presented as negative in equity.

Recognition of Interest Income

The Bank and its subsidiaries recognize interest income on loans receivable and debt securities on an accrual basis. However, interest income on delinquent and dishonored loans receivable, other than those subject to security deposits and guaranteed by financial institutions, is recognized on a cash basis.

Allowance 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 financial and non-financial factors of borrowers and classifies the borrowers' credit risk. Allowances are determined by applying the following minimum percentages to the various credit risk ratings:

Loan classifications	Minimum provision percentages
Normal	0.85% (0.9%)
Precautionary	7%
Substandard	20%
Doubtful	50%
Expected Loss	100%

The minimum provision percentage to loan classifications of "normal" for construction, wholesale and retail trade, accommodation and food service activities, real estate activities, and renting and leasing industries is 0.9%.

KDB Capital Corporation and Daewoo Securities provide allowance for doubtful accounts under the Regulation on Supervision of Credit-Specialized Financial Business and Regulation on Supervision of Securities Business. However, for consolidation purposes, the said subsidiaries provide allowance under the same method used by the Bank. Daewoo Shipbuilding & Marine Engineering Co., Ltd. provides allowance for doubtful accounts based on collectibility of accounts receivable and loans receivable.

Loan Origination Fees and Costs

Loan Origination fees are deferred and subtracted from the relevant loans whereas the costs corresponding to the loans which may expect recognizable economic value are deferred and added. It is added to or subtracted from the interest income in accordance with the amortization schedule using the effective interest rate.

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

Securities

Securities that are bought and held principally for the purpose of generating profits on short-term differences in price, which are actively and frequently bought and sold, are classified as trading securities. Debt securities with fixed or determinable payments and fixed maturity that the Bank and its subsidiaries have the intent and ability to hold to maturity are classified as held-to-maturity securities. Investments classified as neither trading securities nor held-to-maturity securities are classified as available-for-sale securities.

Trading and available-for-sale securities are carried at fair value, except for non-marketable equity securities classified as available-for-sale securities, which are carried at cost. The fair value of debt securities, which do not have a quoted market value, is calculated using the present value of future cash flows, discounted at a reasonable interest rate determined based on the credit ratings provided by independent credit rating institutions.

Unrealized holding gains or losses on trading securities are charged to current operations and those resulting from available-for-sale securities are recorded as other comprehensive income, the accumulated amount of which shall be charged to current operations when the related securities are sold or when an impairment loss on the securities is recognized.

Held-to-maturity securities are generally carried at amortized cost. Premiums and discounts on debt securities are amortized until their maturity using the effective interest rate method.

Impairment losses are recognized in the statement of income when the recoverable amounts are less than the acquisition cost of equity securities or amortized cost of debt securities. Impairment losses of the Bank and its subsidiaries for the year ended December 31, 2008, amount to ₩105,716 million (2007: ₩32,421 million).

Investment securities which allow the Bank and its subsidiaries to exert significant influence over the investee are valued using the equity method of accounting. The Bank and its subsidiaries consider that it has a significant influence on the investees when the Bank and its subsidiaries hold more than 15% and 20% of voting shares, respectively. However, the Bank does not apply the equity method on the following investments:

- Investees having total assets of less than ₩7,000 million
- Investees under court receivership or bankruptcy
- Investees under the process of being sold-out
- Converted shares of stock with a restriction on disposal under the corporate restructuring law

The Bank and its subsidiaries discontinue the use of the equity method of accounting for investments in equity method investees when the Bank and its subsidiaries' share in the accumulated losses equals the costs of the investments, and until the subsequent change in their proportionate net income of the investees equals their proportionate net losses not recognized during the period the equity method was suspended.

The equity method adjustments are calculated as the difference between the initial purchase price and the Bank and its subsidiaries' initial proportionate ownership in the net book value of investees at the time of purchase. Equity method adjustment debits are reversed over five years and equity method adjustment credits are amortized over five years or the weighted-average useful lives of the premises and equipment of investees using the straight-line method.

Inventories

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

Inventories of Samwon Industrial Co., Ltd. are stated at the lower of cost or market value, with cost being determined using the gross average method, except for raw materials and supplies using the first-in, first-out method and raw materials-in-transit using the specific identification method.

If the net realizable value of inventory is less than its cost, a contra inventory account representing the valuation loss, is presented to reduce the inventory to its net realizable value. The said valuation loss is recorded as cost of sales. If, however, the circumstances which caused the valuation loss ceases to exist, causing the market value to rise above the carrying amount, the valuation loss is reversed limited to the original carrying amount before valuation. The said reversal is a deduction from cost of sales.

Lease Transactions

KDB Capital Corporation is engaged in leasing industrial machinery, office equipment and others according to the terms of the underlying lease agreements. The Company accounts for as capital lease when the ownership title is transferred after expiration of the non-cancelable leases or bargain purchase option exits. 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.

Property and Equipment, and Related Depreciation

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

Classifications	Estimated useful lives	Method of depreciation
Buildings	20 ~ 50 years	Straight-line method
Structures	3~ 50 years	Straight-line method
Machinery	3 ~ 12 years	Straight-Line, Declining-balance method ¹
Ships	15 years	Straight-line method
Vehicles	3 ~ 6 years	Straight-Line, Declining-balance method ¹
Other property and equipment	3 ~ 10 years	Straight-Line, Declining-balance method ¹

¹ Daewoo Securities Co., Ltd., KDB Asia (HK) Ltd., Daewoo Shipbuilding & Marine Engineering Co., Ltd., KDB Asset Management Co., Ltd., KDB Ireland Ltd. and Banco KDB do Brasil S.A., KDB Uzbekistan, Ltd., and Korea Aerospace Industries, Ltd. compute depreciation using the straight-line method.

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.

The Bank and its subsidiaries assess the potential impairment of property and equipment when there is evidence that events or changes in circumstances have made the recovery of an asset's carrying value unlikely. The carrying value of the asset is reduced to its estimated realizable value by recording an impairment loss charged to current operations and presenting it as a reduction from the said carrying value. However, any recovery of the impaired asset is recorded in current operations and should not exceed the carrying amount of the asset before impairment.

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

Intangible Assets

Intangible assets are stated at cost, net of accumulated amortization. Amortization of these intangible assets is computed using the straight-line method over a period of five to 40 years.

Present Value Discounts

Receivables and payables arising from long-term installment transactions, long-term cash loans receivable and 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 receivable 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.

Foreign Currency Translation

Assets and liabilities denominated in foreign currencies are translated into Korean won at the foreign exchange rates (US\$1:₩1,257.5) as announced by the Seoul Money Brokerage Service, Ltd. 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 at least one year 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.

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 in accordance with the local laws and regulations in the jurisdictions in which they operate.

Allowance for Possible Guarantee Losses and Allowance for Loan Commitment

Provisions for possible losses on guarantees, acceptances and endorsed notes are based on a credit rating of the companies. The allowances for such losses are calculated by applying minimum provision percentage described in below and credit conversion ratio. These allowances are shown in the liability section. The Bank provides a provision of unused loan commitments based on a credit risk rating of the companies for which loan commitments are provided.

Classifications	Minimum provision percentages
Normal	0.85% (0.9%)
Precautionary	7%
Substandard	20%
Doubtful	50%
Expected loss	100%

The minimum provision percentage to loan classifications of "normal" for construction, wholesale and retail trade, accommodation and food service activities, real estate activities, and renting and leasing industries is 0.9%.

Deferred Income Taxes

The Bank records deferred income taxes which arise from temporary differences between the amount reported for financial reporting purposes and income tax purposes. Income tax expense consists of taxes payable for the year and the change in deferred income tax assets and liabilities for the year. Deferred tax assets are recognized when it is more likely that they will be realized in the future. Deferred tax effects applicable to items in the shareholder's equity are directly reflected in the shareholder's equity account.

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 is 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 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.

Compensation to Trust Accounts

The Bank receives management fees from trust accounts for management and custodial 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.

Reserve for Future Trust Losses

Under the Trust Business Act, the Trust Accounts provide more than 25% of the trust fees as reserve for future trust losses of up to 5% of invested capital for each type of money trust with guarantees of principal or a minimum rate of return.

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

3. Cash and Due from Banks

Cash and due from banks as of December 31, 2008 and 2007, are as follows:

(in millions of Korean won)

	Annual interest rates as of December 31, 2008	2008	2007
Cash on hand in local currency	-	550,783	193,007
Cash on hand in foreign currencies	-	56,119	65,119
Due from banks in local currency	0.00 ~ 7.30	6,105,308	5,343,160
Due from banks in foreign currencies	0.00 ~ 14.00	1,117,588	886,486
		7,829,798	6,487,772

Due from banks in local currency as of December 31, 2008 and 2007, are as follows:

(in millions of Korean won)

Bank	Annual interest rates as of December 31, 2008	2008	2007
The Bank of Korea	-	541,119	694,695
Others	0.00 ~ 7.30	5,564,189	4,648,465
		6,105,308	5,343,160

Due from banks in foreign currencies as of December 31, 2008 and 2007, are as follows:

(in millions of Korean won)

Bank	Annual interest rates as of December 31, 2008	2008	2007
The Bank of Korea	-	94,117	25,811
Shinhan Bank	0.31 ~ 4.57	41,354	68,213
Hana Bank	"	9,970	29,084
Korea Exchange Bank	"	91,915	46,813
Woori Bank	"	20,337	34,770
Others	0.00 ~ 14.00	859,895	681,795
		1,117,588	886,486

Restricted deposits included in due from banks as of December 31, 2008, are as follows:

(in millions of Korean won)

Reserve deposits with the Bank of Korea	541,119
Kookmin Bank	91,716
Shinhan Bank	30,222
Industrial & Commercial Bank of China (ICBC) – Shanghai, China	16,005
Others	1,232,459
	1,911,521

Deposits with Kookmin Bank and Shinhan Bank are pledged as collaterals. Reserve deposits with the Bank of Korea represent the amounts required under the Banking Act for the payment of deposits. Reserve deposits with ICBC-Shanghai represent amounts required under the related banking regulations of the People's Republic of China.

The maturities of the amounts due from banks as of December 31, 2008, are as follows:

(in millions of Korean won)

Maturing on or before	Due from banks in local currency	Due from banks in foreign currencies	Total
March 31, 2009	4,286,402	530,366	4,816,768
June 30, 2009	313,804	25,601	339,405
Dec. 31, 2009	1,025,594	42,284	1,067,878
Dec. 31, 2010	6,000	5,475	11,475
Dec. 31, 2011	3,272	49	3,321
Dec. 31, 2012	-	-	-
Dec. 31, 2013	20,659	-	20,659
Thereafter	449,577	513,813	963,390
	6,105,308	1,117,588	7,222,896

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

4. Securities

Trading securities as of December 31, 2008 and 2007, are as follows:

(in millions of Korean won)

	The Bank		Subsidiaries		Total	
	2008	2007	2008	2007	2008	2007
Equity investments	-	33,997	346,135	273,320	346,135	307,317
Government and public bonds	277,350	157,075	2,176,370	1,152,500	2,453,720	1,309,575
Corporate bonds	141,707	264,694	4,375,725	4,221,712	4,517,432	4,486,406
Beneficiary certificates	-	-	92,428	118,412	92,428	118,412
Securities in foreign currencies	6,634	349,914	141,149	64,252	147,783	414,166
Others	-	176,829	1,607,371	2,389,021	1,607,371	2,565,850
	425,691	982,509	8,739,178	8,219,217	9,164,869	9,201,726

Par value, acquisition cost and fair value of trading debt securities as of December 31, 2008 and 2007, are as follows:

(in millions of Korean won)

	Par value		Acquisition cost		Fair value	
	2008	2007	2008	2007	2008	2007
Government and public bonds	2,427,366	1,378,151	2,375,557	1,321,294	2,453,720	1,309,575
Corporate bonds	4,574,590	4,568,060	4,513,400	4,516,961	4,517,432	4,486,406
Securities in foreign currencies	156,838	467,550	157,110	415,623	147,783	414,166
	7,158,794	6,413,761	7,046,067	6,253,878	7,118,935	6,210,147

Trading securities in foreign currencies as of December 31, 2008 and 2007, are as follows:

(in millions of Korean won; other currencies in thousands)

Foreign currencies				Equivalent in Korean won			
2008		2007		2008		2007	
US\$	116,075	US\$	150,266	₩	145,961	₩	140,983
EUR	36	EUR	19,642		63		27,131
JPY	-	JPY	30,200		-		252
HUF	264,473	HUF	502,900		1,759		2,736
GBP	-	GBP	129,611		-		242,904
HKD	-	HKD	1,331		-		160
			₩	147,783	₩		414,166

Available-for-sale securities as of December 31, 2008 and 2007, are as follows:

(in millions of Korean won)

	The Bank		Subsidiaries		Total	
	2008	2007	2008	2007	2008	2007
Equity investments	10,138,197	13,448,663	922,851	1,267,870	11,061,048	14,716,533
Government and public bonds	819,884	911,749	13,560	181,522	833,444	1,093,271
Corporate bonds	19,891,133	17,972,481	192,542	607,812	20,083,675	18,580,293
Beneficiary certificates	1,852,797	340,338	96,530	167,134	1,949,327	507,472
Other securities in local currency	-	-	108,730	61,023	108,730	61,023
Other securities in foreign currencies	4,373,479	4,172,463	1,412,887	457,767	5,786,366	4,630,230
	37,075,490	36,845,694	2,747,100	2,743,128	39,822,590	39,588,822

Available-for-sale equity securities not accounted for under the equity method as of December 31, 2008, are as follows:

(in millions of Korean won, shares in thousands)

	Number of shares	Percentage of ownership (%) as of Dec. 31, 2008	Acquisition cost	Book value	Fair value or net book value
Korea Highway Corporation	193,010	9.28	1,930,100	1,930,184	1,943,332
Hynix Semiconductor Inc.	36,714	7.99	335,961	228,609	228,609
Hyundai Engineering & Construction Co., Ltd.	16,290	14.66	311,384	830,130	830,130
Industrial Bank of Korea - preferred stock	46,915	-	326,906	324,701	324,701
SK Networks - common stock	29,549	12.16	156,685	235,912	235,912
Doosan Heavy Industries & Construction Co., Ltd.	12,129	11.56	205,655	762,944	762,944
GM Daewoo Auto & Technology Company - preferred stock(*)	122	-	265,259	244,411	359,482
Industrial Bank of Korea - common stock	10,490	2.37	73,094	80,668	80,668
Daewoo International Corp.	5,047	5.31	25,237	103,320	103,320
Hyundai corporation Co., Ltd	5,032	22.53	59,113	66,117	66,117
Ssangyong Cement Industry Co., Ltd.	11,091	14.86	186,434	67,455	67,455
Others			6,678,657	6,357,954	5,805,596
			10,554,485	11,232,405	10,808,266

(*) GM Daewoo Auto & Technology Company -preferred stock has been evaluated in accordance with the statement 28 of "Equity method" in the Statements of Korean Financial Accounting Standards. KRW 115,071million resulting from the change of investment's equity has subtracted from its book value.

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Available-for-sale debt securities as of December 31, 2008 and 2007, are as follows:

(in millions of Korean won)

	Par value		Acquisition cost		Book value	
	2008	2007	2008	2007	2008	2007
Government and public bonds	820,617	1,144,682	830,629	1,152,284	833,444	1,093,271
Corporate bonds	20,710,484	19,235,058	20,645,054	19,085,683	20,083,675	18,580,293
Beneficiary certificates	1,948,883	449,382	1,961,020	468,553	1,949,327	507,472
Investment debt securities in local currency	97,416	61,023	97,416	61,023	108,730	61,023
Investment debt securities in foreign currencies	6,363,488	4,697,341	6,394,961	4,703,320	5,615,008	4,597,390
	29,940,888	25,587,486	29,929,080	25,470,863	28,590,184	24,839,449

Held-to-maturity debt securities as of December 31, 2008 and 2007, are as follows:

(in millions of Korean won)

	Par value		Acquisition cost		Carrying value	
	2008	2007	2008	2007	2008	2007
Government and public bonds	3,057,890	2,667,576	3,050,625	2,629,554	3,057,080	2,665,286
Corporate bonds	96,342	56,798	97,062	58,368	95,836	58,368
Investment debt securities in local currency	631	783	628	773	632	778
Investment debt securities in foreign currencies	21,575	51,026	20,979	50,433	20,979	50,463
	3,176,438	2,776,183	3,169,294	2,739,128	3,174,527	2,774,895

Securities accounted for under the equity method as of December 31, 2008 and 2007, are as follows:

(in millions of Korean won)

Investee	Number of shares	Percentage of ownership (%) as of Dec. 31, 2008	Acquisition cost		Book value		Fair value or net book value	
			2008	2007	2008	2007	2008	2007
Korea Electric Power Corporation	192,160	29.95	4,491,411	4,491,411	8,734,991	9,403,531	12,261,895	13,187,909
GM Daewoo Auto & Technology Company	70,706	27.97	213,206	213,206	-	364,980	-	364,980
STX Pan Ocean Co., Ltd.	32,000	15.54	31,907	31,907	346,578	275,916	352,442	282,338
Korea Tourism Organization	2,824	43.58	35,529	35,529	182,522	170,874	182,522	170,874
Korea Asset Management Corporation	14,000	26.92	70,000	70,000	146,240	103,870	146,240	103,870
Tong Myung Mottrol Co., Ltd.	-	-	-	3,000	-	16,890	-	17,409
Others			662,104	785,502	640,974	540,802	669,372	962,904
			5,504,157	5,630,555	10,051,305	10,876,863	13,612,471	15,090,284

Valuation on the securities accounted for under the equity method for the year ended December 31, 2008, are as follows:

(in millions of Korean won)

Investee	Beginning book value	Acquisition (disposal)	Dividends	Valuation gain (loss)	Retained earnings	Capital adjustment	Ending book value
Korea Electric Power Corporation	9,403,531	-	144,120	(622,587)	(12)	98,179	8,734,991
GM Daewoo Auto & Technology Company	364,980	-	-	(243,914)	-	(121,066)	-
STX Pan Ocean Co., Ltd.	275,916	-	14,720	85,662	(29)	(251)	346,578
Korea Tourism Organization	170,874	-	3,581	15,132	-	97	182,522
Korea Asset Management Corporation	103,870	-	3,920	18,398	30,288	(2,396)	146,240
Tong Myung Mottrol Co., Ltd.	16,890	(16,290)	600	-	-	-	-
Others	540,802	103,259	6,535	3,218	(744)	974	640,974
	10,876,863	86,969	173,476	(744,091)	29,503	(24,463)	10,051,305

The equity method adjustments are calculated as the differences between the initial purchase price and the Bank's initial proportionate ownership in 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 reversed over five years or the weighted-average useful lives of the premises and equipment of investees using the straight-line method.

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Investees in which the Bank holds more than 15% of voting shares but are not valued using the equity method as of December 31, 2008, are as follows:

(in millions of Korean won, shares in thousands)

Investee	Number of shares	Percentage of ownership (%) as of Dec. 31, 2008	Acquisition cost	Book value	Fair value or net book value
Korea Land Corp. ¹	-	26.66	1,161,903	1,191,329	1,680,802
Hyundai Corporation	5,032	22.53	59,113	66,117	66,117
Others			452,226	388,210	243,976
			1,673,242	1,645,656	1,990,895

¹ Notwithstanding its ownership holding of more than 15 % in the investee companies presented above, the Bank is not considered as having a significant influence over the management of these companies because the aggregate ownership percentage held by the Korean government exceeds 66.7% of the total shares of this investee.

Investment securities denominated in foreign currencies as of December 31, 2008 and 2007, are as follows:

(in millions of Korean won; US\$, JPY, EUR, GBP, HUF and CNY in thousands)

Foreign currencies				Equivalent in Korean won			
2008		2007		2008		2007	
Available-for-sale debt securities							
US\$	2,618,300	US\$	3,080,946	₩	3,293,057	₩	2,890,542
JPY	45,536,801	JPY	66,757,483		634,733		556,310
GBP	352,589	GBP	372,715		640,884		698,504
EUR	247,120	EUR	292,083		438,937		403,443
HUF	622,190	HUF	8,932,101		4,138		48,591
HKD	13,230		-		2,147		
BRL	1,135,855		-		612,828		
				₩	5,626,724	₩	4,597,390
Held-to-maturity debt securities							
US\$	1,292	US\$	7,992		1,625	₩	7,498
HUF	2,910,534	HUF	7,897,926		19,355		42,965
				₩	20,980	₩	50,463

As of December 31, 2008, investment securities amounting to ₩17,117,701 million of the Bank are pledged as collaterals to KDB First Securitization Specialty Co., Ltd. and others.

With regard to futures trading, 10,235,130 shares of Korea Electric Power Corporation are pledged as a substitute for the deposits to KB Futures Co., Ltd. and others as of December 31, 2008.

5. Loans Receivable

Loans receivable as of December 31, 2008 and 2007, are as follows:

(in millions of Korean won)

	2008	2007
Loans receivable in local currency	36,613,599	26,950,698
Loans receivable in foreign currencies	22,288,958	15,501,676
Notes purchased	5,400	4,205
Bills purchased	2,420,155	1,687,598
Advances for customers	168,953	138,406
Bonds purchased under repurchase agreements	1,046,976	302,516
Others	17,831,803	17,158,877
	80,375,844	61,743,976
Less: Allowance for possible loan losses	(1,333,304)	(1,054,718)
	79,042,540	60,689,258

Loans receivable in local and foreign currencies as of December 31, 2008 and 2007, are as follows:

(in millions of Korean won)

	The Bank		Subsidiaries		Total	
	2008	2007	2008	2007	2008	2007
Loans receivable in local currency						
Loans for working capital	15,114,078	9,895,271	626,255	1,188,489	15,740,333	11,083,760
Loans for facilities	19,787,139	14,669,316	1,269,808	1,385,996	21,056,947	16,055,312
Inter-company loans	(183,681)	(188,374)	-	-	(183,681)	(188,374)
	34,717,536	24,376,213	1,896,063	2,574,485	36,613,599	26,950,698
Loans receivable in foreign currencies						
Loans for working capital	3,144,833	2,756,935	1,005,606	641,602	4,150,439	3,398,537
Loans for facilities	18,035,054	12,037,830	519,214	326,856	18,554,268	12,364,686
Inter-company loans	(415,749)	(261,547)	-	-	(415,749)	(261,547)
	20,764,138	14,533,218	1,524,820	968,458	22,288,958	15,501,676

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The maturity of loans receivable in local and foreign currencies as of December 31, 2008, are as follows:

(in millions of Korean won)

Maturing on or before	Loans for working capital in local currency	Loans for facilities in local currency	Loans for working capital currencies in foreign	Loans for facilities in foreign currencies	Total
March 31, 2009	3,887,570	830,769	500,932	640,032	5,859,303
June 30, 2009	2,658,367	975,465	817,252	841,190	5,292,274
Dec. 31, 2009	5,005,798	1,682,611	1,163,478	1,537,513	9,389,400
Dec. 31, 2010	1,813,963	4,184,394	540,442	3,666,345	10,205,144
Dec. 31, 2011	934,334	4,237,438	196,579	2,797,974	8,166,325
Dec. 31, 2012	202,879	2,449,864	214,393	3,691,822	6,558,958
Dec. 31, 2013	197,729	2,253,551	84,837	1,819,970	4,356,087
Thereafter	1,039,693	4,442,855	632,526	3,559,422	9,674,496
	15,740,333	21,056,947	4,150,439	18,554,268	59,501,987
Inter-company loans receivable					(599,430)
					58,902,557

The Bank's restructured loans receivable as of December 31, 2008 and 2007, due to court receivership, court mediation or other financial restructuring processes are as follows:

(in millions of Korean won)

	2008	2007
Conversion to equity investment	13,043	21,260

When the contractual terms such as the principal, interest rate, or maturity of impaired loans receivable are restructured, the Bank adjusts the carrying amount of the impaired loans receivable to the present value determined based on the restructured terms. The Bank recognizes losses arising from the restructuring of the impaired loans receivable as incurred.

Changes in the Loan Origination Fees during 2008 are as follows:

(in millions of Korean won)

	Beginning balance	Increase	Decrease	Ending balance
Loan Origination Fees	-	1,590	21	1,569

6. Property and Equipment

Property and equipment as of December 31, 2008 and 2007, are as follows:

(in millions of Korean won)

	Acquisition cost or revaluation amount		Accumulated depreciation		Net book value	
	2008	2007	2008	2007	2008	2007
Land	1,299,351	1,166,857	-	-	1,299,351	1,166,857
Buildings	1,529,037	1,274,931	347,589	303,518	1,181,448	971,413
Structures	731,074	667,545	168,580	151,318	562,494	516,227
Machinery	904,055	804,926	530,170	482,036	373,885	322,890
Vehicles	145,133	122,353	100,544	90,299	44,589	32,054
Ships	141,361	136,606	45,338	36,453	96,023	100,153
Construction-in-progress	984,897	326,899	347	1,084	984,550	325,815
Other property and equipment	719,622	662,035	486,184	463,634	233,438	198,401
	6,454,530	5,162,152	1,678,752	1,528,342	4,775,778	3,633,810

The government-valued price of the Bank and its subsidiaries' land as of December 31, 2008, is ₩1,439,757 million (2007: ₩1,205,656 million).

As of December 31, 2008, property and equipment, and other assets are insured against fire and other casualty losses for up to approximately ₩3,791,405 million (2007: ₩3,746,242 million).

7. Other Assets

Other assets as of December 31, 2008 and 2007, are as follows:

(in millions of Korean won)

	2008	2007
Other accounts receivable	4,771,365	2,297,197
Accrued income	821,781	669,976
Deferred income tax assets	51,267	15,342
Inventory	2,193,973	1,530,098
Others	2,411,069	2,458,097
	10,249,455	6,970,710
Loss: Allowance for possible losses	(76,985)	(86,765)
	10,172,470	6,883,945

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

8. Deposits

Deposits as of December 31, 2008 and 2007, are as follows:

(in millions of Korean won)

	Annual interest rates as of December 31, 2008	2008	2007
Demand deposits			
Local currency deposits	0.00 ~ 2.25	2,553,059	1,673,754
Checking deposits	-	7,987	24,397
Passbook deposits	0.00 ~ 2.33	350,228	254,080
Temporary deposits	-	2,174	369
Others	0.00 ~ 1.51	87,869	7,074
		3,001,317	1,959,674
Time deposits			
Local currency savings deposits	2.11 ~ 5.79	9,439,158	5,970,091
Foreign currencies time deposits	0.52 ~ 5.00	3,019,421	633,464
		12,458,579	6,603,555
Negotiable certificates of deposits	5.61	4,115,447	3,479,169
Others			
		7,355	-
		19,582,698	12,042,398

9. Borrowings

Borrowings as of December 31, 2008 and 2007, are as follows:

(in millions of Korean won)

	Annual interest rates as of December 31, 2008	2008	2007
Borrowings in local currency			
Borrowings from the Korean government	3.63 ~ 5.06	2,134,052	2,166,921
Others	1.00 ~ 8.82	4,633,774	4,268,768
		6,767,826	6,435,689
Borrowings in foreign currencies			
Borrowings from the Korean government	3.53 ~ 5.06	4,134,865	3,719,875
Off shore borrowings	4.36 ~ 4.96	2,134,537	891,290
Others	0.20 ~ 9.70	10,759,522	8,774,708
		17,028,924	13,385,873
Other borrowings			
Bonds sold under repurchase agreements	5.02	12,672,130	11,927,105
Notes sold	3.80	132	102
Call money	5.04	1,449,736	2,387,577
Others	-	6,789	17,980
		14,128,787	14,332,764
		37,925,537	34,154,326

The subordinated debts included in borrowings from the Korean government as of December 31, 2008 and 2007, are as follows:

(in millions of Korean won)

Type	Annual average interest rates as of Dec. 31, 2008	2008	2007	Condition of Borrowings
Government fund	5.06	1,015,734	1,099,028	Installment reimbursement
International Bank for Reconstruction and Development re-lending facilities	4.44	2,099,003	1,940,985	"
		3,114,737	3,040,013	

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

The maturities of borrowings in local and foreign currencies as of December 31, 2008, are as follows:

(in millions of Korean won)

Maturing on or before	Borrowings in local currency	Borrowings in foreign currencies	Total
March 31, 2009	1,241,329	6,373,130	7,614,459
June 30, 2009	211,080	3,657,752	3,868,832
Dec. 31, 2009	461,486	1,902,932	2,364,418
Dec. 31, 2010	659,627	1,893,388	2,553,015
Dec. 31, 2011	644,650	2,117,547	2,762,197
Dec. 31, 2012	617,251	541,345	1,158,596
Dec. 31, 2013	536,678	356,156	892,834
Thereafter	2,395,725	186,674	2,582,399
	6,767,826	17,028,924	23,796,750

10. Debentures

Debentures as of December 31, 2008 and 2007, are as follows:

(in millions of Korean won)

	Annual interest rates as of December 31, 2008	2008	2007
Industrial finance bonds ("IFB") in local currency	5.41 ~ 6.00	49,122,397	41,362,528
IFB in foreign currencies	3.55	15,844,154	11,779,307
Offshore IFB in foreign currencies	4.33	3,453,389	3,093,965
Others	5.03 ~ 7.71	1,701,347	1,510,700
		70,121,287	57,746,500
Add: Premiums on IFB		5,249	8,915
Less: Discounts on IFB		(35,842)	(47,333)
		70,090,694	57,708,082

Under the Korea Development Bank Act, the Bank has authority to issue industrial finance bonds. The amount of issued bonds and outstanding by the Bank is limited to 30 times the amount 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 if guarantees are executed, the limit is temporarily suspended. There are no issued bonds guaranteed by the Korean government for the years ended December 31, 2008 and 2007.

The maturities of debentures as of December 31, 2008, are as follows:

(in millions of Korean won)

Maturing on or before	Industrial finance bonds in local currency	Industrial finance bonds in foreign currencies	Total
March 31, 2009	4,804,176	1,152,868	5,957,044
June 30, 2009	4,952,782	1,065,341	6,018,123
Dec. 31, 2009	10,587,317	2,780,717	13,368,034
Dec. 31, 2010	16,861,827	3,924,788	20,786,615
Dec. 31, 2011	6,669,423	2,172,489	8,841,912
Dec. 31, 2012	993,102	2,918,081	3,911,183
Dec. 31, 2013	2,584,158	2,572,297	5,156,455
Thereafter	3,370,959	2,710,962	6,081,921
	50,823,744	19,297,543	70,121,287

11. Other Liabilities

Other liabilities as of December 31, 2008 and 2007, are as follows:

(in millions of Korean won)

	2008	2007
Advances received	6,805,708	5,525,500
Borrowings from trust accounts	358,295	486,108
Deferred income tax liabilities	550,044	2,010,836
Deposits received	179,762	182,606
Others	5,718,135	4,844,623
	13,611,944	13,049,673

12. Outstanding Guarantees and Commitments

The Bank provides guarantees for its customers. Outstanding guarantees and the related allowance for possible losses as of December 31, 2008 and 2007, are as follows:

(in millions of Korean won)

	Guarantees		Allowance for possible losses	
	2008	2007	2008	2007
Settled guarantees and commitments	18,107,048	12,029,665	90,199	56,180
Unsettled guarantees and commitments	13,259,297	11,195,150	23,469	19,761
Endorsed notes	87	298	1	3
	31,366,432	23,225,113	113,669	75,944

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

Unused loan commitments and the related allowances for possible losses of the Bank as of December 31, 2008 and 2007, are as follows:

(in millions of Korean won)

	Unused loan commitment		Allowance for possible losses	
	2008	2007	2008	2007
Loans receivable	3,841,639	2,696,690	15,844	11,585
Guarantees and acceptances	16,555,910	12,112,458	67,940	44,064
Loan commitment	4,802,193	4,300,041	19,176	15,910
	25,199,742	19,109,189	102,960	71,559

The unsettled commitments provided by the Bank as of December 31, 2008 and 2007, are as follows:

(in millions of Korean won)

	2008	2007
Commitments		
For loans in local currency	4,775,584	3,670,126
For loans in foreign currencies	1,026,609	629,915
	5,802,193	4,300,041
Bonds sold under repurchase agreements	750,570	750,570

13. Commitments and Contingencies

The Bank has entered into agreements to provide certain syndicated loans with foreign banks. The total amounts available under such loans are US\$ 2,642 million, JPY 2,576 million, EUR 38 million, CHF 5 million, CNY9 million and GBP 5 million (equivalent to ₩6,996,442 million) and ₩1,604,930 million, of which US\$ 387 million, JPY 641 million, CHF 0.3 million and CNY9 million (equivalent to ₩1,381,422 million) and ₩1,279,715 million have not been withdrawn by borrowers as of December 31, 2008.

Loans sold to KDB First Securitization Specialty Co., Ltd. and others in accordance with the Asset Securitization Plan as of December 31, 2008, are as follows:

(in millions of Korean won)

	Disposal date	Book value	Selling price	Retained subordinated debt securities	Collateral ¹
KDB First SPC	June 8, 2000	950,627	600,000	126,400	121,947
KDB Second SPC	November 8, 2000	914,764	423,600	143,348	81,451
KDB Third SPC	September 20, 2001	1,793,546	949,900	-	-
KDB Fifth SPC	December 13, 2001	765,358	528,400	74,200	101,381
		4,424,295	2,501,900	343,948	304,779

¹ Investment securities are pledged as collaterals (Note 4).

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

The Bank has provided credit lines to several securitization specialty companies amounting to ₩5,802,193 million, of which ₩29,145 million was withdrawn as of December 31, 2008.

As of December 31, 2008, the Bank still has the valid legal right to seek indemnity for ₩1,632,330 million as part of the loans receivable written off.

The Bank has outstanding loans receivable amounting to ₩540,266 million, and securities amounting to ₩83,382 million as of December 31, 2008, from companies under workout, court receivership, court mediation or other restructuring process. The Bank recorded ₩82,098 million as allowances for possible loan losses. Actual losses from these loans may differ from the allowances recorded.

As of December 31, 2008, the Bank faces 23 legal cases involving an aggregate amount of ₩21,925 million, and has filed 19 lawsuits, with an aggregate amount of ₩3,767,502 million. The final outcome of these cases cannot yet be determined as of the report date.

14. Derivative Financial Instruments and Related Contracts

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

For 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. Further, the Bank also trades the instruments to hedge against the derivative financial instruments purchased by the Bank's customers.

Additionally, trading derivatives include derivatives used to hedge the exchange rate of the Bank's foreign currency denominated assets and liabilities, and interest rate of the Bank's loans and borrowings, whose underlying assets and liabilities are already valued at fair market value, and hedging derivatives that are not specifically identified to an underlying transaction.

Hedging instruments generally include cross currency swaps and interest rate swaps used to hedge borrowings and bonds denominated in foreign currency from the exchange rate and interest rate risks. Those hedging transactions are made with foreign financial institutions and domestic banks. The hedging instruments also include interest rate swaps used to reduce interest rate risks of the industrial finance bonds issued in won.

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

The unsettled contract amounts of the Bank's derivatives and the related valuation gain(loss) as of and for the year ended December 31, 2008, are as follows:

(in millions of Korean won)

	Unsettled contract amount			Valuation gain/loss (P/L)			Valuation asset(liability) (B/S)
	Trading purpose	Hedging purpose	Total	Trading purpose	Hedging purpose	Total	
Interest rate							
Forward	-	-	-	-	-	-	-
Futures	3,139,330	-	3,139,330	-	-	-	-
Swap	222,218,086	7,980,810	230,198,896	(465,680)	473,285	7,605	(323,706)
Option							
Buy	646,200	1,160,000	1,806,200	17,085	-	17,085	46,386
Sell	1,616,200	1,780,000	3,396,200	(43,415)	(8,515)	(51,930)	(84,633)
	227,619,816	10,920,810	238,540,626	(492,010)	464,770	(27,240)	(361,953)
Currency							
Forward	57,994,151	-	57,994,151	3,936,015	-	3,936,015	4,042,834
Futures	713,694	-	713,694	-	-	-	-
Swap	58,014,149	6,614,539	64,628,688	(3,658,461)	320,673	(3,337,788)	(2,935,684)
Option							
Buy	7,365,527	-	7,365,527	797,706	-	797,706	1,031,654
Sell	8,256,078	-	8,256,078	(615,910)	-	(615,910)	(784,274)
	132,343,599	6,614,539	138,958,138	459,350	320,673	780,023	1,354,530
Stock price index							
Futures	8,154	-	8,154	-	-	-	-
Option							
Buy	1,035,840	-	1,035,840	(4,324)	-	(4,324)	411,092
Sell	1,099,960	-	1,099,960	8,024	-	8,024	(410,785)
	2,143,954	-	2,143,954	3,700	-	3,700	307
Commodity							
Forward	114,447	-	114,447	(222)	-	(222)	(222)
Swap	241,987	-	241,987	(2,306)	-	(2,306)	(1,657)
Futures	776	-	776	-	-	-	-
Option							
Buy	53,576	-	53,576	(169)	-	(169)	2,320
Sell	53,576	-	53,576	200	-	200	(2,320)
	464,362	-	464,362	(2,497)	-	(2,497)	(1,879)
	362,571,731	17,535,349	380,107,080	(31,457)	785,443	753,986	991,005

15. Shareholders' Equity

Capital Stock

The Korean government shall provide the entire paid-in capital of the Bank in accordance with the Korea Development Bank Act. The authorized paid-in capital amounts to ₩10,000 billion as of December 31, 2008. The total paid-in capital of the Bank outstanding as of December 31, 2008, is ₩8,741,861 million.

Capital Adjustments

Capital adjustments as of December 31, 2008 and 2007, are as follows:

	(in millions of Korean won)	
	2008	2007
Treasury stock	(62,996)	(62,996)
Discounts on stock	(99,300)	(100,600)
Others	2,621	174
	(159,675)	(163,422)

Accumulated Other Comprehensive Income

Accumulated other comprehensive income as of December 31, 2008 and 2007, consists of:

	(in millions of Korean won)	
	2008	2007
Gain on valuation of available-for-sales securities	368,806	3,679,146
Loss on valuation of securities under the equity method	(390,588)	(192,332)
Overseas operations translation debit	6,689	(43,308)
Gain(Loss) on valuation of derivatives instruments for cash flow hedge	(1,639)	810
Others	-	904
	(16,732)	3,445,220

Retained Earnings

Retained earnings as of December 31, 2008 and 2007, consist of:

	(in millions of Korean won)	
	2008	2007
Legal reserve	7,582,290	5,956,300
Retained earnings before appropriations	(471,746)	1,114,218
	7,110,544	7,070,518

The Korea Development Bank Act requires the Bank to appropriate at least 40% of net income as a legal reserve. This reserve can be transferred to paid-in capital or used to offset 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.

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

16. Other Non-interest Revenues and Expenses

Other non-interest revenues and expenses for the years ended December 31, 2008 and 2007, are as follows:

(in millions of Korean won)		
	2008	2007
Other non-interest revenue		
Fees on trust accounts	15,190	25,453
Others	258,145	253,092
	273,335	278,545
Other non-interest expenses		
Contribution to funds	78,306	66,088
Provision for losses from guarantees and acceptances	37,633	25,623
Others	180,826	141,513
	296,765	233,224

17. General and Administrative Expenses

General and administrative expenses for the years ended December 31, 2008 and 2007, are as follows:

(in millions of Korean won)		
	2008	2007
Salaries	529,931	484,154
Retirement allowance	65,705	63,469
Welfare expenses	118,083	95,850
Rent	49,947	39,590
Depreciation	64,655	63,548
Taxes and dues	52,329	49,587
Advertising expenses	61,650	41,770
Commission	101,044	75,237
Others	422,975	462,868
	1,466,319	1,376,073

18. Income Taxes

Income tax expense of the Bank and its subsidiaries for the years ended December 31, 2008 and 2007, consist of:

(in millions of Korean won)

	2008	2007
Income tax of the Bank		
Income tax payable	116,515	9,628
Changes in deferred income taxes due to temporary differences	(1,352,391)	14,327
Changes in deferred income taxes due to tax loss	67,722	248,059
Income tax expense accounted for as capital adjustment	1,190,470	286,623
	22,316	558,637
Income tax expense of subsidiaries	249,104	248,241
	271,420	806,878

Deferred tax effect amounting to ₩120,574 million related with provision for loan losses due to the remote possibility of realization is not recognized as temporary differences are deemed to have no future benefits.

19. Assets and Liabilities Denominated in Foreign Currencies

Significant assets and liabilities denominated in foreign currencies as of December 31, 2008, are as follows:

(in millions of Korean won, US\$ in thousands)

	Foreign currency ¹		Equivalent in Korean won	
Assets				
Cash	US\$	44,627	₩	56,119
Due from banks		888,738		1,117,588
Trading securities		117,521		147,783
Investment securities (available-for-sale)		4,601,485		5,786,367
Investment securities (held-to-maturity)		16,684		20,980
Bills purchased		1,924,577		2,420,155
Call loans		1,912,937		2,405,518
Loans receivable		17,724,816		22,288,958
Domestic import usance bills		2,403,773		3,022,744
Receivables		97,455		122,550
Other assets		4,400,963		5,534,211
	US\$	34,133,576	₩	42,922,973

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

(in millions of Korean won, US\$ in thousands)

	Foreign currency ¹		Equivalent in Korean won	
Liabilities				
Deposits	US\$	2,988,355	₩	3,757,857
Borrowing		13,541,888		17,028,924
Bonds sold under repurchase agreements		1,402,243		1,763,320
Call money		238,359		299,736
Bonds in foreign currencies		12,599,725		15,844,154
Offshore IFB in foreign currencies		2,746,235		3,453,390
Others		2,538,565		3,192,247
	US\$	36,055,370	₩	45,339,628

¹ Assets or liabilities denominated in foreign currencies other than U.S. dollars have been converted into U.S. dollars using the exchange rate in effect on December 31, 2008.

20. Intercompany Transactions

Significant transactions made in the ordinary course of business for the years ended December 31, 2008 and 2007, between the Bank and its subsidiaries, and the related account balances as of December 31, 2008 and 2007, which have been eliminated in the accompanying consolidated financial statements, are summarized as follows:

(in millions of Korean won)

	2008	2007
Inter-company deposits / due from banks	997,023	1,319,320
Inter-company borrowings from trust accounts / loans receivable	63,405	209,401
Inter-company borrowings / loans receivable	599,432	449,921
Inter-company debentures / securities	789,872	627,284
Inter-company interest income / expense	93,718	72,821
Others	20,423	16,469

21. Industry Segment Reporting

The assets and liabilities summarized by industry segment as of December 31, 2008 and 2007, are as follows:

(in millions of Korean won)

	Finance		Non-finance ¹	
	2008	2007	2008	2007
Assets				
Cash and due from banks	6,594,954	4,422,619	1,505,899	2,697,453
Securities	62,733,178	62,896,732	290,449	256,258
Loans receivable, net	79,546,430	61,059,021	69,169	-
Property and equipment, net	1,082,009	884,882	3,693,769	2,748,928
Others	24,183,331	8,678,756	12,934,633	4,997,535
Total assets	174,139,902	137,942,010	18,493,919	10,700,174
Liabilities				
Deposits	19,853,754	12,239,698	-	-
Borrowings and debentures	107,670,375	91,936,358	943,279	752,802
Others	29,222,121	13,675,255	15,275,279	7,780,593
Total liabilities	156,746,250	117,851,311	16,218,558	8,533,395

¹ Financial information from the non-finance segment is provided using the total amount before consolidation adjustments.

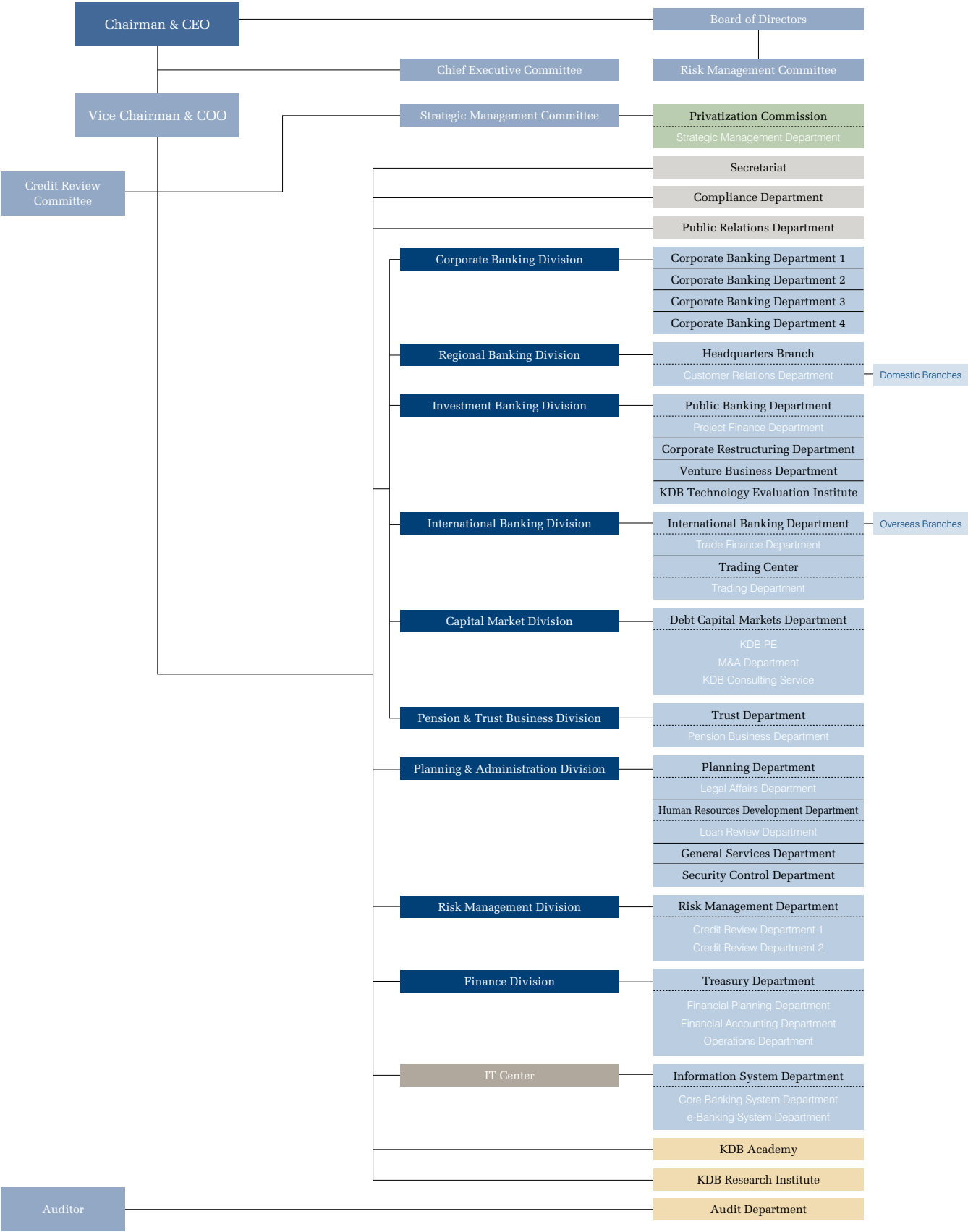
The consolidated statements of income summarized by industry segment for the years ended December 31, 2008 and 2007, are as follows:

(in millions of Korean won)

	Finance		Non-finance ¹	
	2008	2007	2008	2007
Interest income	6,672,358	5,005,819	179,853	129,070
Interest expense	5,776,444	4,592,083	44,230	45,113
Net interest income after provision	895,914	413,736	135,623	83,957
Non-interest revenue	43,832,962	12,102,105	13,816,055	8,633,094
Non-interest expenses	43,573,495	10,605,946	14,708,697	8,300,669
Operating income	1,155,381	1,909,895	(757,019)	416,382
Non-operating income, net	(585,488)	1,115,629	1,117,220	(12,316)
Income before income taxes	569,893	3,025,524	360,201	404,066
Income tax expense	89,607	684,508	181,814	122,370
Net income	480,286	2,341,016	178,387	281,696

¹ Financial information from the non-finance segment is provided using the total amount before consolidation adjustments.

Organization Chart



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