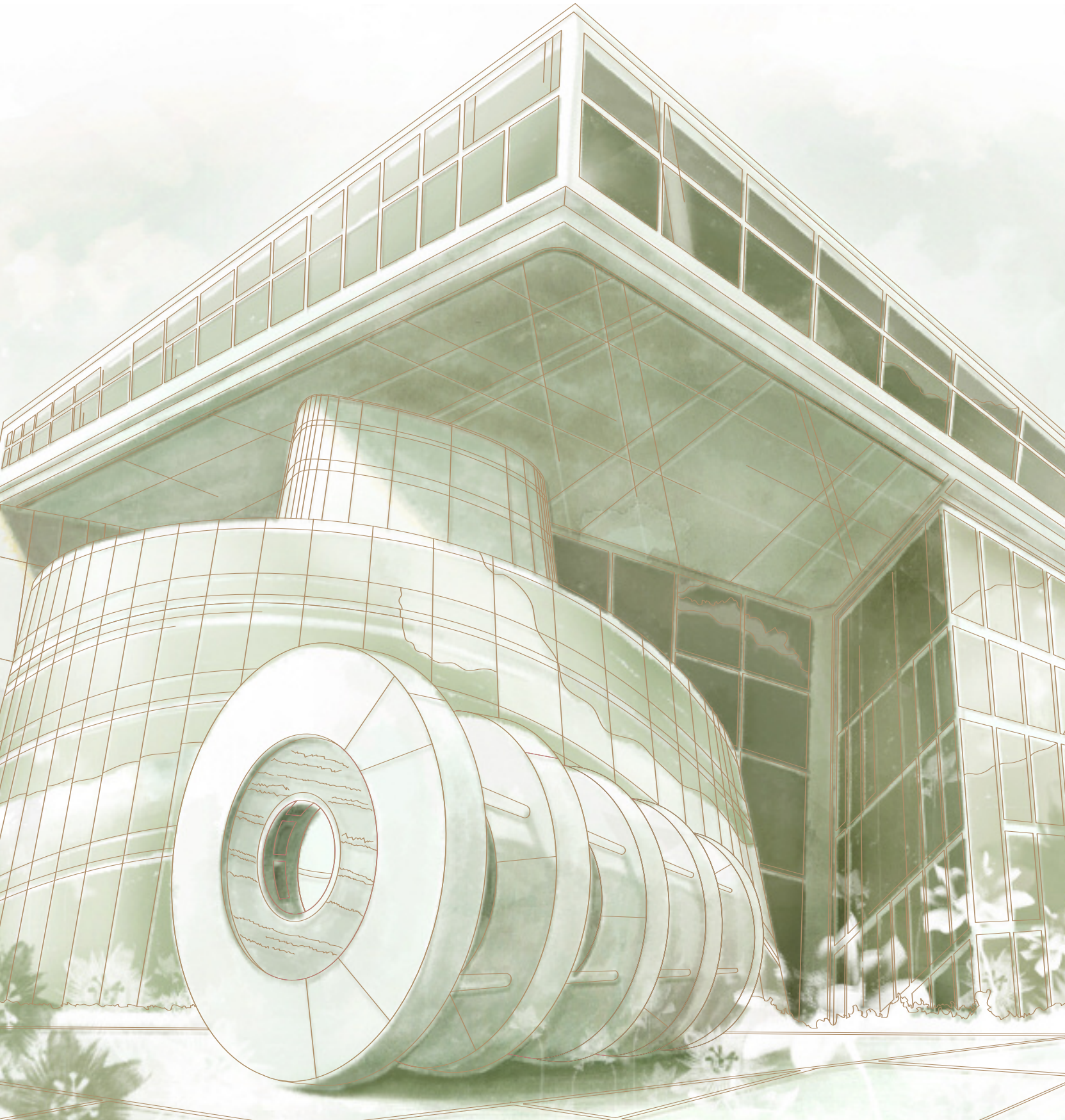


kdb

Redefining Excellence

ANNUAL REPORT 2007



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Profile

Founded in 1954 under The Korea Development Bank Act, Korea Development Bank has taken charge of promoting the nation's industrial and economic growth for over five decades. Throughout the period, KDB has ceaselessly executed its roles and functions in line with the changing business environment and needs.

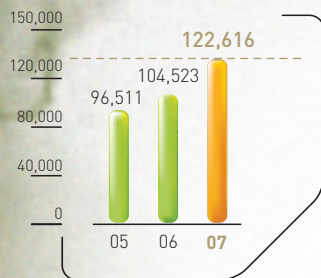
Providing a broad range of banking services to its clients, KDB has been a key contributor to the expansion of the domestic economy and industries. At the same time, it has been a front runner in paving the way for Korea's financial market development. Thanks to such dedication, KDB is ahead of the pack in a variety of financial services, including project finance, M&A, derivatives, and restructuring of distressed companies.

With an extensive business network at home and abroad, KDB will persistently revamp its capacity to initially advance as Asia's leading bank, then transform into a global investment bank in the longer run. To this end, KDB is exploring new opportunities on the global stage and reorganizing its business lines to better meet the diversifying client needs.

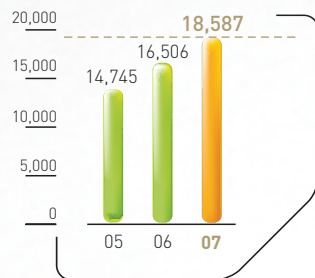
KDB is "redefining excellence" as it is about to make new history as a leading global bank through a process of selection and concentration. The Bank will concentrate on further boosting the capacity of a select group of businesses known for its competitiveness, in addition to securing a globally-competitive workforce and management system.

■ FINANCIAL HIGHLIGHTS

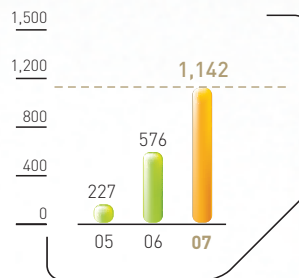
SIZE & EARNINGS (KRW billion)



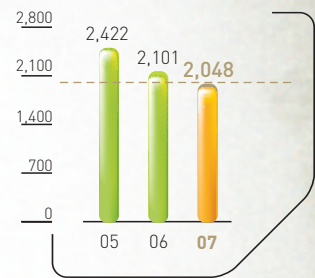
Total Assets



Total Shareholders' Equity

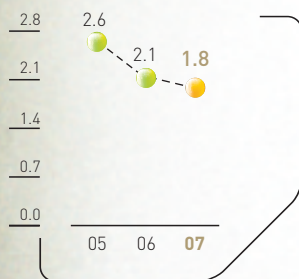


Operating Income

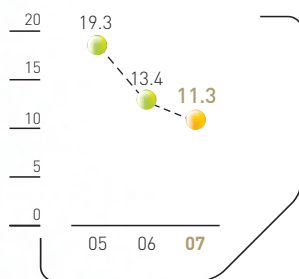


Net Income

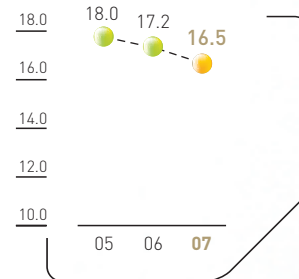
FINANCIAL RATIOS (%)



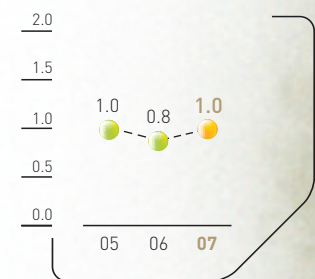
ROA



ROE



BIS Ratio



NPL Ratio

CREDIT RATINGS

Moody's	S&P	Fitch
Aa3	A	A+

Vision

KDB's long-term vision is to become a leading global investment bank. To move closer toward our vision, we are making ceaseless efforts to maximize KDB's brand value by contributing to the domestic financial market advancement, while continuously reinforcing our financial support for social infrastructure, SMEs, and venture companies. To boost higher profit-generating businesses, we are aggressively advancing into emerging overseas markets by capitalizing on an assortment of financial instruments. Based on the maximized brand value, we will evolve into a leading Asian bank within the next five years and provide comprehensive solutions to financial markets worldwide.

- Shift from quantitative growth to qualitative growth
- Strengthen IB business through selection and concentration
- Promote internal innovation to develop a new corporate culture
 - Solidify the KDB brand as a leading financial institution



Governor's Message



MIN, EUOO SUNG
Governor

KDB took the meaningful step of redefining its role and laying the foundation for long-term growth.

Once again in 2007, KDB took the meaningful step of redefining its role as a state-owned bank and laying the foundation for long-term growth despite adverse financial market circumstances. In addition to spearheading the support for SMEs and venture companies, we introduced socially responsible financing packages for the first time in Korea, successfully fulfilling our commitment as a policy bank. Meanwhile, rapid business environment changes fueled our drive to turn into a leading global investment bank by strengthening our investment banking capacity and solidifying KDB's reputation as Korea's financial leader.

We were able to reach major feats in spite of unfavorable conditions caused by the financial paradigm shift and the global market turmoil. We attribute a series of outstanding achievements to the dedication of our employees. Thanks to their devotion, KDB exceeded the yearly target, extending over KRW27.2 trillion in funds and posting KRW2 trillion in net income. In addition, despite fundraising difficulties due to the global credit crunch and the shift of capital from savings to investment, we portrayed our credibility and capacity to tackle crises by outperforming our deposits and global funding targets and issuing Industrial Finance Bonds (IFBs) worth KRW24.5 trillion. Such strong performance enabled us to maintain the highest level of credit ratings and BIS capital adequacy ratio among domestic financial institutions.

■ GOVERNOR'S MESSAGE



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While reinforcing our investment banking businesses, e.g. cross-border M&A, consulting, and global funding, we issued a KRW350 billion Collateralized Debt Obligation (CDO) in conjunction with Daewoo Securities, thereby taking the first step to maximize synergies with our affiliates under the slogan of "One KDB." In addition, in line with our emphasis on overseas investment banking, we paved the way for the creation of national wealth overseas by establishing a new Global Structured Finance Unit, expanding investment in overseas resources development, and providing project finance in emerging markets worldwide.

We will make consistent efforts to nurture future growth engines and act as a financial innovator in accordance with today's market demands.

The financial market instability is projected to continue in 2008 with the global economic slowdown and credit crunch showing little improvement. Uncertainties abound in the domestic financial market as well, since competition is getting fiercer with the planned enactment of the Capital Market Consolidation Act.

The new government, since taking office in February 2008, has been promoting the privatization process of state-owned banks, placing KDB on the threshold of a major transition. To secure sustainable development under such circumstances, it is imperative for us to make a fundamental shift for an upgraded revenue and funding structure under a new business model. Doing so will provide yet another opportunity to reaffirm our position as the forerunning investment bank of Korea.

In response to the business climate changes, we will give priority to swiftly reflecting the new policies to be presented by the new government on our business. Meanwhile, we will make consistent efforts to nurture future growth engines and act as a financial innovator in accordance with today's market demands. Furthermore, in line with the theme of this annual report, we will redefine our excellence to cope with challenges and prepare for a smooth takeoff as a leading global investment bank by meeting the following objectives:

- Expand capital provisions to boost economic vitality and shore up the SMEs and venture businesses, thereby taking the lead in securing new growth engines for the Korean economy.
- Improve our management stability and prioritize



MIN, EUOO SUNG
Governor



MIN, EUOO SUNG
Governor

We will redefine our excellence to cope with challenges and prepare for a smooth take off as a leading global investment bank.



KIM, JONG BAE
Deputy Governor



LEE, SUNG MOON
Auditor



RHEE, SUNG JOON
Executive Director



KIM, YOUNG - KEE
Executive Director



CHUNG, IN SUNG
Executive Director



HUH, MOON HEI
Executive Director



LEE, YEON HEE
Director



KIM, YOU HUN
Director



SHIN, DONG HYEOK
Director



KIM, HAN CHUL
Director

HEADS OF DIVISIONS NEWLY APPOINTED ON JUNE 17, 2008 ARE AS FOLLOWS :

JANG, DAE KON
Director

YOON, MAN HO
Director

CHOI, IG JONG
General Manager

KIM, WON GEUN
General Manager

• NON-EXECUTIVE DIRECTORS : LEE, YOUN SOO / OH, YEON CHEON



New Paradigm

Keeping pace with Korea's economic development, KDB has performed its role as a state-owned bank at every stage of Korea's economic evolution. In the course of this process, the Bank has positioned itself as a leading bank that provides total financial services, especially in the corporate banking sector. As a financial innovator, KDB has discovered new markets in diverse sectors. KDB has also taken the lead in arranging bond issuance, project finance (PF) and M&A. In addition, the Bank has delved into the domestic derivatives market and led the private equity fund (PEF) market by utilizing highly sophisticated skills and a wealth of experience, thereby establishing KDB as a competitive investment bank.

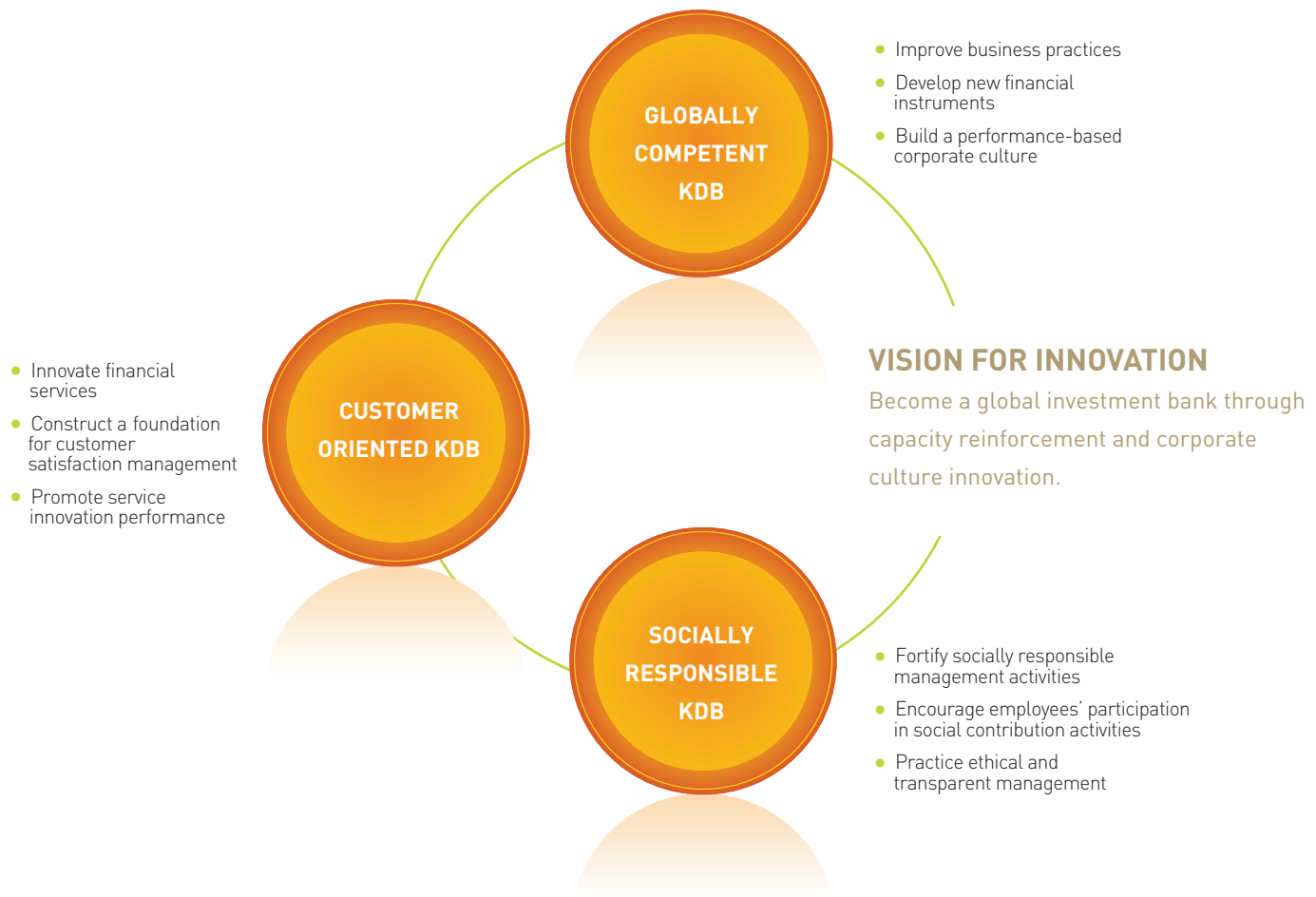
In 2007, KDB set its business goal as "laying the groundwork toward becoming a global investment bank" and mounted an array of initiatives to attain that goal. The Bank strengthened the investment banking capacity, secured industry-leading financial soundness, and improved risk management, while solidifying KDB's brand image as a financial leader. In 2008, there will be major changes internally and externally, including the movement of the financial axis to the capital market and the aftermath of the subprime mortgage crisis. In order to cope with these circumstances, KDB, in search of a new paradigm, has redefined its vision by accepting changes as opportunities to move a step closer to becoming a leading investment bank.



New York

KDB's Innovation

Since its inception, KDB has been Korea's leading financial institution. The Bank is reinforcing its role as a growth facilitator by fostering next-generation growth engines and providing total financial solutions for balanced national development. It is now intent on transforming into a leading global investment bank, leveraging its accumulated experience and expertise from the corporate banking business. In line with this long-term strategic direction, KDB has set its vision for innovation to "emerge as a major global investment bank by reinforcing core competences and innovating the corporate culture." Based on this vision, bank-wide initiatives have been implemented since 2006. In 2007, KDB's initiatives focused on three themes: "globally competent KDB," "customer-oriented KDB," and "socially responsible KDB," with each theme containing a three-pronged strategy.



The year 2008 will mark a memorable time point in the Bank's history as KDB, the financial innovator, will be redefining itself as Korea's leading investment bank with the ability to compete shoulder to shoulder with major global investment banks. So far, the Bank has focused on its public role as a state-owned bank, acting as an economic facilitator by assisting the government with its economic growth initiatives. Looking ahead, however, a new era of finance demands a different role from KDB – that of a globally competitive investment bank. Capitalizing on its solid reputation and vast experience accumulated over half a century in both domestic and overseas financial markets, KDB is poised to fulfill this new role by seeking a paradigm shift.

EXPANDING INNOVATIVE TRAINING PROGRAM

KDB has also expanded its innovative training program in order to raise its corporate culture to the level of major global investment banks. In April 2007, a total of 80 employees formed a group to visit and take a leaf out of the book of 12 global leading investment banking houses. In collaboration with KDB's three subsidiaries, including Daewoo Securities, the program was designed to maximize the synergy effect of "One KDB." The main purpose of this program was to encourage KDB's employees to utilize the firsthand experience gained from workshops at renowned financial institutions to innovate KDB's own business practices.

At the same time, KDB held a five-month Value Sharing Workshop following in the footsteps of GE's "Work-Out" program. Under the slogan of 3Cs - Creativity, Challenge, and Credibility, 85 domestic regional divisions and associated branches took part in this innovation program. During the workshop, participants developed a total of 137 innovative initiatives under the theme of customer-oriented, globally competent and socially responsible KDB.

ESTABLISHING KDB'S BRAND IMAGE AS A FINANCIAL LEADER

KDB has played an active role as a financial leader by elevating the level of Korea's financial industry. In the process, the Bank mounted aggressive and effective promotion campaigns. By operating a strict internal control system and conducting socially responsible financing and ethics management at the same time, the Bank will be an exemplar of a sound and socially responsible bank. As brand value represents the core competitiveness necessary for successful investment banking, KDB has strived to establish its brand name as Korea's leading investment bank.



EXPEDITING OVERSEAS INVESTMENT BANKING

KDB has been a pioneer in exploring overseas financial markets. Its role as a trailblazer was enhanced by playing an important role in key industries, including the promotion of a joint investment project to develop a complex thermal power generation plant in Ukraine. KDB is also building an investment network by organizing and participating in many Non-Deal Roadshows as part of the Bank's drive to establish a strong foothold in the global market.

KDB played a prominent role in activating overseas securities underwritings in Korea by handling euro bonds issuance for LG Electronics, Hynix global bonds, and other overseas CBs. The Bank also provided diverse types of fund products such as callable derivative instrument funds and other structured fund development, and fund products designed for investment in Eastern Europe.

In step with its efforts to secure a strong platform to penetrate global markets, KDB reinforced capabilities of its overseas branches while expanding the network into emerging markets. Its Eastern Europe network was further extended with the opening of a branch in Hungary. The Bank also enlarged its presence in the Chinese market by upgrading the current representative office in Beijing to a branch and opening a representative office in Shenyang. At its Headquarters, KDB launched a Global Structured Finance Unit, expediting its pursuit of overseas investment banking markets.

ADOPTING ADVANCED RISK MANAGEMENT SYSTEM

In the run up to the implementation of the new BIS Accord, KDB completed its preparation by finalizing the construction of a new risk management system. The Bank has applied for permission from the Financial Supervisory Service (FSS) of Korea and expects to obtain approval on the Foundation Internal Ratings-Based (FIRB) approach in 2008. In addition, KDB anticipated changes in business circumstances and reflected these changes by preemptively and flexibly managing risks. At the same time, in pursuit of securing the type of advanced risk management mechanism used by leading global investment banks, KDB tightened its management of credit risk by reducing loans to overextended debtors, enhanced its preemptive risk monitoring mechanism, and improved KDB's system for keeping liquidity and interest rate risks in check.



BUILDING ADVANCED HRM INFRASTRUCTURE

In step with the paradigm shift in Korea's financial market from the previous bank-oriented structure to the current capital market-oriented system, KDB has embarked upon initiatives to grasp the lead in the growing investment banking market. They include building an infrastructure centered around the investment banking business with a focus on human resources management (HRM); mainly employee training and compensation programs.

KDB adopted a career development program (CDP) to establish a performance-oriented HRM system. Swinging the door wide open to talented people, the Bank invited 23 external experts to raise the level of competence in core businesses such as financial engineering and M&A. KDB also strengthened its training programs. To foster investment banking experts, it actively expanded the training programs in partnership with universities in Korea and abroad and professional courses such as those offered by the KAIST Graduate School of Management. The Bank also upgraded its performance-based compensation system to match the advanced reward system employed by leading global investment banks.

KDB enhanced the flexibility of its recruiting and human resources management system. In a bid to secure talented staff in a variety of different banking fields as the Bank strives to become a global investment bank, the Bank employed outside specialists in derivatives, M&A, and risk management. It also expanded its hiring in target business areas in addition to regular seasonal recruitments. To facilitate the Bank's penetration into emerging overseas markets with a focus on resources development and blue ocean exploration, KDB fostered specialists who understand local languages and culture. It also expanded long-term training courses at home and abroad to assist its employees to become globally competitive.



■ HIGHLIGHTS OF 2007

NET INCOME OF KRW2 TRILLION

Despite worsening business circumstances, KDB realized KRW2,048 billion in net income, an ROA of 1.75%, and ROE of 11.31%, which are comparable to those of major global players. The Bank's sound financial structure was maintained thanks to successful corporate restructuring and effective clearing of bad debts, which kept the non-performing loan (NPL) ratio at 0.98%.

HIGH VALUE-ADDED BUSINESS

KDB has arranged several M&As and foreign financing deals, including the cross-border M&A of a business division of the American company Ingersoll Rand by Korea's Doosan Infracore. KDB's investment banking capabilities also received global recognition by being designated as the Korean "Derivatives House of the Year" for the third consecutive year and ranking No.1 in the field of public private partnerships (PPP) in Dealogic's project finance review for 2007.

By establishing an exclusive Global Structured Finance Unit, KDB rolled out an initiative to extend its investment banking business overseas and successfully positioned itself in the global investment banking market. Meanwhile, the Bank arranged overseas investment deals totaling USD10.6 billion in 2007 alone.

"ONE KDB" SYNERGY

In April 2007, KDB drew up an action plan to enhance the synergy effect with its subsidiaries through close partnerships. To execute this strategy, KDB cooperated with its subsidiaries in the areas of bond underwritings and derivative instruments. The partnership covered extensive business areas, including personnel exchanges and research database sharing. As a result of KDB's collaboration with Daewoo Securities and KDB Asset Management, collateralized debt obligations (CDOs) worth KRW350 billion were issued on low-rated (BB ~ BBB+) corporate bonds.

MAJOR AWARDS & ACHIEVEMENTS



"Deal of the Year" for the three consecutive year from Euromoney's Project Finance



"House of the Year 2006" by KOSDA



"Asia's top 10 regional banks" by Asia Risk



Topped Dealogic's Project Finance Review for 2007



BANK STRUCTURE REORGANIZATION

As part of a major reorganization at the beginning of 2007, KDB established the Public Banking Department and the Knowledge-based Business & Services Department to effectively support the drive for regional development projects in pursuit of balanced national development. The Bank also expanded its support for knowledge-based venture businesses, which is one of KDB's next-generation growth engines.

In particular, in line with the implementation of a comprehensive Relationship Manager (RM) system, KDB reorganized the Debt Capital Markets Department to promote DCM practice, the cornerstone of the investment banking business. The newly introduced RM system separates the duties of RMs and PMs (Product Managers). Thanks to this change in business practices, the number of shipping finance and offshore loans increased not only at KDB's headquarters, but also at regional branches.

CREDIT RATING UPGRADED TO Aa3

On May 4, 2007, based on its new evaluation method, Moody's raised KDB's long-term foreign currency debt rating from A3 to Aa3, the highest among Korean financial institutions. This is a notch above the rating it received prior to the Asian financial crisis and two notches higher than the sovereign rating.

This upgrade has validated improvements made to KDB's financial structure, along with the Bank's strong stance in the market.

KDB has successfully boosted its asset quality through aggressive restructuring, solidified its position and track records in lending to large-caps and investment banking businesses, and maintained high capital adequacy.

AWARDS & RECOGNITION

- Ranked No.1 in the 2007 Integrity Survey conducted by Korea Independent Commission Against Corruption
- Topped Dealogic's project finance review in 2007 for PPP
- Recognized for the "Deal of the Year" by Euromoney
- Designated as one of Asia's top 10 regional banks by Asia Risk magazine
- Awarded "House of the Year" in derivative instruments by KOSDA for two consecutive years



"Prime Awards" by Korea Information Security Agency



"Grand Prize" at the 1st CIO Awards



"Prime Awards" at the Korea Software Technology Awards



"Outstanding Institution in Ethical Management" by Korea Independent Commission Against Corruption





Cutting Edge

Despite strong external headwinds arising from the global liquidity crunch, KDB produced a sound performance in 2007 by proactively exploring new markets, while reinforcing competences in its four major businesses — corporate banking, investment banking, global banking, and corporate restructuring & consulting service.

KDB solidified its position at the forefront of the corporate banking business by extending comprehensive financial services and fostered next-generation growth engines by actively supporting innovative SMEs and venture companies. Moreover, as a financial innovator, the Bank demonstrated prowess in the corporate restructuring and project finance (PF) sectors.

In addition to these traditional strengths, KDB bolstered its capabilities to produce cutting edge products requiring highly-advanced financial engineering skills such as derivatives and private equity funds (PEF). The Bank also exerted its utmost efforts to specialize in and develop a new IB frontier by expanding businesses for non-residents, including shipping & aviation finance, cross-border bond issuance, and M&A.



New Paradigm



Cutting Edge



Beyond Banking

Corporate and Investment Banking

KDB actively addressed the reduction in facilities investment, which stemmed from the sluggish global economy in 2007, by developing and diversifying fundraising sources. As a result, the Bank realized an 11.1% year-on-year growth in new loans and investments to record KRW27.2 trillion. The Bank also implemented a new Relationship Manager (RM) system to provide customers with improved convenience and carried out joint marketing with related departments to extend comprehensive financial services. At the same time, it enhanced customer satisfaction with an expanded product line-up tailored to meet customer needs, thereby solidifying its position at the forefront of the corporate & investment banking business.



27.2 KRW trillion

KDB realized an 11.1% year-on-year growth in new loans and investments to record KRW27.2 trillion.

CORPORATE BANKING

KDB maintained its lead in corporate banking in 2007 by providing comprehensive financial services and offering customized products. In addition, the Bank nurtured SMEs and funded regional economies for balanced development.

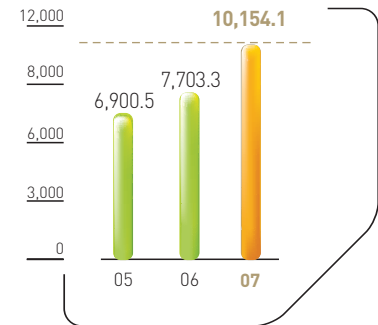
PROMOTING FACILITY INVESTMENT

In order to boost facility investment activities severely dented by the subprime crisis, KDB mounted aggressive marketing campaigns and offered customized products, lending KRW10.2 trillion in facility loans, up 31.8% from the previous year. In response to Korea's drive to foster service industries and next-generation growth engines, the Bank ensured that its facility loans were fairly distributed to a variety of corporate clients without discrimination of business size or type.

To break down the loans according to the size of borrowers, large-scale businesses made up 46.9% of total facility loans, SMEs accounted for 26.3%, and the remaining 26.8% went to the public sector. By currency, the growing global M&A market boosted demand for the U.S. dollar by 14.1% points to reach 26.3%, while Korean won-denominated loans dropped by 11.5% points to 70.3%. Yen loans stood at 3.0%, down by 2.7% points, and Euro loans grew by 0.1% point to 0.4%.

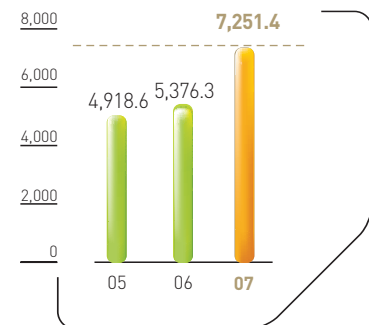
SUPPLYING WORKING CAPITAL LOANS

KDB extended a total of KRW7.3 trillion in working capital loans, up 34.9% year-on-year, a significant increase given the corporate sector's liquidity surplus. This substantial growth rate owes much to the Bank's aggressive marketing activities designed to address diversified customer needs and strategically divert rising demands for working capital loans. By the size of borrowers, large businesses accounted for 51.1%, SMEs took up 46.7%, and the public sector received 2.2% of the total lending. By currency, won-denominated loans made up 88.5%; yen loans, 6.9%; U.S. dollar loans, 4.0%; and euro loans, 0.6%.



FACILITY LOANS

(KRW billion)



WORKING CAPITAL LOANS

(KRW billion)

PROVIDING AMPLE FINANCIAL SUPPORT TO INDUSTRIES

KDB funded a total of KRW27.2 trillion for new investments and financing using an equitable system for all businesses with 49.4%, or KRW13.4 trillion, going to manufacturers and 50.6%, or KRW13.8 trillion, consumed by non-manufacturers.

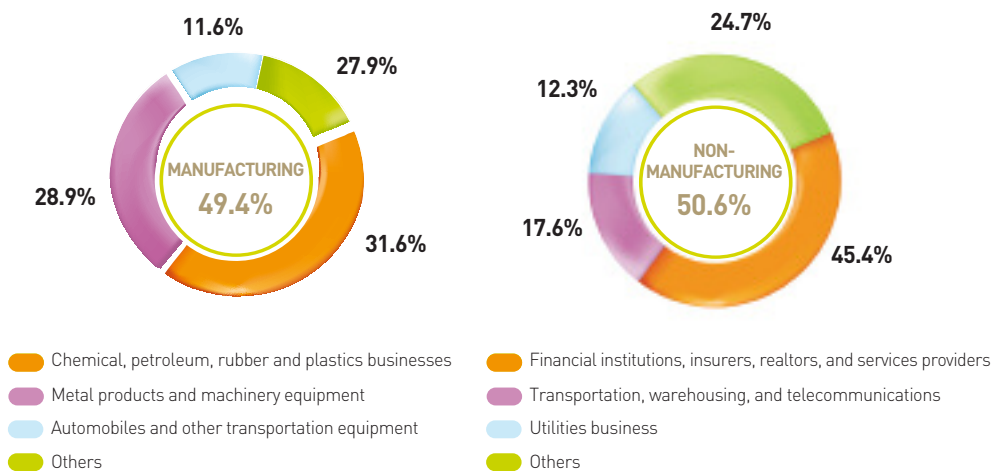
By industry type, chemical, petroleum, rubber and plastics businesses absorbed 31.6% of the total loans extended to manufacturers. Assembled metal products and machinery equipment received 28.9%, automobiles and other transportation equipment consumed 11.6%, and the remaining 27.9% went to other manufacturers.

Among non-manufacturers, financial institutions, insurers, realtors, and service businesses were financed 45.4%. Transportation, warehousing, and telecommunications took up 17.6%, and utilities business received 12.3%. The remaining 24.7% was extended to other services providers.

FUNDING REGIONAL ECONOMIES FOR BALANCED DEVELOPMENT

KDB has actively participated in funding and promoting Korea’s drive for balanced regional growth. In 2007, the Bank formed a special fund to support “balanced growth of the national economy,” earmarking KRW1.5 trillion for this mission. In fact, this was not a one-off gesture. KDB has established a solid track record of supporting this fund with KRW659 billion set aside in 2005; KRW523 billion in 2006; and KRW1.2 trillion in 2007.

In addition, the Bank has extended a helping hand to various regional development projects through MOUs with 41 local governments to date and financed KRW2 trillion for regional industrial complex projects such as Daedeok Techno Valley, KRW204 billion for investment associates linked with regional governments, and KRW2.3 trillion in local specialization projects. In 2008, KDB plans to allot KRW1 trillion for Regional Development Fund to support SMEs operating in regional areas.



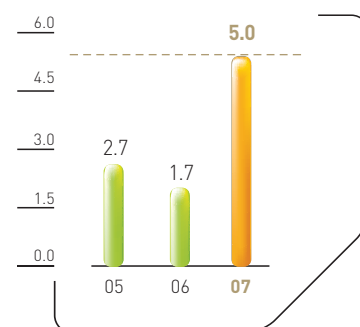
NEW LOANS BY INDUSTRY TYPE

INVESTMENT BANKING

In 2007, KDB stepped up the policy role of its investment banking business by fine-tuning the Investment Division and renaming it as Public Banking & Investment Division. The realignment was designed to expand funding of regional development projects and provide differentiated marketing in the domestic project finance (PF) market. Through these initiatives, KDB successfully contributed to expanding Korea's social infrastructure. At the same time, the Bank supported the national drive to foster next-generation growth engines by actively supporting innovative SMEs and venture companies, as well as knowledge-based service industries. In addition, KDB took an aggressive approach to non-performing loans and realized the early normalization of distressed companies. In 2008, the Bank aims to enlarge and diversify the size and scope of its investment banking by developing new financial engineering skills in PF, discovering promising companies in the next generation fields, and venturing into overseas NPL markets.

ACCELERATING SOC AND REGIONAL DEVELOPMENT THROUGH PF

KDB started its project finance (PF) business in 1994 by acting as a lead arranger in financing the KRW1.3 trillion Incheon International Airport Expressway project. Since then, KDB has played a lead role, claiming a 60% stake of the PF market. As of 2007, KDB has provided financial consulting services for a total of 224 cases and funded financial arrangements totaling KRW22.4 trillion. This outstanding performance both in terms of size and scope has been recognized with several awards and acknowledgements by international surveys. In 2007, Project Finance, a renowned PF journal, ranked KDB at the top in the area of public private partnerships (PPP) and second among Asia-Pacific financial institutions in overall PF performance, verifying KDB's global competence. Leveraging its accumulated experience, KDB scooped a series of large BTL (build-transfer-lease) projects including those for constructing highways between Seoul and Munsan and between Seoul and Pocheon, and for building the Ulsan National Institute of Science and Technology.



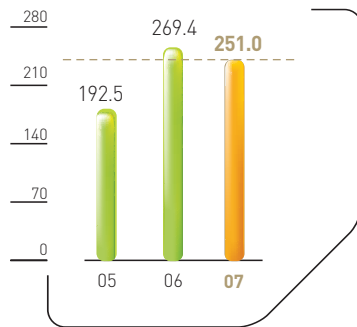
PROJECT FINANCE

(KRW trillion)

GLOBAL PFI / PPP PROJECT FINANCE LOANS

Mandated Lead Arranger	Value (USD million)	Deals	Share (%)	2006 (Rank)
Korea Development Bank	3,231	19	7.4	25
ICICI Bank	2,726	3	6.2	-
Dexia	2,726	19	6.2	2
BSCH	2,124	11	4.9	1
Royal Bank of Scotland	1,596	12	3.7	3
UniCredit Group	1,587	10	3.6	20
HBOS	1,578	9	3.6	7
HSBC	1,496	5	3.4	15
Barclays	1,392	10	3.2	36
SG Corporate & Investment Banking	1,336	9	3.1	60

* Source: Dealogic Project Finance Review 2007



VENTURE INVESTMENT
(KRW billion)

The Bank also performed several overseas PF projects, including a lubricant base oil plant project in Indonesia. KDB's extensive business scope extends to PF for public works such as building military housing and communications infrastructure. While sustaining its leading position in the domestic PF market, KDB will also strive to explore regions with growth potential and pursue opportunities in new business areas to secure higher profitability in the overseas PF market.

FACILITATING NATIONAL DRIVE FOR BALANCED REGIONAL GROWTH

KDB's regional development funding business began in 2001 with financial consulting and financial arrangement for Daedeok Techno Valley. Since then, KDB has played an important role in promoting regional economies through an array of development projects. As part of these efforts, it arranged financing for the Daejeon EXPO Convention Center in 2004 as the first Korean bank to apply a project financing vehicle (PFV). In 2007, KDB sharpened its competitive edge in the regional development project market by securing financial arrangement rights for 16 project financings worth a total of KRW9.6 trillion. To date, KDB has arranged project financing for corporate towns, industrial complexes, free economic zones (FEZs), innovation cities, and logistics & distribution complexes. Looking ahead, it aims to delve into new areas such as urban regeneration projects, plant relocation site developments, and senior citizens' welfare institutions. Meanwhile, KDB will also introduce advanced financial engineering skills to grasp the lead in financial innovation, while enhancing its capacity as a developer via strategic partnerships with advanced developers.

PROMOTING VENTURE FINANCING

In light of the government-led drive to support innovative SMEs, KDB continued to assist venture businesses throughout 2007, while also seeking new sources of income via active investment in overseas venture markets. In 2007, KDB invested a total of KRW251 billion in 182 ventures, including KRW105.9 billion in 90 burgeoning venture businesses. These investments focused on supporting prospective budding venture companies possessing advanced technologies as they mature and become firmly established. In addition to these direct investments, the Bank provided liquidity to the venture capital industry through indirect investment in venture funds formed by venture capital firms and through acquisition of old shares. To actively seek new sources of income, KDB invested a total of USD5.3 million in two U.S.-based venture companies as the first Korean bank.



In 2008, the Bank plans to construct a safety net to support domestic venture companies in the form of an exclusive program to discover promising venture enterprises and inspire mutually beneficial cooperation with venture capital firms. Meanwhile, it will continuously boost its investment in overseas venture markets to create a sustainable revenue structure.

SUPPORTING KNOWLEDGE-BASED SERVICE INDUSTRY

In early 2007, KDB established the Knowledge-based Business & Services Department to promote customized financing for the knowledge-based service industry. During the year, a total of KRW66 billion was extended in the form of investment or loans to various business areas, including cultural contents, construction of R&D centers, tours & leisure services, and the software industry. The relatively weak investment by domestic financial institutions in the knowledge-based service sector thus far can be ascribed to poor profitability and rigid industry regulations. To address this entry barrier, KDB utilized expertise accumulated from venture investments to develop an exclusive financing model for the industry.

STABILIZING FINANCIAL MARKETS

KDB has taken charge of stabilizing Korea's financial market by restructuring major businesses that dented the Korean economy at the outset of the Asian financial crisis. In managing non-performing loans (NPLs), KDB employs various methods, including workouts and restructuring to normalize distressed companies, the disposal of NPLs, and the issuance of asset-backed securities (ABSs), as well as M&As and self-auctions. Leveraging its far-reaching experience in numerous corporate restructurings, KDB chooses to avoid insolvency by implementing preemptive restructuring measures. This policy has paid off as the Bank maintained a low NPL ratio of 0.98% in 2007, a testament to its sound asset quality.

Looking ahead, KDB will devise individually tailored restructuring schemes so as to facilitate the normalization of distressed companies. In the event of asset liquidation, the Bank will focus on maximizing profits by expediting the process without undermining asset value. In managing SME clients, it will focus on preventing bankruptcy. In the event of a viable firm declaring bankruptcy, however, KDB will assist the firm to get back on track through debt restructuring and other financial support measures. Drawing upon its extensive business acumen, KDB also plans to venture into overseas NPL markets by setting up a solid business foundation in pursuit of new revenue platforms.

Global Banking

In spite of the global credit crunch sparked by the subprime mortgage debacle, KDB actively ran its businesses and achieved a remarkable performance in the field of global banking in 2007, particularly in syndicated loans, overseas public offerings, shipping & aviation finance, and OTC derivatives trading. At the same time, the Bank expanded its global network and bolstered the capabilities of its existing subsidiaries and branches. This strategy proved to be worthwhile, leading KDB's global banking businesses to contribute over 20% to the Bank's overall revenues for 2007, thereby setting the stage for the Bank's advancement into a global corporate investment bank. Under the catchphrase of "One KDB," procedures were set in place to integrate KDB's investment banking business with Daewoo Securities in 2007. As the synergy from the "One KDB" initiative will go into full swing in 2008, KDB has set its goal for the coming year to emerge as a leading investment bank in Asia.



No.1

Syndicated loan arranger

KDB was ranked the No.1 syndicated arranger for Korean companies for six straight years.

DEMONSTRATING REMARKABLE PERFORMANCE AS FRONT-RUNNER

KDB plays an important role in funding overseas projects and provides foreign currency liquidity to Korean companies entering overseas markets. In 2007, KDB raised a total of USD5.5 billion, up 26% from the previous year, by supplying mid to long-term foreign currency funds at competitive prices. This cemented KDB's stance as a prime issuer, despite unfavorable global market conditions triggered by the subprime mortgage crisis. Leveraging on its competence in FX fundraising, KDB continued to lead the domestic syndicated loans and floating-rate notes (FRNs) issuing markets. In 2007, KDB recorded USD5 billion in syndicated loans and ranked first in the league table, maintaining its six-year run at the top with its market share growing 32.1%.

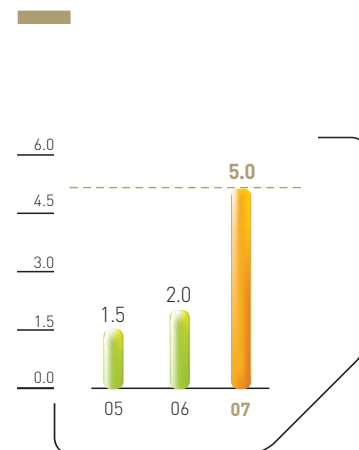
The Bank demonstrated an exceptional performance in overseas public offerings for Korean companies, arranging a total of USD1.8 billion in four deals. More specifically, it arranged the issuance of USD500 million in euro bonds for LG Electronics, USD500 million in global bonds and USD583 million in convertible bonds for Hynix, and euro bonds worth USD250 million for Pusan Bank.

Remarkable growth was also seen in the shipping & aviation finance sector. Capitalizing on its industry knowledge and financing expertise, KDB successfully arranged a total of 13 shipping finance deals amounting to USD1.6 billion and three aviation finance deals worth USD570 million.

Meanwhile, the rapid pace of globalization reshaped KDB's customer base structure. The traditionally large portion of Korean companies tapping into overseas markets has shrunk, while the number of foreign companies based overseas has been on the upswing. In 2007, KDB's investment activities for these non-Korean customers centered on offshore resource development projects. For instance, KDB participated as a guarantor for a nickel mine development project in Madagascar, extended a term-loan to PT Tutui's soft coal mine project in Indonesia, and co-financed an oil and gas exploration project for Pan American Energy of Argentina.

EXPANDING GLOBAL INVESTMENT BANKING BUSINESS BASE

In order to expand its global investment banking business, KDB tactfully targeted the BRICs and other emerging markets, including those in Asia, noting the growing opportunities in these regions. Its subsidiary in Brazil operates as the regional base for Central and South America. After constructing a Chinese network linking Beijing, Shanghai, and Guangzhou, the Bank is now building a new network that connects emerging markets in Central Asia such as Uzbekistan and Kazakhstan, as well as India and Vietnam.



SYNDICATED LOANS

(USD billion)



Along with this expansion, KDB is reinforcing the investment banking competence of its overseas network. To this end, the Bank increased the capital stock for five major overseas units, including Hong Kong and London. It also adopted a managerial system for these units to assist overseas branches in their pursuit of quantitative growth and operational efficiency. As part of its localization initiative, KDB recruited talented local employees from these regions.

In the course of its business activities, building strong investor relationship has become a crucial part of KDB's operating strategy. The Bank actively participates in a number of conferences and general meetings organized by international organizations such as IDB, ADB, and EBRD to enhance its international relation. In 2007, KDB changed its status to gain full membership at the Institute of International Finance (IIF) and joined the UN Global Compact expanding its scope of activities and stance in the global market. In the same vein, the Bank increased cooperation with emerging markets and various development banks via meetings with provincial officials and bankers from China, Vietnam, Uzbekistan, and counterparts of the eight countries of the Association of South-East Asian Nations (ASEAN). KDB also hosted the 60th Guest Observer Course (GOC) in 2007, inviting officials from investment banking institutions and government bodies of six nations.

CEMENTING TRAILBLAZER ROLE IN DERIVATIVES MARKET

As Korea's largest derivatives house, KDB continued to spearhead the domestic derivatives market in 2007. The Bank's derivatives trading volume amounted to USD141.1 billion, up 36.1% from USD103.7 billion for the previous year. Of the total, currency, interest rates, and equity-linked derivatives trading were the mainstay of the transactions, including foreign exchange (FX) risk hedge for exporters and importers, FX and interest rate risk hedge for domestic institutional investors (e.g. asset managers and insurers investing in foreign currency assets), and trading hedges related to equity-linked instruments (e.g. funds, securities, and deposits).

At the same time, KDB enjoyed a solid growth in commodity and credit derivatives. KDB was the first Korean bank to begin trading commodity derivatives products in June 2006, recording USD270 million in the first year of operation. In 2007, KDB took a quantum leap to handle a sizeable USD1.2 billion of commodities derivatives. In the credit derivatives market, KDB successfully implemented won-denominated standard credit default swaps (CDS) worth KRW10 billion for the first time in Korea. Cementing its role as trailblazer exploring new derivatives markets, KDB also began foreign-currency CDS trading in July 2007.



KDB reinforced its Trading Center by augmenting the workforce with external experts, including quantitative developers, and re-organized the Quant Team. The Trading Center enhanced its R&D competence and developed various pricing modules for derivatives in order to solidify its leading position in the derivatives market.

For over a decade, KDB has made its mark in the long-term swaps market, and this presence has extended to hosting such events as the "FX/Derivatives Market Development Forum" and a joint seminar with the Korea Advanced Institute of Science and Technology (KAIST).

The Bank was duly recognized for its expertise in the derivatives field by being named "House of the Year, Korea" by Asia Risk for the third consecutive year. In September 2007, KDB scooped the Country Awards for Achievement 2007.

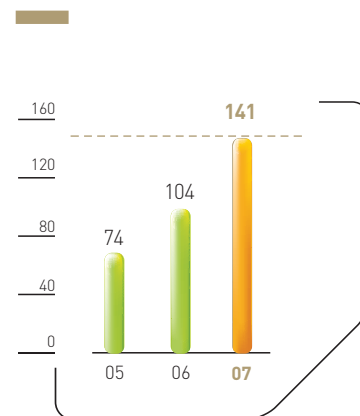
UPGRADING INTERNATIONAL TREASURY OPERATIONS

As the domestic leader in trading FX and foreign currency (FC) denominated Korean papers, KDB's results reflect its top position. USD/KRW FX trading volume grew by 55% year-on-year to USD220.6 billion and the volume of FX trading in non-dollar currencies recorded USD78.2 billion. In addition, the Bank expanded the FX risk management services to corporate clients, which resulted in the total trading volume for its clients to reach USD44.3 billion. KDB traded USD216.5 billion in the international money market and FC-denominated bonds worth a total of USD15.1 billion in the secondary market.

The Bank's trading operation achieved considerable growth in terms of both size and quality. In addition to its round-the-clock FX trading system, KDB rolled out a "global market making system" connecting the headquarters with its London and New York branches for around-the-clock trading of bonds and derivatives.

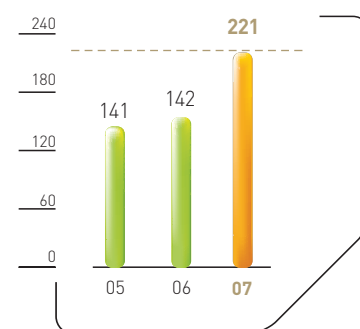
DIVERSIFYING TRADE FINANCE

KDB's trade finance posted better results in 2007 than in the previous year, rising 13.2% to USD21.8 billion. Of the total, USD8.6 billion was extended in export credits and USD13.2 billion in import credits. This improvement is directly linked to KDB's initiatives to upgrade its systems and regulations. In addition to the initiatives for innovation in systems and regulations to enhance trade finance services, KDB came up with new products such as non-LC import settlement financing and negotiation on the export receivables guaranteed by the Korea Export Insurance Corporation (KEIC). In particular, trade financing services via e-finance such as electronic data interchange (EDI) forged ahead to record USD15.3 billion, up 20.4% from the previous year. E-finance transaction volume also gained ground to reach 70.3% of the overall trade finance in 2007, up from 66.0% in 2006.



DERIVATIVE TRADING VOLUME

(USD billion)



FX (USD/KRW) TRADING VOLUME

(USD billion)

Consulting

KDB's Consulting Business Division is comprised of three front-office departments (M&A, KDB Private Equity (PE), and KDB Consulting) responsible for investment banking business and three back-office departments (KDB Technology Evaluation Institute, KDB Research Institute, and KDB Academy). These departments produced strong performances in each respective field through organic collaboration, thereby solidifying the Division's stance as KDB's new growth engine. The front-office departments will develop and enhance the Bank's investment banking business to evolve into a creative organization that continues to generate new profits. The back-office departments will expand their role as KDB's think tank in order to sharpen the Bank's competitive edge.



Largest cross-border M&A

KDB successfully arranged the cross-border M&A (USD3.9 billion, Doosan Infracore's acquisition of Bobcat) by a Korean company

ARRANGING MEGA-SCALE CROSS-BORDER M&A FINANCING

In 2007, KDB focused on expanding its strategic M&A offerings, while actively providing cross-border M&A consulting services and facilitating M&A financing. KDB achieved outstanding results in M&A financing, including the acquisition of three business divisions of Ingersoll Rand, an American firm, by Korea's Doosan Infracore Co., Ltd.

The Doosan Infracore deal was particularly meaningful to the Bank. Despite the global financial pandemic triggered by the U.S. subprime crisis, the Bank furnished a total of USD3.9 billion in M&A financing based on close collaboration among KDB's departments at home and abroad. A total of 12 domestic and international financial institutions including HSBC and First Gulf Bank of the Middle East participated in the M&A financing to raise USD3.9 billion. Doosan Infracore's acquisition of Bobcat, the world's largest compact construction equipment company, was the largest cross-border M&A to be accomplished by a Korean company.

In 2008, KDB will continue to utilize its accumulated expertise and solid track record to reaffirm its status as Korea's leading M&A house. The focus will be on supporting major Korean corporations to conduct cross-border M&As by offering a broader scope of related consulting and financing arrangements.

PERFORMING AS LEADING PEF PLAYER

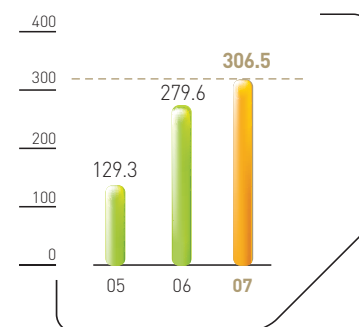
KDB Value PEF II, which runs a total of KRW400 billion, has completed approximately 60% of its investments to date and is forecast to wrap up its investments by the end of 2008. In May 2005, KDB established the KDB Venture M&A Fund, raising KRW30 billion for the first time in Korea's PEF market.

Since commencing the PEF business in 2005, KDB has established itself as a pioneer in the PEF market. In 2007, the Bank made several PEF investments and pushed forward with the globalization of its PE business to advance into Asia's emerging markets.

In a move to globalize its PEF operation, KDB formed the Global Investment Team dedicated to investing in overseas PEs and staffed it with foreign experts. At the same time, the Bank took progressive steps to establish the KDB Asia Fund, devoted to investments in Asia, in pursuit of broadening the geographical scope of its investments.

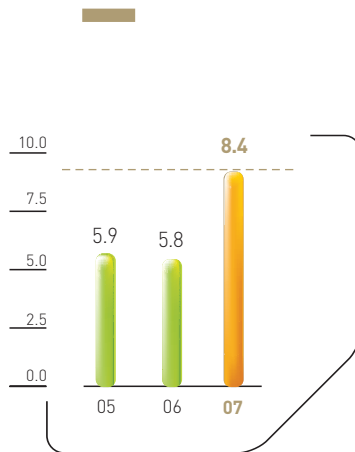
KDB held several Non-Deal Roadshows (NDRs) for major global investment banks and PE houses in Hong Kong and Japan, promoting the brand value of KDB PE. In addition, KDB extended its overseas network and gained a strong foothold in the global market.

In 2008, KDB will actively capitalize on its remarkable performance and continue its endeavors to launch the KDB Asia Fund to increase the scope of investment destinations in China and Southeast Asia. Its globalization initiatives also include establishing project PEFs for overseas resources development projects. At the same time, KDB aims to reorganize its investment patterns so as to run PEFs by sector (e.g. industry and region), devise carbon funds, and conduct leveraged buy-outs (LBOs) to solidify the Bank's stance as a major player in Asia's PEF market.



**TOTAL OUTSTANDING
CAPITAL IN KDB PE**

(KRW billion)



CONSULTING FEE REVENUE

(KRW billion)

EMERGING AS STRATEGIC CONSULTING FIRM

Since its debut in the consulting market in 2003, KDB Consulting Service has implemented a wide array of consulting projects. In 2007, the Bank earned KRW8.4 billion in consulting fees, securing a powerful revenue source and building up competence in consulting services.

In 2007, KDB implemented a number of high value-added corporate management strategies in the areas of “group management strategies” and “business prospects and work-out programs” and carried out influential government-driven projects at home and abroad. They included establishing the Trade and Development Bank of Mongolia, designing a master plan for fostering new renewable energy industries, and consulting for corporate town developments. Meanwhile, KDB continued to cultivate business activities for SMEs, ventures, and corporations advancing into North Korea by offering financial services in conjunction with consulting services. These performances testify to the success of KDB Consulting Service as a profit center for the Consulting Business Division.

KDB Consulting Service draws upon its stance as a leading domestic comprehensive consulting institute to expand the range of its management consulting services and compete against global consulting firms. In 2008, it plans to reinforce its infrastructure by converting into a matrix organization and building an Asian network. In particular, KDB will play an active role as an in-house strategic consulting body in dealing with pending issues. As plans are afoot for a holding company to be launched during the process of KDB’s privatization, the Bank will draw up an action plan for the privatization and devise management strategies and frameworks for its emergence as a global investment bank.

SPECIALIZING IN TECHNOLOGY ASSESSMENTS

KDB Technology Evaluation Institute supports the operation of the Corporate Banking Departments and regional branches through specialized technology assessments. It actively promotes the growth of technology-driven SMEs and contributes to KDB’s business platform expansion through such methods as “investment in the commercialization of burgeoning technologies” and “technology-trade finance,” recently introduced for the first time in Korea. The Institute is reinforcing its in-house technology consulting to related departments, including KDB Consulting Service, PF, and KDB PE, as well as the outbound technology consulting such as independent engineering and technology trading. Through such reinforcements, the Institute is consistently solidifying its position as the sole technology consulting specialist in the Korean banking sector.

In 2007, the Institute supported branch operation through 332 technology surveys and 191 technology evaluations. It invested a total amount of KRW36.9 billion in 52 companies to support technology commercialization. The Institute also financed 25 companies with KRW36.4 billion in technology trading. In particular, through technology-trade financing, which commenced in 2007, the Institute not only offers consulting throughout the commercialization process of companies that adopted new technologies, but also provides the necessary financing for the commercialization. Furthermore, in a bid to invigorate its revenue base, the Institute expanded its business through 12 cases of independent engineering, including the Asan Techno Valley Development Project, and strengthened both in-house and outbound technology consulting services.

In 2008, KDB will employ technology specialists in pertinent sectors to better fulfill its commitment to innovative SMEs, venture companies, and the growing investment banking business. With enhanced capabilities in technology evaluation and industry analysis, KDB will expedite its support for branches and investment banking-related departments. The Bank will also invest in the commercialization of burgeoning technologies, conduct technology trading, and offer technology trade financing to discover and assist innovative SMEs and venture companies, while expanding fee-based businesses such as outbound technology consulting.

ADVANCING AS INVESTMENT BANKING RESEARCH CENTER

To keep ahead of the rapidly changing banking industry, KDB's Research Institute provides timely data on management and marketing. It produced 950 research reports and surveys in 2007 covering a wide range of strategic areas from domestic and international economic forecasts, to financial and industrial matters, as well as information on Southeast Asia and other strategic strongholds.

The Institute supported KDB's business activities through timely analyses on current issues regarding the domestic and international economic environments, along with financial markets, exemplified by a notable publication entitled "The Resurgence and Aftermath of the Subprime Mortgage Crisis." While continuing to focus on traditional key industries, the Institute stepped up its research on highly advanced technologies and supported the corporate and investment banking businesses by publishing "The Bio-energy Market Trend and Challenges" and "Trading and Risk Management of Carbon Emissions Credits." In the area of regional research, the Institute continued to examine Northeast Asia and released an article entitled "China's NPL Disposition and Market Penetration." In the meantime, it extended the scope of its research to Central Asia, a region that holds strategic importance as a platform for expansion into global markets.

Tapping into the Bank's advanced IT system, the Institute shares knowledge and information via its "Current Issue" intranet board, which posts explanations on current economic and financial issues and related jargon.

Faced with major changes including the privatization of KDB and its development as an investment bank, KDB Research Institute will mobilize all available resources to support the Bank's determination to maximize its capacity and competitiveness. To this end, it will shift the focus of its research activities toward on-site operations by selecting and focusing on areas that reap substantial results. In particular, the Institute will reorganize the existing industry analysis group to nurture industry specialists who participate in on-site operations, thereby strengthening KDB's corporate and investment banking businesses.

By hiring more specialists, the Institute will boost its research capabilities and establish itself as an investment banking research center.



Risk & Financial Management

With the Basel II Accord scheduled to be implemented in 2008, the importance of an advanced risk management system is continuously growing. As a preemptive response to this market development, KDB has equipped itself for the efficient management of capital adequacy and coordinated risk management mechanisms for the new accord. The Bank performs a comprehensive assessment of account developments in the capital market and its own funding conditions when formulating short to long-term funding plans. At the same time, KDB takes every precaution to maintain an adequate liquidity level so as to flexibly respond to unexpected fluctuations in financial market conditions. In 2008, KDB plans to reinforce its comprehensive ALM while flexibly coping with the ongoing fallout from the subprime crisis and volatile global financial market conditions.



Ready for Basel II

In preparation for the implementation of Basel II Accord in 2008, KDB ensures efficient management of capital adequacy while also coordinating risk management mechanisms into the new BIS accord.

RISK MANAGEMENT

In 2007, the Bank completed its preparation to apply the FIRB (foundation internal rating-based) approach for credit risk and a standardized approach in handling operational risk. It has also continuously improved its risk management methodologies and adopted the historical simulation VaR (Value-at-Risk) approach to measure market risk. Meanwhile, under the volatile financial market fluctuations affected by the global credit crunch fallout, the Bank performs comprehensive assessments of account developments in the capital market and its own funding conditions when formulating short to long-term funding plans. At the same time, KDB takes every precaution to maintain an adequate liquidity level so as to flexibly respond to unexpected fluctuations in financial market conditions.

IMPROVING CREDIT RISK MEASUREMENT

KDB takes a macro perspective when managing credit risks by setting credit limits that take into account the credit ratings of borrowers and other relevant factors. The Bank also uses risk-adjusted return on capital (RAROC) to evaluate and monitor the performance of borrowers. In 2007, KDB took drastic steps to improve its measurement of credit risk in accordance with the new BIS accord and adopted new calculation defaults such as probability of default (PD), loss given default (LGD), and exposure at default (EaD). In addition, the Bank replaced its previous DM (default mode)-based credit risk measurements with MTM (Mark-to-Market)-based ones and reflected the effect of the replacement in its credit ratings, thereby raising the confidence level from the previous 99.0% to 99.9%.

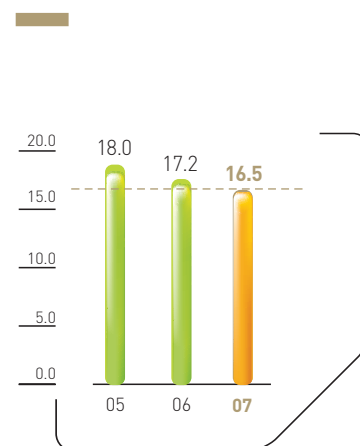
UPGRADING MARKET RISK CONTROL SYSTEM

With advances in financial engineering technologies, derivatives trading has diversified and many hybrid financial instruments have entered the market. Accordingly, efficient management of market risk has become vitally important. Against this backdrop, KDB mobilized resources to build a more sophisticated scheme to control related risks. KDB utilizes a value-at-risk (VaR) module to measure market risks. In 2007, the Bank newly adopted the historical simulation VaR – an approach that facilitates asymmetric risk measurements and apprehends profitability under unusual market circumstances.

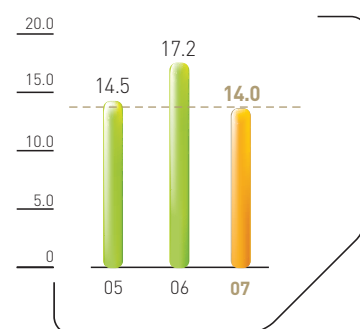
As for risk tolerance, KDB implemented stress testing to ensure the stability of its asset quality in the event of adverse market fluctuations. The Bank has established a contingency plan stipulating appropriate responses according to the scope of risk in the event of business disruptions. Moreover, KDB submits timely reports on major issues surrounding market risks. In 2007, it reported on the influence from the subprime crisis and the China shock and devised countermeasures to deal with such events.

ESTABLISHING EFFICIENT OPERATIONAL RISK MANAGEMENT SCHEME

Operational risk management has recently come under the spotlight amid the rapid development of Korea's financial market. Operational risks generally arise from inappropriate or faulty processes, internal workforce or systems, and external factors. In light of this, KDB has established an efficient operational risk management scheme over the past two years. It has also adopted a variety of methods to control risks and prevent financial failure.



BIS RATIO (%)



TIER I CAPITAL RATIO (%)

In May 2007, the Bank put in place risk/control self assessment (CSA) measures to reduce the magnitude of operational risks, while satisfying the requirements of the Financial Supervisory Service (FSS) in the run up to the new BIS regulations.

MANAGING INTEREST RATE & LIQUIDITY RISKS

To overcome market fluctuations exacerbated by the subprime crisis, KDB enhanced its management of interest rate and liquidity risks to secure a sustainable profit base. In controlling interest rate risks, KDB utilized VaR and EaR (Earning at Risk) as indices that complement each other, where VaR represents the maximum reduction in net asset value and EaR represents the maximum reduction in net interest margin (NIM) in the event of disruptions. At the same time, the Bank utilized the duration and repricing gaps as supplementary indices to strictly control interest rate risks.

Liquidity risks are measured on a daily basis, taking into account the liquidity ratio and accumulated maturity gap ratio, to keep the liquidity risk in check within the target ratio. Stress testing is conducted on a regular basis to prepare for any abnormalities, so as to prevent KDB's insolvency or exposure to funding on a high interest rate in order to ease capital stringency.

IMPROVING CREDIT RATINGS MODULE

KDB has ceaselessly improved its credit ratings system since the system's introduction in 2004 to assess borrowers' repayment capability. In 2007, the Bank enhanced the overall system, including the credit ratings module, and upgraded the standard approach to the internal ratings-based (IRB) approach in accordance with the new Basel Accord. In addition, it adopted a facility risk rating scheme to calculate the experience-based loss ratio of each loan and reflect these results in the decision-making process related to loans, including loan rates.

ADOPTING BASEL II ACCORD

In preparation for the Basel II Accord, planned to take effect in 2008, KDB began a process to adopt the foundation IRB (FIRB) approach for credit risks and the standardized approach for operational risks in early 2008. To that effect, the Bank submitted an application package for the FIRB approach to the Financial Supervisory Service (FSS) of Korea at the end of June 2007. The FSS is currently under a supervisory validation process, and approval for the FIRB is expected in 2008.

In the assessment based on the FIRB approach that KDB plans to adopt, the new capital adequacy ratio required under the Basel II is expected to be similar to or slightly higher than the previous level required under the Basel I Accord. Therefore, changes in the scheme are not expected to have any significant influence on KDB's overall operation.



FINANCIAL MANAGEMENT

KDB supplies won-denominated financing through governmental funds, deposit-taking operations, and Industrial Finance Bond (IFB) issuance. In 2008, KDB will provide competitive funding through stable and low-rate fundraising and management, while solidifying revenue sources that are a prerequisite to attaining its vision of becoming a global investment bank. In addition, the Bank set its strategic goal for 2008 at realizing an improved profit structure and deposit-taking base.

ISSUING INDUSTRIAL FINANCE BONDS (IFBs)

In 2007, KDB successfully met its target for the year earlier than expected. It raised KRW24.5 trillion by timing the issuance of IFBs to coincide with volatile market conditions and varying the maturities of bonds according to funding needs.

The global credit crunch resulting from the subprime crisis fallout, the domestic capital flight from banks to the stock markets, and the exponential rate of bond issuance by domestic commercial banks decelerated bond trading and continuously raised interest rates. Amid these unfavorable market conditions, KDB ensured timely financing of required funds, thereby contributing to stable liquidity supply. In particular, the Bank increased the structured IFBs linked to IRS swaps by 47%, issuing KRW1.7 trillion.

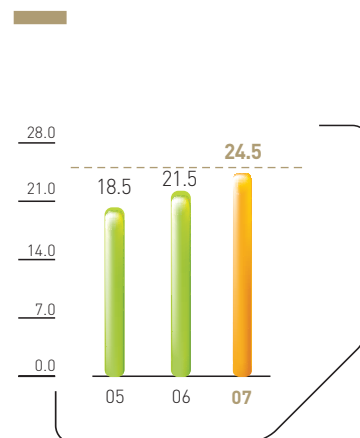
In 2008, KDB plans to issue KRW23 trillion in IFBs, taking into consideration the liquidity and funding costs in accordance with transitions in financial markets and capital supplies. In the meantime, the Bank will discontinue issuing IFBs in kind and introduce a registered issuance system, thereby prompting the advancement of Korea's financial markets. It also intends to reduce funding costs by issuing more mid to long-term bonds and IFBs that strike a balance with the issuance of short-term bonds. KDB strives to integrate IFBs into the category of inter-bank repurchase agreements with the aim of augmenting the sales base of IFBs while increasing market demand.

ATTRACTING DEPOSITS

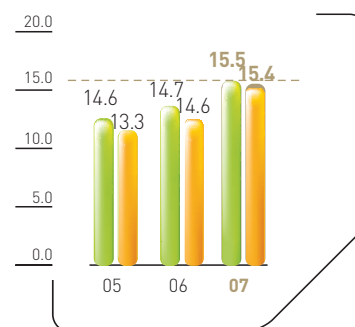
The year 2007 witnessed intense competition in retail banking, fueled by aggressive campaigns by commercial banks to induce deposits amid the spreading trend of disintermediation. Against this backdrop, KDB achieved a sound 5.5% year-on-year growth in deposits to attract a total of KRW15.4 trillion on average basis through aggressive marketing campaigns, including flexible negotiation on deposit interest rates, giving decision-making rights to branch managers, and a reinforced marketing campaign in government funds and the public sector.

In 2008, KDB will put into place measures to drastically enlarge its deposit-taking base in the run up to the Bank's privatization. It plans to develop new products in response to market trends and customer needs. It will also reinforce its infrastructure to encourage information sharing with branches and bolster the Bank's marketing capabilities.

KDB will enhance customer relationships through joint marketing between relationship managers (RMs) and deposit takers. While forming close relationships with corporate clients, the Bank will expand its customer base to include public funds.



WON-DENOMINATED IFB SALES BY YEAR
(KRW trillion)



DEPOSIT BALANCE ON YEARLY AVERAGE BASIS
(KRW trillion)

● Average basis ● Outstanding

ARRANGING FUND LOANS

In 2007, KDB arranged a variety of fund loans, including the Tourism Promotion and Development Fund, Energy Use Rationalization Fund, and SME Restructuring Fund. Total borrowings amounted to KRW539.2 billion for the year. The Bank also financed a total of KRW29.4 billion for the construction of integrated freight terminals and ship vessel modernization projects. The Bank set its goal for 2008 at raising KRW500 billion to fund public policy projects.

IMPROVING CAPITAL MANAGEMENT

In 2007, the liquidity crisis triggered by the subprime mishap spread worldwide, causing instability in global financial markets. Despite such negative fallout, KDB secured stable funding supplies by aptly adjusting the scale and timing of funding to market demand and employing a variety of sophisticated financial measures. At the same time, the Bank heightened its role as a treasury unit.

KDB operated an asset liability management (ALM) council and devised and executed action plans for ALM. The Bank reported on the current status of assets & liabilities and ALM. It utilized gap analyses by currency and maturity to test profitability and measured potential risks. By constantly fine-tuning its short-term liquidity to funding conditions and market situations, KDB was able to minimize accompanying risks. The application of various derivatives products bolstered the effective management of short-term liquidity and prevented any mismatches in the maturity of the Bank's assets and liabilities. This reduced funding costs, which in turn allowed high quality industrial funds to be raised.

In order to implement preemptive and effective adjustment to keep unstable liquidity in check, the Bank promotes liquidity stability through monthly meetings of the Working-level Council on Funding. KDB regularly reviewed its contingency plan in the aftermath of the subprime crisis and continuously adjusted its short-term liquidity to match funding and market conditions, thereby minimizing the liquidity maintenance cost.

In 2008, KDB plans to reinforce its comprehensive ALM, while flexibly coping with the ongoing fallout from the subprime crisis and altering global financial market conditions. To that effect, it will intensify its ALM to better adapt to risks and profitability.



In particular, the Bank plans to utilize gap management in accordance with currency and maturity to formulate funding and management strategies. While adapting its portfolios to market situations, KDB aims to diversify its funding sources and reinforce risk management through various transactions including interest rate swaps (IRS) and currency swaps (CRS). It will also integrate funding channels to actively implement risk hedges and positioning functions. In response to rapidly changing external financial markets, the Bank will further amplify its marketing competitiveness through stable capital management, improved internal transfer pricing schemes, and efficient management of risks and short-term liquidity. Through these activities, KDB aims to elevate its role as a treasury unit.

ENHANCING ACCOUNTING AND EARNINGS MANAGEMENT

In 2007, KDB outperformed its goal of KRW1.7 trillion in pre-tax net income by realizing KRW2 trillion via timely responses to external management conditions. The Bank forged a collective bond among its employees regarding the generation of a sustainable revenue stream by establishing a working-level committee to tackle the issue. At the same time, it prepared for future developments in market situations by analyzing assets and profit structure in each of its investment banking businesses.

In 2008, KDB plans to meet its goal through preemptive earnings management, while responding to the changing market situations in a timely fashion and producing a sustainable profit base to move closer to becoming a global investment bank.

In a bid to enhance its revenue stream amid wavering market conditions and the slated privatization, the Bank will lay out schemes to bolster profits and quality in its investment banking operation. To this end, KDB aims to analyze major and specific variables that affect the Bank's income structure, and the goals and operations of assets and profits for investment banking businesses. It will also reflect the results of the analyses in its business strategies and funding as well as capital management. To generate an enhanced revenue stream and fair distribution of business results, the Bank plans to employ a self-financing scheme that underpins an innovative performance-based reward program. Meanwhile, it will adopt the international financial reporting standards (IFRS) to build a globally competent accounting infrastructure.



Information Technology

KDB's IT Division has set its vision to be the "business enabler" for KDB's transition to a global investment bank, which quickly responds to the Bank's business strategies and the varying financial market conditions. Under this vision, KDB's IT Division continuously reinforces its IT support to keep pace with rapidly advancing technological expectations. At the same time, it strives to provide the Bank with timely and appropriate IT services on a par with global investment banks. Throughout 2007, KDB's IT Division provided opportune support to the Bank's creation of business values and reinforced the protection of financial information. The Division developed and constructed a corporate pension trust system, and an evaluation and management system for internal capital adequacy, as well as a management system for allowance for expected loss (EL). As such, the Division equipped KDB with a platform for information sharing with its affiliates, carrying out a total of 3,229 projects over the year.



In 2007, KDB was recognized multiple times for its excellent IT system, which considerably enhanced public awareness of the Bank.

PROVIDING TIMELY SUPPORT FOR BUSINESS VALUE CREATION

In preparation for the enforcement of the Employee Retirement Benefit Security Act, KDB has successfully completed the construction of the corporate pension system and interfaced the system with external institutions. This will set the stage for the Bank's initiatives to sharpen its competitive edge and provide differentiated financial services in the corporate pension fund business, which is expected to grow to KRW100 trillion and beyond in the future.

In preparation for the implementation of Pillar 2 of the New BIS, KDB's IT Division has constructed an evaluation and management system for internal capital adequacy and a system for setting EL allowance. These new systems meet the requirements of the authorities for advanced risk management and form an infrastructure that will assist KDB to become a global investment bank.

UPGRADING INTERNAL COMPETENCE AND PROTECTING INFORMATION

Internally, the Division executed a comprehensive diagnosis of the Bank's IT system. It formulated a mid to long-term IT development scheme to effectively support KDB's initiatives to become a global investment bank while flexibly responding to the changes in financial markets. Based on the new scheme, it also drew up a three-year action plan.

The stricter "Act on the Protection of Dispatched Workers" accompanied alterations to corporate outsourcing conditions. In compliance with the new Act, the Bank improved its working process to establish a stable operation system and set up partitioned office cubicles to ensure separate working spaces. In addition, in response to the Electronic Financial Transaction Act and a package of security measures for electronic financial transactions introduced by Korea's Financial Supervisory Service (FSS), KDB's IT Division developed and put in place the one-time password (OTP) certificate system for the Internet banking users.

VERIFYING EXCELLENCE OF KDB'S IT SYSTEM

In 2007, KDB was recognized multiple times for its excellent IT system, which considerably enhanced public awareness of the Bank. It scooped the financial sector grand prize at the 1st CIO Awards, acquired a BM patent for its integrated accounting system for overseas branches, and won prime awards at the Korea Software Technology Awards and the Information Security Awards. In addition, the Division's consistent efforts to enhance the quality of customer service for better user satisfaction received positive evaluation, which is proven by the rise in the User Satisfaction Index for seven consecutive years. This yearly survey of KDB employees is conducted by Research International, an outside organization specializing in surveys.

In 2008, KDB intends to further upgrade the financial service infrastructure to meet global standards. To this end, it will construct a system to support the adoption of international financial reporting standards (IFRS) and establish risk-adjusted performance measures (RAPM), the second stage of the trading system, and the first stage of information technology architecture.



Trust

In 2007, in pursuit of a long-term objective of reinforcing its competence as a “one-stop wealth manager,” KDB concentrated on amplifying a sustainable growth platform by focusing on its core trust businesses such as corporate pension trusts and real estate financing, along with high growth potential businesses such as fund products, to create new mid to long-term sources of income. In 2008, the Bank will strive to foster core trust businesses and developing new fee business to secure stable income sources.



67%

Fee income from fund product sales rose 67% thanks to an expanded product line-up for customized equity funds and derivative funds.

OBTAINING THRIVING BUSINESS RESULTS

KDB's trust income increased 17.3% year-on-year to KRW36 billion in 2007 due to continued growth in fee income from real estate financing and fund product sales. In fact, the fee income from fund product sales rose by 67% from the previous year thanks to an expanded product line-up for customized equity funds and derivative funds. Trust income growth can also be attributed to the redemption of KRW2.2 billion in non-performing loans through active follow-up management of troubled assets.

In terms of trust balance, money trust grew to KRW3.4 trillion as a consequence of the Bank's efforts to expand specified money trusts tailored to meet customers' needs and attract corporate pension trusts through joint marketing with relationship managers (RMs). However, asset trust operation suffered a 15.4% decline from the previous year to KRW1.5 trillion, due to the large-scale maturity of trusts for LG Card and Provalue.

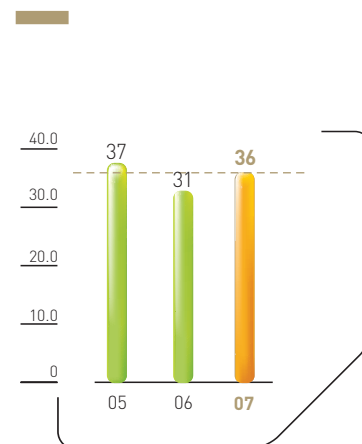
AMPLIFYING SUSTAINABLE GROWTH PLATFORM IN CORE BUSINESSES

The corporate pension trust business focused on extending the market share and strived to stabilize its foothold in the business sector through joint marketing with RMs and the inflow of corporate pension trusts. KDB has constructed an independent IT system exclusively designed for the corporate pension scheme. This system enables the independent and integrated operation of specialized consulting and trust services for corporate pensions; a feature which differentiates the system from any other retirement pension system. KDB won a major prize for this innovative system at the annual Korea Software Awards in November 2007.

Real estate financing, the main source of fee income, posted a 48% year-on-year gain in fees, recording nearly KRW1.3 trillion through selective discovery of business opportunities in profitable business sites and construction. Profitability improved through diversified individual project portfolios that include multi-story factories and venture complexes. Meanwhile, KDB selected one-stop wealth management products, including asset trusts, as its future revenue source and formulated product development schemes.

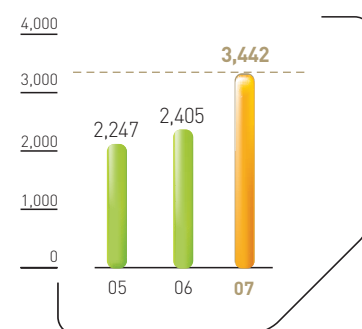
FOSTERING BUSINESSES WITH HIGH GROWTH POTENTIAL

In fund sales, real estate-linked funds, one of KDB's mainstays, staggered due to the sluggish domestic real estate market. Accordingly, KDB shifted its focus to 17 types of callable derivative funds, recording KRW174.9 billion in sales. Among KRW508 billion in sales of new products in 2007, overseas equity funds recorded KRW104.7 billion thanks to the introduction of tax-free overseas fund products as of June 2007. In the custody business, KDB ensured fixed sources of income including Korea Fund of Funds, expanding a sustainable revenue stream. At the same time, the Bank broadened its assets under management (AUM) by 22% from the previous year to KRW5.5 trillion. These considerable results can be ascribed to the Bank's consistent efforts to expand the AUM through synergies from trust businesses with related financial institutions.



TRUST INCOME

(KRW billion)



MONEY TRUST BALANCE

(KRW billion)



Beyond Banking

KDB launched a socially responsible financing scheme in 2007. The Bank established a social responsibility fund and promoted the establishment of a carbon fund, thereby combining banking with socially responsible activities.

To match its financial prowess, KDB has spearheaded numerous environmental and labor-related activities that satisfy global standards. Through effective ethics management, the Bank equipped itself with ethics and compliance that meet the standards expected of a leading investment bank. Thanks to these efforts, KDB topped the 2007 Integrity survey of 333 institutions by the Korea Independent Commission Against Corruption.

KDB put its business ethics into practice by donating its profits to society, thereby promoting its "Share the Love" campaign. The Bank also established the "KDB Love Sharing Foundation" to coordinate its social contributions activities. Its enhanced public role in backing Korea's growth engine industries and providing a safety net to the markets helped brand KDB as a responsible corporate citizen.

Socially Responsible Activities

The concept of a “socially responsible KDB” is directly related to the main role of KDB. In addition to profitability, KDB’s interest lies in promoting balanced growth for the national economy and supporting business sectors that are marginalized by commercial banks. Growing concerns over global warming and other environmental and social issues call for aggressive efforts from corporations and governments. In response to this call for action, KDB set up a socially responsible financing scheme as the first Korean bank to expand the scope of its public role.



By actively investigating financial areas that are inaccessible to commercial banks, KDB performed its public financing duty.



ESTABLISHING SOCIALLY RESPONSIBLE FINANCING

KDB's socially responsible financing package is designed to sponsor corporations that are actively involved in issues related to the environment, labor, and the aging society. The Bank successfully raised funds at a reasonable cost through structured industrial finance bonds (IFBs). KDB organized funds to meet its social responsibility in the beginning of 2007 and financed a total of KRW576.2 billion to environment-friendly companies and companies with a policy of hiring senior citizens. These funds were formed based on KDB's accumulated experience and expertise in a variety of financial areas.

By actively investigating financial areas that are inaccessible to commercial banks, KDB fulfilled its public financing duty. In addition, KDB assisted in planting the seeds of socially responsible management practices in Korea. This garnered an explosive market response as it came under the media spotlight and was selected as a case study for various seminars, thereby substantially enhancing KDB's public image. In the future, KDB plans to formulate a diverse range of products and systematize its socially responsible financing package. Through these efforts, KDB will expand its horizons while contributing to society.

The Bank took into account companies' social responsibility practices of its corporate clients when determining their credit ratings, joined the UN Global Compact, and contributed to realizing employment equality by encouraging companies to expand the hiring of the disabled and talented regional staff. In 2008, KDB intends to publish a report which will highlight its socially responsible financing activities. In tune with an increasing emphasis on socially responsible management, KDB stepped up the pace of its community services. For instance, the recent launch of the "KDB Love Sharing Foundation" provided an opportunity for the Bank to promote its social responsibility activities.



Community Service

KDB has been actively involved in social contributions activities to fulfill its social responsibilities in addition to its financial role. These efforts helped KDB better identify with customers. The Bank put its business ethics into practice by donating its profits to society, thereby promoting its “Share the Love” campaign. KDB actively participates in community services through yearly contributions which are bolstered by voluntary employee donations. In addition, KDB offers contributions from the KDB Start-up Fund to Social Solidarity Bank (SSB), a micro-credit institution, to provide an opportunity for credit delinquents to make a new start.

In October 2007, KDB established the “KDB Love Sharing Foundation” to provide more diverse and specialized activities.





LAUNCHING KDB LOVE SHARING FOUNDATION

Since the launch of the “KDB Volunteer Corps” in March 1996, KDB has carried out numerous social contributions activities under the catchphrase of “Healthy Family, Healthy Workplace, and Healthy Society.” In February 2005, KDB launched a dedicated Community Service Team to unite the dispersed social activities of each department and branch, enhancing the efficiency of these activities. In October 2007, KDB established the “KDB Love Sharing Foundation” to provide more diverse and specialized activities. The Bank plans to contribute a 1.0% range of its annual net income (excluding valuation gains) to the Foundation. The Foundation will sponsor financially-distressed individuals to help them gain economic independence and support elderly welfare programs.

ENGAGING IN COMMUNITY SERVICES

KDB actively participates in community services through yearly contributions by the Bank which are bolstered by voluntary employee donations. In particular, members of the KDB Volunteer Corps pay regular visits to orphanages and facilities for the disabled to assist them by running errands, ranging from shopping and baby sitting to repairing computers, and providing computer training, and taking people on cultural outings. KDB employees participate in annual blood donation drives to promote the practice of donating blood in the community. Along with the Bank’s financial donation, the blood donation certificates are handed to the Korean Association for Children with Leukemia and Cancer (KACLC) to sponsor young patients’ treatment.

In addition, KDB offers contributions from the KDB Start-up Fund to Social Solidarity Bank (SSB), a micro-credit institution, to provide an opportunity for credit delinquents to make a new start. The Bank also dispatches its emergency and relief corps to areas hit by natural disasters such as typhoons, tsunamis, and heavy snowfalls, as well as human-induced catastrophes such as oil spills.

CREATING BETTER WORLD BY SHARING

KDB Scholarship is funded by donations from employees and the Bank itself. The Bank has selected and sponsored 220 disabled students in elementary, middle and high schools since 2006, inspiring them to hope for a brighter future. In August 2007, KDB participated in the so-called “One company-One school” campaign to elevate the quality of public education. The Bank has since been an active member of this campaign that nurtures qualified teachers, formulates education programs, and supports classes of different levels and after-school programs.

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 provides annual donations and volunteers to support JA-Korea’s education programs. In addition, KDB delivers on-the-spot training to its own employees and their families every year through Children’s Economics Study Camp and Bank Teller Role Playing School.

Business Ethics

With ethics management emerging as a global business standard, the importance of ethical corporate management is gaining momentum in Korea. As a leading bank of Korea, KDB meets the highest global standards of ethics management. KDB has instituted the Code of Ethics for all of its staff, and to a certain extent, for its affiliates and business partners as well.



KDB ranked first by scoring 9.68 out of 10 points in the 2007 Integrity Survey of 333 central and regional government agencies by the Korean Independent Commission Against Corruption.



IMPLEMENTING ETHICS MANAGEMENT

KDB promotes socially responsible management in order to contribute to the development of the economy and society and to earn the trust of customers. To maintain the highest standards of fairness and transparency, KDB has instituted the Code of Ethics for all of its staff, and to a certain extent, for its affiliates and business partners as well. In addition to the Code, the Bank's "Management Pledge" was adopted to reinforce the commitment of KDB's executive management to transparent and ethical management.

Moreover, the Bank is creating an organizational infrastructure to ensure that ethical management practices are implemented in a systematic and firm manner. It expanded the Ethics Compliance Unit, previously part of the Legal Affairs Department, into a separate Compliance Department. KDB also launched a Compliance Committee and adopted detailed compliance guidelines.

As a result of these efforts, KDB ranked first by scoring 9.68 out of 10 points in the 2007 Integrity Survey of 333 central and regional government agencies by the Korea Independent Commission Against Corruption.

TRANSLATING ETHICS MANAGEMENT INTO ACTION

- Ethics awareness

The Bank conducts mandatory lectures on ethics for all new and existing staff during group training. Employees are educated on the intricacies of the subject through its online course "KDB Innovation School" and compliance officers in each department on a monthly basis. These educational activities heighten ethics awareness among KDB's staff and management.

- Online ethics management

KDB seeks to instill a culture of voluntary and discrete internal control with an online system, through which employees can receive counseling on the finer points of ethics and also report any instances of corruption or questionable activities. This system has proven to be an effective preemptive measure against corrupt practices.

- Ethics management consulting

To evaluate the current status of ethics management within the Bank, KDB conducted a bank-wide survey of the entire staff and management to ascertain their understanding of and attitudes toward ethics management. Using independent third-party ethics management consultants, the Bank established a detailed action plan in order to implement a long-term remedial strategy.

- "Clean Report" hotline

KDB operates the "Clean Report" hotline for employees who have been offered bribes in the course of their daily business practices. The hotline is designed to protect well-intentioned employees who have been offered a bribe, by encouraging employees to report such sensitive issues via phone or e-mail.

- Whistleblower system

The Bank's employees are encouraged to report any activity that violates work-related acts, bylaws, or the Code of Ethics to compliance officers. The Bank's "Whistleblower System Guidelines" stipulate confidentiality for the whistleblower and appropriate rewards as an incentive.



OPERATING COMPLIANCE PROGRAMS

- Compliance monitoring and review

The Bank's Compliance Department conducts regular reviews of individual staff member's compliance with KDB's ethics codes and principles. The Department requests corrective measures and improvements for any problems or shortcomings that are uncovered.

- Preemptive monitoring

To minimize the Bank's legal risk, the Compliance Department previews all new business activities in the pipeline such as new contracts or the introduction of new products, and establishes and revises internal bylaws. Furthermore, KDB discloses business information upon requests placed by external parties, in compliance with related disclosure regulations. This information release system demonstrates KDB's desire to ensure its transparency and reliability.



- Money laundering prevention

KDB's management and staff are strictly forbidden to engage in money laundering activities. All transactions suspected of being connected with illegal funds or terrorism must be immediately reported to compliance officers and the concerned government authorities. KDB's bylaws include "Report System for Large-scale Cash Transactions" and "Know-Your-Customer Policy" clauses to make sure that the Bank's capital is not used for money laundering purposes. Additionally, KDB strictly observes international policies against money laundering in making transactions with correspondent banks.

KDB will continuously strengthen its ethics management through diverse activities designed to better implement ethics management in its business practices. With the Bank's efforts to promote transparent and ethical management by constantly improving any shortcomings in its financial system and practices, all members of KDB will fulfill their duties in a fair and transparent manner.

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Management's Discussion & Analysis

I. FINANCIAL SUMMARY OF 2007

(In billions of KRW)

	2007	2006	Change
Income Statements			
Interest Income	4,479	3,651	22.7%
Net Interest Income	241	356	-32.3%
Operating Income	1,142	576	98.3%
Net Income	2,048	2,101	-2.5%
Profitability			
Return on Assets	1.75%	2.08%	-0.33%p
Return on Shareholders' Equity	11.31%	13.37%	-2.06%p
Net Interest Margin	0.20%	0.44%	-0.24%p
Balance Sheet			
Total Assets	122,616	104,523	17.3%
Total Liabilities	104,029	88,017	18.2%
Total Shareholders' Equity	18,587	16,506	12.6%
Asset Quality			
NPL Ratio	0.98%	0.84%	0.14%p
Loan Loss Coverage Ratio	126.75%	135.44%	-8.69%p
Capital Adequacy			
BIS Ratio	16.50%	17.15%	-0.65%p
Tier I CAR	13.99%	14.77%	-0.78%p
Tier II CAR	2.51%	2.38%	0.13%p

The Management's Discussion & Analysis ("MD&A") mainly highlights key information, and therefore may not include all of the information deemed important by readers of the Annual Report. The MD&A may contain forward-looking statements which are related to the 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 certain risks, uncertainties, which may cause actual results to differ materially from those anticipated. The MD&A is presented on a non-consolidated basis and has been classified in accordance with Korean GAAP. The financial statements for 2006 have also been partially restated for comparative purposes. The term 'the Bank' used here without any other qualifying description refers to the Korea Development Bank.

II. EXECUTIVE SUMMARY

Despite the unfavorable market circumstances in 2007, KDB recorded a successful performance by maintaining asset soundness and posting a net income of KRW2 trillion. These achievements resulted from the management and employees' efforts to expand the interest income and discover new sources based on fee businesses.

Assisted by the Bank's strong performance in 2007, ROA ratio recorded 1.75%, the highest among domestic banks and above the level of leading global banks.

As of December 2007, total assets increased 17.3% to KRW122.6 trillion, while total liabilities rose 18.2% to KRW104 trillion. Total shareholders' equity grew 12.6% to KRW18.6 trillion, reflecting the large net income recorded in 2007.

NPL ratio edged up 0.14%p to 0.98%, and loan loss coverage ratio dropped 8.69%p to 126.75% owing to an increase in substandard & below loans (e.g. Pantech). However, these figures are kept at a moderate level, and KDB piles up loan loss reserves beyond the required loan loss reserve set by the Financial Supervisory Service (FSS).

The robust net income led to outstanding growth in retained earnings. At the same time, however, growth of new loans also prompted an increase in risk-weighted assets. As a result, BIS capital ratio fell slightly to 16.5%, which was still the highest among domestic banks.

III. SUMMARY OF OPERATING RESULTS

Operating income in 2007 soared 98.3% to KRW1.1 trillion, attributed by the outstanding growth of net non-interest income. Although net interest income shrank 32.3% to KRW241 billion, net non-interest income augmented 309.5% to KRW901 billion due to a notable gain on disposal of securities and an increase in fee-based earnings. In addition, despite a 2.1% drop in net valuation gain on securities accounted for under the equity method, net non-operating income rose 5.5% to KRW1.5 trillion due to a reduction in extraordinary loss.

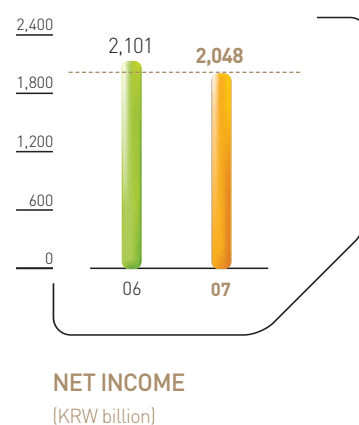
As a result, the Bank's net income exceeded KRW2 trillion in 2007 for the third consecutive year.

Table 1. Income Statements

	2007	2006	Change
(In billions of KRW)			
Operating Income	1,142	576	98.3%
Net Interest Income	241	356	-32.3%
Net Non-interest Income	901	220	309.5%
Net Non-Operating Income	1,465	1,389	5.5%
Income Tax Expenses (-)	559	(136)	-
Net Income	2,048	2,101	-2.5%

Net Interest Income

Net interest income in 2007 contracted 32.3% to KRW241 billion, owing to higher funding costs from the global credit crunch and intensified competition in the loan markets.



Management's Discussion & Analysis



Interest income grew 22.7% to KRW4.5 trillion, with the largest portion of the increase from securities which climbed 48.7% to KRW1.3 trillion in 2007. Interest income from loans also ascended 13.7% to KRW3.1 trillion. These outcomes resulted from increases in loan assets and securities through vigorous business activities.

However, interest expense also rose 28.7% to KRW4.2 trillion. The rise was mainly attributed to an increase in interest on borrowings and bonds payable. Interest on borrowings climbed 30.4% to KRW1.2 trillion due to rising market rates. Interest on bonds payable surged 31% to KRW2.6 trillion, resulting in higher funding costs and larger funding volume.

Table 2. Net Interest Income

(In billions of KRW)

	2007	2006	Change
Interest Income	4,479	3,650	22.7%
Interest on Loans	3,082	2,710	13.7%
Interest on Securities	1,267	852	48.7%
Other Interest Income	130	88	47.7%
Interest Expenses (-)	4,238	3,294	28.7%
Interest on Deposits	466	417	11.8%
Interest on Borrowings	1,153	884	30.4%
Interest on Bonds Payable	2,584	1,973	31.0%
Other Interest Expenses	35	20	75.0%
Net Interest Income	241	356	-32.3%

Net Non-Interest Income

Net non-interest income witnessed a big 309.5% jump in 2007 to KRW901 billion. The growth resulted from a rise in fees and commissions related to the consulting for Doosan's acquisition of the U.S.-based Ingersoll-Rand, PF consulting services, and an increase in refund guarantees fueled by a shipbuilding boom. Net gain from derivative financial instruments also contributed to the upturn in net non-interest income by increasing 362% to KRW365 billion, despite a rise in total provisioning.

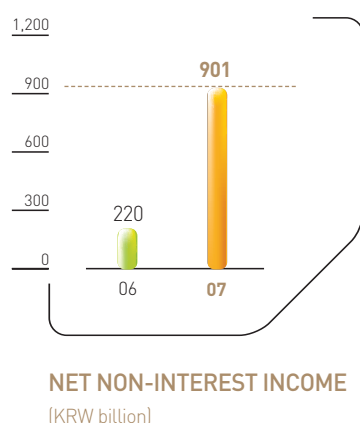


Table 3. Net Non-Interest Income

(In billions of KRW)

	2007	2006	Change
Net Income from Fees & Commissions	277	229	21.0%
Net Gain from Securities	466	586	-20.5%
Net Gain from Derivative Financial Instruments	365	79	362.0%
Total Provisioning (-)	212	50	324.0%
General & Administrative Expenses (-)	409	383	6.8%
Others	414	-241	-
Net Non-Interest Income	901	220	309.5%

Net Credit Expenses

Total provisioning increased 324% to KRW212 billion. One of the main contributors to the increase was the expansion of provision for possible loan losses; up 1,215.4% from the previous year. Provision for possible losses from guarantees & acceptances also surged 136.4% to KRW26 billion. These expansions resulted from additional storing up of loan loss reserves and a reduction in reversal of loan loss reserves. To manage loan assets more strictly, KDB raised the required minimum loan loss reserve ratio from 0.7% to 0.85% with regard to normal credits.

As a result, net credit expenses for 2007 expanded as much as 319.1% from a year earlier in spite of a growth in net gain from disposal of loans.

Table 4. Net Credit Expenses

(In billions of KRW)

	2007	2006	Change
Total Provisioning	212	50	324.0%
Provision for Possible Loan Losses	171	13	1,215.4%
Provision for Possible Losses from Guarantees & Acceptances	26	11	136.4%
Provision for Possible Losses from Unused Loan Commitments	15	26	-42.3%
Net Gain from Disposal of Loans (-)	15	3	400.0%
Net Credit Expenses	197	47	319.1%

Net Non-Operating Income

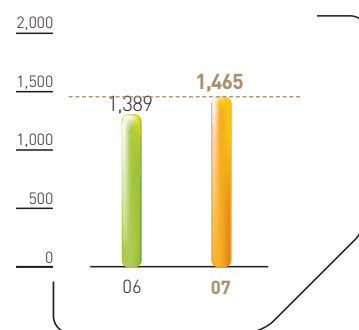
Net valuation gain on securities accounted for under the equity method took up the largest portion of non-operating income, which edged down 2.1% to KRW1.5 trillion. This is attributed to Kepco's worsening performance and the sale of LG Card despite the growth of gains from Daewoo Shipping & Marine Engineering and GM Daewoo. However, other non-operating expenses reduced 96.4% to KRW4 billion on account of a drop in prior period adjustments and other extraordinary loss.

As a result, net non-operating income for 2007 stood at KRW1.5 trillion, up 5.5% from the previous year.

Table 5. Net Non-Operating Income

(In billions of KRW)

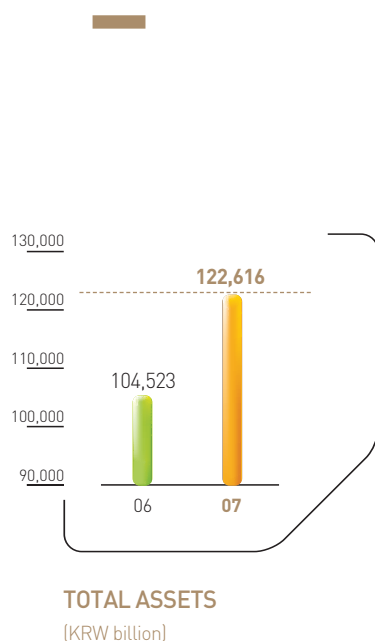
	2007	2006	Change
Net Valuation Gain on Securities Accounted for under the Equity Method	1,469	1,500	-2.1%
Others	-4	-111	-96.4%
Net Non-Operating Income	1,465	1,389	5.5%



NET NON-OPERATING INCOME

(KRW billion)

Management's Discussion & Analysis



IV. ASSETS

Total assets increased 17.3% in 2007 to KRW122.6 trillion. Securities and loans receivable, which played a pivotal role for the rise, expanded 16.9% to KRW54 trillion and 12.4% to KRW57 trillion, respectively, through KDB's aggressive business activities in both corporate and investment banking. In addition, cash & due from banks surged 99.9% to KRW2.9 trillion and derivative financial instruments grew 44.9% to KRW3.5 trillion.

Table 6. Assets

	(In billions of KRW)		
	2007	2006	Change
Cash & Due from Banks	2,894	1,448	99.9%
Securities	53,989	46,182	16.9%
Loans Receivable	57,032	50,740	12.4%
Derivative Financial Instruments	3,452	2,382	44.9%
Property & Equipments	634	648	-2.2%
Other Assets	4,615	3,123	47.8%
Total Assets	122,616	104,523	17.3%

Securities

Securities amounted to KRW54 trillion in 2007, up 16.9% from the previous year. Available-for-sale securities and held-to-maturity securities contributed most to the growth, while trading securities shrank compared to the preceding year.

Trading securities decreased 37.1% to KRW983 billion, due to a reduction in trading securities in foreign currencies and government & public bonds. However, available-for-sale securities rose 22.5% to KRW36.8 trillion, reflecting KDB's increased investment in corporate bonds and the net valuation gain on equities not using the equity method.

Securities accounted for under the equity method climbed 2.9% to KRW13.5 trillion, which resulted mainly from the net valuation gain on securities of affiliated companies.

Held-to-maturity securities surged 86.2% to KRW2.7 trillion owing to an increase in government & public bonds.

Table 7. Securities

	(In billions of KRW)		
	2007	2006	Change
Trading Securities	983	1,563	-37.1%
Available-for-Sale Securities	36,846	30,090	22.5%
Securities Accounted for under the Equity Method	13,464	13,081	2.9%
Held-to-Maturity Securities	2,696	1,448	86.2%
Total Securities	53,989	46,182	16.9%

Loans Receivable

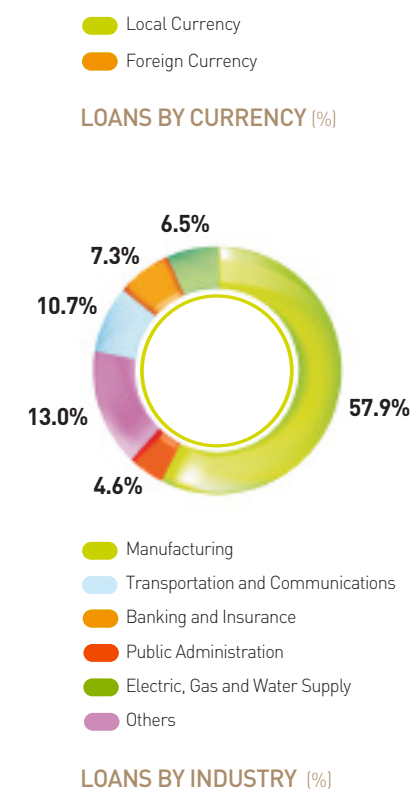
Loans receivable amounted to KRW57 trillion, up 12.4% from the previous year through efforts to provide customers with diverse loan products. Approximately 70% of the loans were core loans; the sum of facility loans and working capital loans.

Core loans outstanding as of year-end 2007 increased 28.3% to KRW39.4 trillion. By currency, loans in local currency inched up 33.2% to KRW 24.6 trillion, and loans in foreign currency grew 20.9% to KRW14.8 trillion. In terms of USD, loans in foreign currencies rose USD2.6 billion, or 19.8% from the previous year.

By industry, loans extended to major sectors, including manufacturing, banking & insurance, and transportation & communications grew, while those to public administration went down. Loans extended to manufacturing accounted for the biggest portion of 57.9% of total loans outstanding, followed by transportation & communications (10.7%) and banking & insurance (7.3%).

Table 8. Core Loans

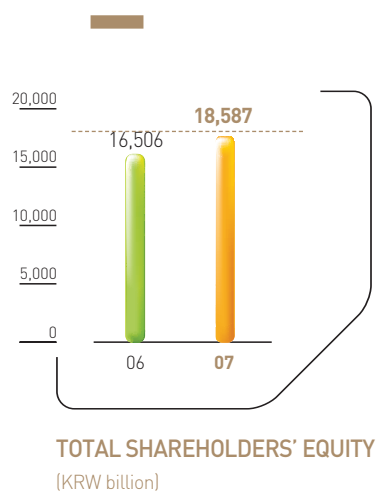
	(In billions of KRW)		
	2007	2006	Change
By Currency			
In Local Currency	24,564	18,448	33.2%
In Foreign Currency	14,795	12,236	20.9%
Total	39,359	30,684	28.3%
By Industry			
Manufacturing	22,807	16,298	39.9%
Banking & Insurance	2,879	2,391	20.4%
Transportation & Communications	4,197	3,420	22.7%
Public Administration	1,807	2,441	-26.0%
Electric, Gas & Water Supply	2,561	686	273.3%
Others	5,108	5,448	-6.2%
Total	39,359	30,684	28.3%



V. LIABILITIES & SHAREHOLDERS' EQUITY

Total liabilities as of year-end 2007 stood at KRW104 trillion, up 18.2% from the previous year. The increase is attributed most to borrowings and industrial finance bonds. Borrowings rose 16% to KRW28 trillion due to the increase in foreign currency borrowings and bonds sold under repurchase agreements. Industrial finance bonds augmented 19.6% to KRW56.3 trillion through expedient funding activities. Meanwhile, deposits declined slightly due to a reduction in time & savings deposits from a year earlier.

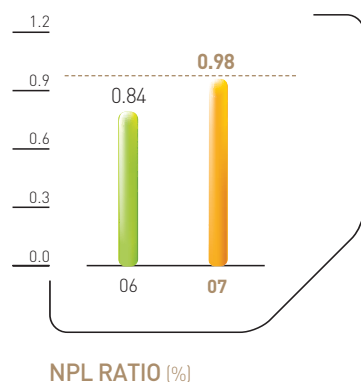
Management's Discussion & Analysis



Shareholders' equity rose 12.6% to KRW18.6 trillion as a result of the large net income.

Table 9. Liabilities & Shareholders' Equity

	(In billions of KRW)		
	2007	2006	Change
Deposits	9,621	9,925	-3.1%
Borrowings	28,038	24,164	16.0%
Industrial Finance Bonds	56,295	47,070	19.6%
Derivative Financial Instruments	3,075	2,407	27.8%
Other Liabilities	7,000	4,451	57.3%
Total Liabilities	104,029	88,017	18.2%
Total Shareholders' Equity	18,587	16,506	12.6%
Total	122,616	104,523	17.3%



VI. ASSET QUALITY

Total credit as of year-end 2007 stood at KRW67.3 trillion, up 17.6% from the year before. Normal credit increased 18.7% to KRW66.2 trillion, while precautionary credit decreased 56.5% to KRW443 billion owing to the normalization of SK Networks. However, substandard & below credit rose 36.4% to KRW660 billion mainly due to the declining quality of assets (e.g. Pantech). As a result, NPL ratio climbed 0.14%p to 0.98%.

Loan loss reserve inched up 27.8% to KRW837 billion, due to the piling up of loan loss reserve over the required loan loss reserve set by the FSS. Loan loss coverage ratio fell slightly from 135.4% to 126.8% as a result of the rise in substandard & below credits and added allocation to loan loss reserve.

Table 10. Asset Quality

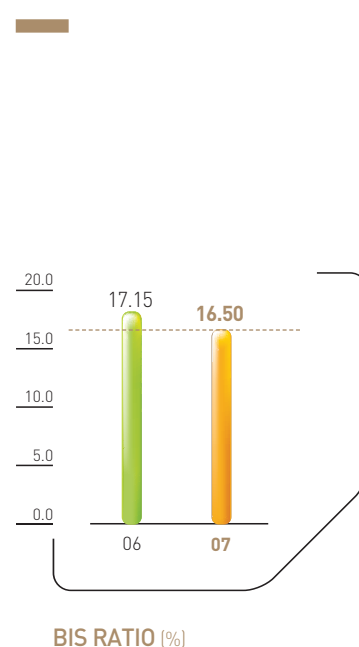
	(In billions of KRW)		
	2007	2006	Change
Normal	66,207	55,755	18.7%
Precautionary	443	1,018	-56.5%
Substandard	629	420	49.8%
Doubtful	3	19	-84.2%
Estimated Loss	28	45	-37.8%
Total Credit	67,310	57,257	17.6%
Substandard & Below	660	484	36.4%
NPL Ratio	0.98%	0.84%	0.14%p
Loan Loss Reserve	837	655	27.8%
Loan Loss Coverage Ratio	126.8%	135.4%	-8.6%p

VII. CAPITAL ADEQUACY

Tier I capital as of the end 2007 amounted to KRW16.3 trillion, up 12.3% from the previous year mainly due to an increase in retained earnings. Tier II capital also rose 25.5% to KRW2.9 trillion, reflecting the rise in loan loss reserve and a decrease in investments in non-consolidated affiliates despite a fall in subordinated debt. As a result, total risk-based capital rose 14.2% to KRW19.2 trillion, and risk-weighted assets also expanded 18.6%. Due to the rise in risk-weighted assets, the BIS capital ratio declined 16.5%, despite the increase in total risk-based capital.

Table 11. Capital Adequacy

	2007	2006	Change
(In billions of KRW)			
Total Risk-weighted Assets	116,299	98,046	18.6%
Total Risk-based Capital	19,193	16,811	14.2%
Tier I Capital	16,272	14,484	12.3%
Tier II Capital	2,921	2,327	25.5%
BIS Ratio (%)	16.50%	17.15%	-0.65%p
Tier I CAR	13.99%	14.77%	-0.78%p
Tier II CAR	2.51%	2.37%	0.14%p



Report of Independent Auditors



Samil PricewaterhouseCoopers

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Kukje Center Building 191 Hangangno 2-ga, Yongsan-gu
Seoul 140-702, KOREA (Yongsan P.O. Box 266, 140-600)

To the Board of Directors of The Korea Development Bank

We have audited the accompanying non-consolidated balance sheets of The Korea Development Bank (the "Bank") as of December 31, 2007 and 2006, and the related non-consolidated statements of income, appropriations of retained earnings, and cash flows for the years ended December 31, 2007 and 2006, and the related non-consolidated statement of changes in shareholder's equity for the year ended December 31, 2007, expressed in Korean won. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in 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, 2007 and 2006, and the results of its operations, the changes in its retained earnings and its cash flows for the years ended December 31, 2007 and 2006, and the changes in its shareholder's equity for the year ended December 31, 2007, in conformity with accounting principles generally accepted in the Republic of Korea.

As discussed in Notes 19, the Bank applied newly revised Korea Accounting Institute Opinion 06-2, amended by the Korea Accounting Standards Board on February 22, 2008. However, the prior year financial statements, presented herein for comparative purposes, have not been restated to reflect this change in accordance with the revised Korea Accounting Institute Opinion 06-2, and the Bank reflected the cumulative effect of accounting changes on the beginning balances of the current year's financial statements balances.

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 shareholder's 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.

Samuel PricewaterhouseCoopers

Seoul, Korea
March 27, 2008

This report is effective as of March 27, 2008, 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, 2007 and 2006

(In millions of Korean won)

	2007	2006
Assets		
Cash and due from banks (Note 3)	₩ 2,893,757	₩ 1,448,362
Securities (Note 4)	53,988,638	46,181,620
Loans receivable, net of allowance for possible loan losses of ₩810,371 million (2006 : ₩652,972 million) (Note 5)	57,031,868	50,739,910
Property and equipment, net (Note 6)	634,598	648,004
Derivative financial instruments (Note 14)	3,451,594	2,381,840
Other assets, net (Note 7)	4,615,490	3,123,575
Total assets	₩ 122,615,945	₩ 104,523,311
Liabilities and Shareholder's Equity		
Deposits (Note 8)	₩ 9,621,272	₩ 9,924,953
Borrowings (Note 9)	28,037,860	24,163,607
Industrial finance bonds, gross of premium on bonds of ₩8,085 million (2006 : ₩17,721 million) and net of discount on bonds of ₩45,842 million (2006 : ₩37,907 million) (Note 10)	56,295,271	47,069,596
Allowance for possible guarantee losses (Note 12)	75,944	50,412
Allowance for unused loan commitment (Note 12)	71,559	56,706
Accrued severance benefits, net	73,083	65,869
Derivative financial instruments (Note 14)	3,075,374	2,406,860
Other liabilities (Note 11)	6,778,898	4,279,141
Total liabilities	104,029,261	88,017,144
Commitments and contingencies (Note 13)		
Shareholders' Equity		
Paid-in capital (Note 15)	8,241,861	8,241,861
Capital surplus (Note 15)	44,373	44,373
Capital adjustments	-	-
Accumulated other comprehensive income (Note 15)	3,203,747	2,487,005
Retained earnings	7,096,703	5,732,928
Total shareholders' equity	18,586,684	16,506,167
Total liabilities and shareholders' equity	₩ 122,615,945	₩ 104,523,311

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

Non-Consolidated Statements of Income

Years Ended December 31, 2007 and 2006

(In millions of Korean won)

	2007	2006
Interest income		
Interest on loans	₩ 3,082,062	₩ 2,709,800
Interest on due from banks	86,418	63,141
Interest on trading securities	84,791	61,873
Interest on available-for-sale securities	1,073,064	752,904
Interest on held-to-maturity securities	109,204	37,762
Other interest income	43,496	25,043
	4,479,035	3,650,523
Interest expense		
Interest on deposits	466,352	417,560
Interest on borrowings	1,153,441	883,777
Interest on bonds payable	2,583,734	1,972,659
Other interest expenses	34,841	20,342
	4,238,368	3,294,338
Net interest income	240,667	356,185
Provision for loan losses (Note 5)	171,118	13,128
Net interest income after provision for loan losses	69,549	343,057
Non-interest revenue		
Fees and commissions	301,279	246,712
Gain from trading securities	37,441	35,678
Gain from available-for-sale securities	482,935	582,527
Gain from derivative financial instruments	5,625,685	6,273,125
Others (Note 16)	1,652,296	1,017,880
	8,099,636	8,155,922
Non-interest expense		
Fees and commissions	24,804	18,158
Loss from trading securities	54,328	32,588
Loss from derivative financial instruments	5,260,762	6,194,514
General and administrative expenses (Note 17)	408,509	382,839
Others (Note 16)	1,279,071	1,294,983
	7,027,474	7,923,082
Operating income	1,141,711	575,897
Non-operating income, net (Note 18)	1,464,530	1,388,687
Income before income tax expense	2,606,241	1,964,584
Income tax expense (Note 19)	558,637	(136,240)
Net income	₩ 2,047,604	₩ 2,100,824

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

Non-Consolidated Statements of Appropriations of Retained Earnings

Years Ended December 31, 2007 and 2006

(Dates of Appropriation : March 31, 2008 and February 28, 2007 for the years ended December 31, 2007 and 2006, respectively)

(In millions of Korean won)

	2007	2006
Retained earnings before appropriations		
Unappropriated retained earnings carried over from prior year	₩ -	₩ -
Cumulated effect of accounting changes (Note 19)	(385,809)	-
Effects on valuations of equity method investments	1,160	37
Net income	2,047,604	2,100,824
	1,662,955	2,100,861
Appropriation of retained earnings		
Legal reserve	1,362,955	1,801,681
Dividends	300,000	299,180
	1,662,955	2,100,861
Unappropriated retained earnings carried forward to subsequent year	₩ -	₩ -

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

Non-Consolidated Statement of Changes in Shareholders' Equity

Year Ended December 31, 2007

(In millions of Korean won)

	Paid-in Capital	Capital Surplus	Capital Adjustments	Accumulated other Comprehensive Income	Retained Earnings	Total
January 1, 2007 (Reported amount)	₩8,241,861	₩ 44,373	₩ -	₩2,487,005	₩5,732,928	₩16,506,167
Cumulative effect of accounting changes (Note 19)	-	-	-	(5,831)	(385,809)	(391,640)
January 1, 2007	₩8,241,861	₩ 44,373	₩ -	₩2,481,174	₩5,347,119	₩16,114,527
Adjustments to retained earnings from equity						
method investments	-	-	-	-	1,160	1,160
Dividends	-	-	-	-	(299,180)	(299,180)
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

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

Non-Consolidated Statements of Cash Flows

Years Ended December 31, 2007 and 2006

(In millions of Korean won)

	2007		2006	
Cash flows from operating activities				
Net income	₩	2,047,604	₩	2,100,824
Adjustments to reconcile net income to net cash used in operating activities :				
Depreciation		20,401		21,100
Provision for loan losses		171,118		13,128
Loss (Gain) on trading securities, net		18,129		(1,849)
Gain on available-for-sale securities, net		(36,382)		(199,196)
Gain on equity method investments, net		(1,530,545)		(1,499,354)
Gain on foreign currencies translation, net		(223,643)		-
Gain from derivative financial instruments, net		(338,006)		(7,441)
Loss (Gain) on valuation of hedged items, net		500,813		(218,793)
Retirement allowance		27,886		22,609
Others, net		66,116		56,013
		(1,324,113)		(1,813,783)
Changes in operating assets and liabilities				
Decrease (Increase) in other accounts receivable		(951,387)		254,756
Increase (Decrease) in other accounts payable		959,119		(253,886)
Disposal (Acquisition) of trading securities		561,774		(449,032)
Acquisition of available-for-sale securities		(5,457,447)		(3,645,211)
Acquisition of held-to-maturity securities		(1,248,058)		(879,733)
Disposal (Acquisition) of equity method investments		649,794		(139,891)
Acquisition of loans receivable		(6,244,910)		(1,042,334)
Net increase in derivative financial instruments		(564,046)		(34,527)
Payment of severance benefits		(11,044)		(5,241)
Receipt of dividends		250,435		281,708
Others, net		310,506		(203,528)
		(11,745,264)		(6,116,919)
Net cash used in operating activities		(11,021,773)		(5,829,878)
Cash flows from investing activities				
Acquisition of property and equipment, net		(6,711)		(15,153)
Others, net		(1,441,255)		366,894
Net cash provided by (used in) investing activities		(1,447,966)		351,741
Cash flows from financing activities				
Decrease in deposits, net		(303,681)		(1,397,073)
Increase in borrowings, net		1,728,906		2,264,431
Increase in bonds issued, net		9,205,980		3,890,738
Others, net		1,846,167		685,447
Net cash provided by financing activities		12,477,372		5,443,543
Net increase (decrease) in cash and cash equivalents		7,633		(34,594)
Cash and cash equivalents				
Beginning of year		53,130		87,724
End of year	₩	60,763	₩	53,130

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

Notes to Non-Consolidated Financial Statements

December 31, 2007 and 2006

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 40 local branches, 6 overseas branches, 5 overseas subsidiaries and 2 overseas offices as of December 31, 2007. 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 a commercial banking business and a trust business in which the Bank, as a fiduciary, holds and manages the property of others. Under the Trust Business Act, the trust funds held as fiduciary are accounted for and reported separately from the Bank's own commercial banking business.

The Bank maintains its 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 Financial Service Commission of Korea. The Bank has adopted SKFAS No.1 through No. 24, except No. 14, in its

Notes to Non-Consolidated Financial Statements

December 31, 2007 and 2006

financial statements as of and for the year ended December 31, 2007. 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, 2006, except for SKFAS Nos. 11, 21 through 24, and the Korea Accounting Institute opinion on Korean Accounting Statement Implementation 06-2, the Financial Supervisory Service's Accounting Implementation Guide 06-5, which became effective for the Bank on January 1, 2007.

However, the non-consolidated statement of changes in shareholder's equity is not presented comparatively as allowed under SKFAS No. 21.

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% and 0.9%
Precautionary	7%
Substandard	20%
Doubtful	50%
Expected Loss	100%

The minimum provision percentage to loan classifications of "normal" has changed from 0.7% to 0.85%, while the percentage for construction, wholesale and retail trade, accommodation and food service activities and real estate activities and renting and leasing industries is 0.9%, in 2007. The allowance for possible loan losses has increased by ₩70,503 million due to the change in minimum provision percentage.

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, 2007 and 2006

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 a 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 (₩938.2: US\$1) 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 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.

Accrued severance benefits are funded at approximately 31.57% as of December 31, 2007, through a severance insurance plan. The Bank accounts for the amounts funded under the group severance insurance as a deduction from accrued severance benefits.

Actual payments of severance benefits for the year ended December 31, 2007, totaled ₩11,044 million (2006: ₩5,241 million).

Allowance for Possible Guarantee Losses and Allowance for Loan Commitments

The Bank sets up a provision for possible losses on guarantees outstanding based on a credit risk rating of the companies for which guarantees are provided. The allowance for possible guarantee losses is calculated by applying minimum provision percentage described below and credit conversion ratio. The allowance is 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. The minimum provision percentage to loan classifications of "normal" has changed from 0.7% to 0.85%, while the percentage for construction, wholesale and retail trade, accommodation and food service activities and real estate activities and renting and leasing industries is 0.9%, in 2007. The allowance for possible guarantee losses as of December 31, 2007, have increased by ₩11,769 million, due to the changes in minimum provision percentages described below.

Additionally, the minimum provision percentages for allowance for loan commitments classified as "normal" have changed from 0.7% to 0.85%, while the percentage for construction, wholesale and retail trade, accommodation and food service activities and real estate activities and renting and leasing industries is 0.9%, in 2007. The allowance for unused loan commitments as of December 31, 2007, has increased by ₩12,200 million due to the changes in minimum provision percentages described below and is shown in the liability section.

Classifications	Minimum Provision Percentages
Normal	0.85% and 0.9%
Precautionary	7%
Substandard	20%
Doubtful	50%
Expected Loss	100%

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 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.

Notes to Non-Consolidated Financial Statements

December 31, 2007 and 2006

Translation of Foreign Currency Financial Statements

The accounting 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 into Korean won using 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.

3. CASH AND DUE FROM BANKS

Cash and due from banks as of December 31, 2007 and 2006, are as follows:

		(In millions of Korean won)	
	Annual interest rates (%) as of Dec. 31, 2007	2007	2006
Cash on hand in local currency	-	₩ 56,784	₩ 49,476
Cash on hand in foreign currencies	-	3,979	3,654
Due from banks in local currency	0 ~ 4.78	1,825,393	828,117
Due from banks in foreign currencies	0 ~ 5.83	1,007,601	567,115
		₩ 2,893,757	₩ 1,448,362

Due from banks in local currency as of December 31, 2007 and 2006, are as follows:

		(In millions of Korean won)	
	Annual interest rates (%) as of Dec. 31, 2007	2007	2006
The Bank of Korea	-	₩ 694,695	₩ 211,135
Korea Exchange Bank	-	307	426
Kookmin Bank	4.78	125,835	83,624
Others	4.78	1,004,556	532,932
		₩ 1,825,393	₩ 828,117

Due from banks in foreign currencies as of December 31, 2007 and 2006, are as follows:

		(In millions of Korean won)	
	Annual interest rates (%) as of Dec. 31, 2007	2007	2006
The Bank of Korea	-	₩ 25,811	₩ 31,191
Shinhan Bank	5.83	49,680	44,545
Hana Bank	"	29,084	13,944
Korea Exchange Bank	"	46,764	19,018
Woori Bank	"	32,837	55,992
KDB Asia (HK) Ltd.	"	125,719	119,918
KDB Ireland Ltd.	"	69,396	13,944
Others	"	628,310	268,563
		₩ 1,007,601	₩ 567,115

Restricted deposits included in due from banks as of December 31, 2007, are as follows:

	(In millions of Korean won)
	Deposits
Reserve deposits with the Bank of Korea	₩ 720,506
Kookmin Bank	125,834
Shinhan Bank	3,880
Industrial & Commercial Bank of China (ICBC) and others	53,028
	₩ 903,248

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, 2007, are as follows:

	(In millions of Korean won)			
	Due from banks in local currency	Due from banks in foreign currencies	Total	
Within 3 months	₩ 998,343	₩ 431,214	₩	1,429,557
More than 3 ~ 6 months	48,674	118,821		167,495
More than 6 months ~ 1 year	81,041	150,325		231,366
More than 1 ~ 2 years	-	65,059		65,059
More than 2 ~ 5 years	-	140,730		140,730
More than 5 years	697,335	101,452		798,787
	₩ 1,825,393	₩ 1,007,601	₩	2,832,994

Notes to Non-Consolidated Financial Statements

December 31, 2007 and 2006

4. SECURITIES

Securities as of December 31, 2007 and 2006, are as follows:

	(In millions of Korean won)	
	2007	2006
Trading securities	₩ 982,509	₩ 1,562,412
Available-for-sale securities	36,845,694	30,090,342
Held-to-maturity securities	2,696,038	1,447,979
Equity method investments	13,464,397	13,080,887
	₩ 53,988,638	₩ 46,181,620

Trading securities as of December 31, 2007 and 2006, are as follows:

	Annual interest rates (%) as of Dec. 31, 2007	(In millions of Korean won)	
		2007	2006
Equity investments	-	₩ 33,997	₩ 83,670
Government and public bonds	4.83	157,076	407,586
Corporate bonds	4.90 ~ 5.00	264,693	155,195
Commercial papers and others	5.23	176,829	53,470
Securities in foreign currencies	5.11	349,914	862,491
		₩ 982,509	₩ 1,562,412

Par value, acquisition cost and fair value of trading debt securities as of December 31, 2007 and 2006, are as follows:

	Par value		Acquisition cost		Fair value	
	2007	2006	2007	2006	2007	2006
Government and public bonds	₩ 160,000	₩ 410,000	₩ 157,971	₩ 409,898	₩ 157,076	₩ 407,586
Corporate bonds	269,000	162,500	267,751	155,568	264,693	155,195
Commercial papers	180,000	50,000	176,871	49,877	176,829	49,878
Trading securities in foreign currencies	413,261	860,989	358,160	860,138	349,502	860,103
	₩1,022,261	₩1,483,489	₩960,753	₩1,475,481	₩ 948,100	₩1,472,762

Trading securities in foreign currencies as of December 31, 2007 and 2006, are as follows:

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

Foreign currencies				Equivalent in Korean won	
2007		2006		2007	2006
US\$	84,702	US\$	309,218	₩ 79,467	₩ 287,449
EUR	19,642	EUR	286,778	27,131	350,511
JPY	30,200	JPY	235,400	252	1,840
GBP	129,611	GBP	122,082	242,904	222,691
HKD	1,331			160	-
				₩ 349,914	₩ 862,491

Available-for-sale securities as of December 31, 2007 and 2006, are as follows:

(In millions of Korean won)

	Annual interest rates (%) as of Dec. 31, 2007	2007	2006
		₩	₩
Equity investments	-	₩ 13,448,663	₩ 11,618,980
Government and public bonds	4.39	911,749	927,790
Corporate bonds	4.77 ~ 4.80	17,972,481	13,468,724
Beneficiary certificates ¹	-	340,338	393,963
Other securities in foreign currencies	0 ~ 5.63	4,172,463	3,680,885
		₩ 36,845,694	₩ 30,090,342

¹ As of December 31, 2007, the Bank has investments of ₩310,949 million in private equity funds, and the details of their main assets and the operating profits are as follows:

(In millions of Korean won)

			(₩ millions of Korean won)			
	Name of fund	Main assets	Book value		Operating profits	
KDB Asset Management Co., Ltd.	KDB private placement bonds 49 and others	Government and public bonds and others	₩	51,581	₩	1,581
CJ Investment Trust Management Co., Ltd.	CJ private placement bonds 3-70 and others	Government and public bonds and others		31,160		1,160
Hanwha Investment Trust Management Co., Ltd.	Hanhwa boomerang private placement bonds 70	Government and public bonds and others		41,538		1,538
Others				186,670		6,630
			₩	310,949	₩	10,909

Notes to Non-Consolidated Financial Statements

December 31, 2007 and 2006

Available-for-sale equity securities, not using the equity method, as of December 31, 2007, 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 Highway Corporation	143,010	7.82	₩ 1,430,100	₩ 1,430,184	₩ 1,560,572
Hynix Semiconductor Inc.	32,413	7.06	287,021	802,058	841,116
Hyundai Engineering & Construction Co., Ltd.	16,290	14.69	311,384	1,137,285	1,436,735
Industrial Bank of Korea - preferred stock	46,915	-	326,906	743,138	743,138
SK Networks - common stock	28,948	12.08	150,207	600,907	649,888
Doosan Heavy Industries & Construction Co., Ltd.	13,129	12.60	222,616	1,654,314	1,654,314
GM Daewoo Auto & Technology Company - preferred stock	108	-	261,375	439,637	439,637
Industrial Bank of Korea - common stock	10,490	2.60	73,094	184,624	184,624
Daewoo International Corp.	5,047	5.31	25,237	176,730	199,877
Samsung Life Insurance Co., Ltd.	378	1.89	264,496	132,248	174,956
SK Networks - preferred stock	733	-	35,407	59,979	13,452
Ssangyong Cement Industry Co., Ltd.	11,091	13.81	186,434	139,257	179,672
Others			5,137,539	5,979,315	4,960,074
			₩ 8,711,816	₩ 13,479,676	₩ 13,038,055

Available-for-sale debt securities as of December 31, 2007 and 2006, are as follows:

(In millions of Korean won)

	Par value		Acquisition cost		Book value	
	2007	2006	2007	2006	2007	2006
Government and public bonds	₩ 963,000	₩ 951,000	₩ 970,602	₩ 965,521	₩ 911,749	₩ 927,790
Corporate bonds	18,617,733	13,670,522	18,470,376	13,627,718	17,972,481	13,468,724
Beneficiary certificates	314,855	387,221	334,026	389,915	340,338	393,963
Investment debt securities in foreign currencies	4,239,620	3,625,662	4,248,209	3,663,603	4,141,450	3,658,131
	₩ 24,135,208	₩ 18,634,405	₩ 24,023,213	₩ 18,646,757	₩ 23,366,018	₩ 18,448,608

Held-to-maturity debt securities as of December 31, 2007 and 2006, are as follows:

(In millions of Korean won)

	Par value		Acquisition cost		Carrying value	
	2007	2006	2007	2006	2007	2006
Government and public bonds	₩2,660,052	₩1,247,786	₩2,622,030	₩1,238,907	₩2,657,762	₩1,410,064
Corporate bonds	30,000	25,000	30,000	25,000	30,000	25,000
Investment debt securities in local currency	783	809	773	803	778	850
Investment debt securities in foreign currencies	7,506	12,085	7,468	12,052	7,498	12,065
	₩2,698,341	₩1,285,680	₩2,660,271	₩1,276,762	₩2,696,038	₩1,447,979

Equity method investments as of December 31, 2007 and 2006, are as follows:

(In millions of Korean won, shares in thousands)

	Number of shares	Percentage of ownership (%)	Acquisition cost		Book value		Net book value	
			2007	2006	2007	2006	2007	2006
Korea Electric Power Corporation	192,160	29.95	₩4,491,411	₩4,491,411	₩9,403,531	₩8,825,769	₩13,187,909	₩12,867,620
LG Card Co., Ltd.	-	-	-	421,331	-	961,904	-	692,519
Daewoo Securities Co., Ltd.	74,309	39.09	548,252	548,252	915,762	747,383	915,762	747,383
Daewoo Shipbuilding & Marine Engineering Co., Ltd.	59,826	31.26	288,383	288,383	573,290	512,714	553,745	501,244
The KDB Capital Corp.	62,125	99.92	761,593	761,593	522,737	425,962	512,043	409,987
GM Daewoo Auto & Technology Company	70,706	27.97	213,206	213,206	364,980	343,662	364,980	343,662
STX Pan Ocean Co., Ltd.	319,998	15.54	31,907	31,907	275,916	146,418	282,338	153,398
KDB Asia (HK) Ltd.	90,000	100.00	135,577	89,592	173,680	108,824	173,680	108,824
Korea Tourism Organization	2,824	43.58	35,529	35,529	170,874	146,509	170,874	146,509
Korea Aerospace Industries, Ltd.	25,890	30.21	133,900	133,900	137,394	136,434	130,894	129,684
KDB Bank (Hungary) Ltd.	1,534	100.00	86,980	86,980	127,109	106,060	127,025	107,214
Others			660,493	514,408	799,124	619,248	785,815	612,659
			₩7,387,231	₩7,616,492	₩13,464,397	₩13,080,887	₩17,205,065	₩16,820,703

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, 2007 and 2006

Details of valuation on securities using the equity method as of and for the year ended December 31, 2007, are as follows:

(In millions of Korean won)

	Jan. 1, 2007 book value	Acquisition (Disposal)	Dividends	Valuation gain(loss)	Retained earnings	Capital adjustment	Dec. 31, 2007 book value
Korea Electric Power Corporation	₩ 8,825,769	₩ -	₩ 192,160	₩ 730,113	₩ -	₩ 39,809	₩ 9,403,531
LG Card Co., Ltd.	961,904	(961,904)	-	-	-	-	-
Daewoo Securities Co., Ltd.	747,383	-	29,724	185,273	(1,383)	14,213	915,762
Daewoo Shipbuilding & Marine Engineering Co., Ltd.	512,714	-	14,956	110,575	-	(35,043)	573,290
The KDB Capital Corp.	425,962	-	-	96,970	-	(195)	522,737
GM Daewoo Auto & Technology Company	343,662	-	-	151,757	2,506	(132,945)	364,980
STX Pan Ocean Co., Ltd.	146,418	61,885	6,910	73,515	-	1,008	275,916
KDB Asia (HK) Ltd.	108,824	46,480	-	9,477	-	8,899	173,680
Korea Tourism Organization	146,509	-	2,135	26,500	-	-	170,874
Korea Aerospace Industries, Ltd.	136,434	-	-	986	-	(26)	137,394
KDB Bank (Hungary) Ltd.	106,060	-	-	21,141	-	(92)	127,109
Others	619,248	142,391	10,546	62,333	37	(14,339)	799,124
	₩13,080,887	₩ (711,148)	₩ 256,431	₩ 1,468,640	₩ 1,160	₩ (118,711)	₩13,464,397

Financial information of investees as of and for the year ended December 31, 2007, follows:

(In millions of Korean won)

	Total assets	Total liabilities	Sales (Operating income)	Net income
Korea Electric Power Corporation	₩ 65,642,600	₩ 21,611,900	₩ 28,983,900	₩ 1,556,800
Daewoo Securities Co., Ltd.	11,972,461	9,630,057	2,875,968	267,905
Daewoo Shipbuilding & Marine Engineering Co., Ltd.	8,280,700	6,509,190	7,104,792	327,463
The KDB Capital Corp.	3,956,308	3,443,845	237,590	90,603
GM Daewoo Auto & Technology Company	7,951,526	5,157,920	12,213,655	542,593
STX Pan Ocean Co., Ltd.	3,046,186	1,229,877	4,873,449	437,366
KDB Asia (HK) Ltd.	576,707	403,027	51,123	7,961
Korea Tourism Organization	697,900	305,849	462,167	55,635
Korea Aerospace Industries, Ltd.	1,091,534	656,011	800,237	4,183
KDB Bank (Hungary) Ltd.	793,912	666,887	104,402	6,867

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, 2007 and 2006, are as follows:

	(In millions of Korean won)			
	2007		2006	
	Equity method adjustment debit	Equity method adjustment credit	Equity method adjustment debit	Equity method adjustment credit
Beginning balance	₩ 295,214	₩ 4,054,088	₩ 420,208	₩ 4,314,888
Increase (decrease)	(256,717)	3,698	10,245	108
Amortization	(11,834)	(261,751)	(135,239)	(260,908)
Ending balance	₩ 26,663	₩ 3,796,035	₩ 295,214	₩ 4,054,088

Investees in which the Bank holds more than 15% of voting shares but are not valued using the equity method as of December 31, 2007, 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	₩1,458,374
Donghae Pulp Co., Ltd.	12,900	62.37	39,652	132,225	132,225
Hyundai Corporation	5,032	22.53	59,113	93,852	93,852
Others			300,095	255,960	66,588
			₩1,560,763	₩1,673,366	₩1,751,039

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 66.7% of the total shares of these companies.

Changes in unrealized holding gains and losses on equity method investments as of and for the years ended December 31, 2007 and 2006, are as follows:

	(In millions of Korean won)							
	2007				2006			
	Beginning Balance	Accrual	Reversal	Ending Balance	Beginning Balance	Accrual	Reversal	Ending Balance
KDB Capital Corporation	₩ 5,229	₩ 91	₩ -	₩ 5,320	₩4,377	₩ 852	₩ -	₩ 5,229
Daewoo Shipbuilding & Marine Engineering Co., Ltd.	11,162	8,383	-	19,545	4,624	6,538	-	11,162
Korea Aerospace Industries, Ltd.	1,568	842	-	2,410	-	1,568	-	1,568
KDB Asia (HK) Ltd.	-	-	-	-	102	-	(102)	-
KDB Bank Ireland Ltd.	1,035	308	-	1,343	674	361	-	1,035
KDB Bank (Hungary) Ltd.	64	20	-	84	50	14	-	64
	₩19,058	₩9,644	₩ -	₩28,702	₩9,827	₩9,333	₩(102)	₩19,058

Notes to Non-Consolidated Financial Statements

December 31, 2007 and 2006

Marketable securities under the equity method as of December 31, 2007, are as follows:

	(In millions of Korean won)			
	Fair market value		Book value	
Korea Electric Power Corporation	₩	7,619,142	₩	9,403,531
Daewoo Shipbuilding & Marine Engineering Co., Ltd.		3,087,001		573,290
Daewoo Securities Co., Ltd.		2,273,863		915,762
STX Pan Ocean Co., Ltd.		956,794		275,916
Sewon Corporation		10,271		11,390
	₩	13,947,071	₩	11,179,889

Investment debt securities denominated in foreign currencies as of December 31, 2007 and 2006, are as follows:

				(In millions of Korean won, other currencies in thousands)	
Foreign currencies				Equivalent in Korean won	
2007	2006	2007	2006		
Available-for-sale debt securities					
US\$ 2,646,763	US\$ 3,173,089	₩ 2,483,193	₩ 2,949,704		
JPY 66,757,483	JPY 22,975,199	556,310	179,627		
GBP 372,715	GBP 30,538	698,504	55,704		
EUR 292,083	EUR 381,220	403,443	465,943		
CNY -	CNY 60,124	-	7,153		
		₩ 4,141,450	₩ 3,658,131		
Held-to-maturity debt securities					
US\$ 7,992	US\$ 12,979	₩ 7,498	₩ 12,065		

As of December 31, 2007, investment securities amounting to ₩11,814,012 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, 2007.

The maturities of investments in available-for-sale and held-to-maturity debt securities as of December 31, 2007, are as follows :

	(In millions of Korean won)			
	Available-for-sale debt securities		Held-to-maturity debt securities	
Within 1 year	₩	4,883,948	₩	149,959
More than 1 ~ 5 years		14,495,950		2,173,678
More than 5 ~ 10 years		3,869,895		372,401
More than 10 years		116,225		-
	₩	23,366,018	₩	2,696,038

Impairment losses on securities for the year ended December 31, 2007, are as follows:

(In millions of Korean won)

	Amortized cost		Impairment loss		Book value	
Equity Securities						
Media Quarters	₩	2,500	₩	2,500	₩	-
Global Information & Communication High-Tech		1,000		1,000		-
Dongbo S.C. Corporation		1,087		989		98
InterCom Software. Co., Ltd.		980		980		-
Mi-tech Inc.		650		650		-
Others		10,294		10,151		143
	₩	16,511	₩	16,270	₩	241
Debt Securities						
Daewoo Electronics Co., Ltd.	₩	1,290	₩	1,290	₩	-
KDB First Securitization Specialty Co., Ltd.		10,500		3,150		7,350
	₩	11,790	₩	4,440	₩	7,350
Beneficiary Certificate						
KDB Asset Management Co., Ltd.	₩	18,350	₩	3,350	₩	15,000

The risk concentrations of securities held by the Bank as of December 31, 2007 and 2006, are as follows:

(In millions of Korean won)

By Country	2007	2006	Ratio (%) as of Dec. 31, 2007
Republic of Korea	₩ 50,429,073	₩ 43,313,741	93.41
USA	583,144	1,134,479	1.08
Thailand	58,158	55,611	0.11
Others	2,918,262	1,677,789	5.40
	₩ 53,988,637	₩ 46,181,620	100.00

(In millions of Korean won)

By Issuer	2007	2006	Ratio (%) as of Dec. 31, 2007
Korea Electric Power Corporation	₩ 9,403,531	₩ 8,837,391	17.42
Korea National Housing Corp.	1,311,700	1,310,838	2.43
Korea Highway Corporation	1,462,658	1,431,389	2.71
Korea Land Corp.	1,191,329	1,191,329	2.21
Korea Asset Management Corp.	103,870	97,311	0.19
Others	40,515,549	33,313,362	75.04
	₩ 53,988,637	₩ 46,181,620	100.00

Notes to Non-Consolidated Financial Statements

December 31, 2007 and 2006

(In millions of Korean won)

By Industry	2007	2006	Ratio (%) as of Dec. 31, 2007
Banking and insurance	₩ 7,874,143	₩ 8,980,408	14.58
Electric, gas and water supply	9,721,942	9,379,366	18.01
Manufacturing	11,347,832	9,460,153	21.02
Construction	6,898,376	5,796,030	12.78
Public administration	1,945,473	835,109	3.60
Others	16,200,871	11,730,554	30.01
	₩ 53,988,637	₩ 46,181,620	100.00

5. LOANS RECEIVABLE

Loans receivable as of December 31, 2007 and 2006, are as follows:

(In millions of Korean won)

	2007	2006
Loans receivable in local currency	₩ 24,564,587	₩ 18,448,073
Loans receivable in foreign currencies	14,794,765	12,236,307
Other loans receivable	18,482,887	20,708,502
	57,842,239	51,392,882
Less : Allowance for possible loan losses ¹	(810,371)	(652,972)
	₩ 57,031,868	₩ 50,739,910

¹ Present value discount is included under the allowance for possible loan losses.

Loans receivable in local and foreign currencies as of December 31, 2007 and 2006, are as follows:

(In millions of Korean won)

Loans receivable in local currency	Annual interest rates (%) as of Dec. 31, 2007	2007	2006
Loans for working capital			
Industrial fund loans	6.12	₩ 8,183,554	₩ 5,865,662
Government fund loans	5.04	221,261	272,411
Overdraft	7.21	63,354	205,635
Others	5.98 ~ 7.66	1,427,102	967,516
		9,895,271	7,311,224
Loans for facilities			
Industrial fund loans	6.51	11,058,034	7,473,912
Government fund loans	5.07	820,502	849,645
Others	3.89 ~ 5.65	2,790,780	2,813,292
		14,669,316	11,136,849
		₩ 24,564,587	₩ 18,448,073

(In millions of Korean won)

Loans receivable in foreign currencies	Annual interest rates (%) as of Dec. 31, 2007	(In millions of Korean won)	
		2007	2006
Loans for working capital			
Local currency loans denominated			
in foreign currencies	3.89	₩ 684,649	₩ 780,746
Foreign currency loans	5.82	2,023,888	1,695,388
Others	3.18	48,398	71,955
		2,756,935	2,548,089
Loans for facilities			
Local currency loans denominated			
in foreign currencies	5.32	2,445,821	2,915,156
Foreign currency loans	6.39	5,443,814	3,581,959
Offshore loans in foreign currencies	6.27	2,411,585	1,174,460
Loans to International Bank for Reconstruction and Development	6.42	1,736,610	2,016,643
		12,037,830	9,688,218
		₩ 14,794,765	₩ 12,236,307

(In millions of Korean won)

Other loans receivable	(In millions of Korean won)	
	2007	2006
Notes purchased	₩ 4,205	₩ 2,304
Bills purchased	1,677,762	1,566,235
Advances for customers	40,514	71,883
Bonds purchased under repurchase agreements	429,154	204,871
Domestic import usance bills	2,251,451	1,907,822
Call loans	878,862	904,138
Debentures accepted by private subscription	11,801,594	14,282,507
Inter-bank loans	1,207,625	1,585,220
Others	191,720	183,522
	₩ 18,482,887	₩ 20,708,502

Notes to Non-Consolidated Financial Statements

December 31, 2007 and 2006

The maturities of loans receivable in local currency and foreign currencies as of December 31, 2007, 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	₩ 1,656,973	₩ 363,669	₩ 385,315	₩ 417,869	₩ 2,823,826
More than 3 ~ 6 months	2,090,649	443,336	528,132	373,291	3,435,408
More than 6 months ~ 1 year	3,262,821	893,255	731,440	1,081,343	5,968,859
More than 1 ~ 2 years	1,214,169	2,462,824	580,988	1,783,517	6,041,498
More than 2 ~ 3 years	871,640	3,276,268	168,101	2,160,881	6,476,890
More than 3 ~ 4 years	85,910	2,244,258	60,733	1,472,204	3,863,105
More than 4 ~ 5 years	178,233	1,785,866	75,295	2,280,066	4,319,460
More than 5 years	534,876	3,199,840	226,931	2,468,659	6,430,306
	₩ 9,895,271	₩ 14,669,316	₩ 2,756,935	₩ 12,037,830	₩ 39,359,352

Changes in the allowance for possible loan losses for the years ended December 31, 2007 and 2006, are as follows:

(In millions of Korean won)

	2007			2006
	Loans	Other assets	Total	Total
Balance at the beginning of the year	₩ 616,646	₩ 4,277	₩ 620,923	₩ 612,868
Decrease in allowance for overseas branches due to foreign currency translation	(507)	-	(507)	(1,538)
Allowance carryover from loan acquisition	105,305	-	105,305	135,664
Increase in allowance for possible losses	836	-	836	83
Decrease in allowance due to loan disposal	(312)	-	(312)	(1,212)
Decrease in allowance due to loan restructuring	(1,886)	-	(1,886)	(3,896)
Increase in allowance due to early redemption	1,771	-	1,771	10,267
Current write-offs	(114,501)	-	(114,501)	(144,441)
Current provision	172,589	(1,471)	171,118	13,128
	₩ 779,941	₩ 2,806	₩ 782,747	₩ 620,923

The difference between the above allowance for possible loan losses of ₩779,941 million and balance sheet amount of ₩810,371 million, amounting to ₩30,430 million, is the reclassified amount of present value discount on loans under restructuring agreement.

As of December 31, 2007 and 2006, the allowances for possible loan losses and other assets are as follows:

(In millions of Korean won)

	2007		2006	
Loans receivable in local and foreign currencies and notes purchased	₩	586,173	₩	449,680
Bills purchased		25,218		17,869
Advances for customers		17,133		19,273
Domestic import usance bills		29,797		34,170
Debentures accepted by private subscription		116,295		93,673
Other loans receivable		5,325		1,981
		779,941		616,646
Other assets		2,806		4,277
	₩	782,747	₩	620,923

As of December 31, 2007, the classification of loans and allowances for possible loan losses are as follows:

(In millions of Korean won)

		Allowances for possible		Ratio (%)
Classification	Loans ¹	loan losses		as of Dec. 31, 2007
Normal	₩ 48,832,962	₩ 437,341		0.90
Precautionary	436,749	60,272		13.80
Substandard	619,391	254,063		41.02
Doubtful	3,428	2,051		59.83
Estimated loss	26,214	26,214		100.00
Others ²	7,893,065	-		-
	₩ 57,811,809	₩ 779,941		1.35

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".

The ratio of allowance to total loans and the ratio of allowance to non-performing loans as of December 31, 2007 and 2006, are as follows:

(In millions of Korean won)

	2007		2006	
Total loans	₩	57,811,809	₩	51,356,555
Allowances for possible losses		779,941		616,646
Ratio of allowance to total loans (%)		1.35		1.20
Non-performing loans	₩	649,033	₩	477,050
Allowances for possible losses		282,328		167,939
Ratio of allowance to total non-performing loans (%)		43.50		35.20

Notes to Non-Consolidated Financial Statements

December 31, 2007 and 2006

Restructured loans receivable as of December 31, 2007 and 2006, due to court receivership, court mediation or other financial restructuring process are as follows:

(In millions of Korean won)			
	2007		2006
Conversion to equity investment	₩	21,260	₩ 29,547

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, 2007 and 2006, are as follows :

(In millions of Korean won)			
	2007		2006
Beginning balance			
Original amount before restructuring	₩	175,923	₩ 353,883
Present value		(139,597)	(301,313)
Present value discount		36,326	52,570
Present value discount			
Increase		2,026	4,407
Decrease(amortization)		(7,922)	(20,652)
		(5,896)	(16,245)
Ending balance			
Original amount before restructuring		167,041	175,923
Present value		(136,611)	(139,597)
Present value discount	₩	30,430	₩ 36,326

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, 2007 and 2006, are as follows:

(In millions of Korean won)				
By Country	2007		2006	Ratio (%) as of Dec. 31, 2007
Republic of Korea	₩	34,571,583	₩ 27,717,245	87.84
USA		205,756	160,871	0.52
Indonesia		219,220	108,807	0.56
Others		4,362,793	2,697,457	11.08
	₩	39,359,352	₩ 30,684,380	100.00

(In millions of Korean won)

By Customer	2007	2006	Ratio (%) as of Dec. 31, 2007
Korea Electric Power Corporation	₩ 4,672,871	₩ 4,657,447	11.87
Small Business Corp.	1,473,894	2,121,395	3.75
Korean Airline Co., Ltd.	1,318,690	902,061	3.35
Doosan Heavy Industries & Construction Co., Ltd.	945,727	913,659	2.40
Dongbu Electronics Co., Ltd.	898,221	56,903	2.28
Doosan Holdings, Europe	762,116	-	1.94
Korea Deposit Insurance Corp.	717,220	650,720	1.82
Kia Motors Corporation	611,356	651,029	1.55
Others	27,959,257	20,731,166	71.04
	₩ 39,359,352	₩ 30,684,380	100.00

(In millions of Korean won)

By Industry	2007	2006	Ratio (%) as of Dec. 31, 2007
Manufacturing	₩ 22,807,104	₩ 16,298,038	57.95
Banking and insurance	2,878,542	2,390,946	7.31
Transportation and communications	4,196,717	3,420,452	10.66
Public administration	1,807,324	2,441,073	4.59
Electric, gas and water supply	2,561,289	685,630	6.51
Others	5,108,376	5,448,241	12.98
	₩ 39,359,352	₩ 30,684,380	100.00

6. PROPERTY AND EQUIPMENT

Changes in property and equipment for the years ended December 31, 2007 and 2006, are as follows:

(In millions of Korean won)

	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

Notes to Non-Consolidated Financial Statements

December 31, 2007 and 2006

(In millions of Korean won)

	Beginning balance	Acquisition	Disposal	Depreciation	Ending balance
Land	₩ 314,752	₩ 64	₩ 1,493	₩ -	₩ 313,323
Buildings	312,461	2,227	239	(9,206)	305,243
Furniture and fixtures	9,426	40	-	(464)	9,002
Computer equipment	10,516	9,184	17	(7,656)	12,027
Vehicles	346	159	-	(146)	359
Construction-in-progress	-	560	415	-	145
Others	6,830	4,722	20	(3,627)	7,905
	₩ 654,331	₩ 16,956	₩ 2,184	₩ (21,099)	₩ 648,004

The government-valued price of the Bank's land as of December 31, 2007, is ₩397,327 million (2006: ₩349,632 million).

As of December 31, 2007, the Bank's premises, equipment and other assets are insured against fire and other casualty losses for up to approximately ₩291,854 million.

7. OTHER ASSETS

Other assets as of December 31, 2007 and 2006, are as follows:

(In millions of Korean won)

	2007	2006
Intangible assets	₩ 30,834	₩ 37,297
Other accounts receivable	2,141,156	1,189,770
Accrued income	524,399	501,228
Prepaid expense	165,295	224,682
Deferred income tax assets	11,047	142,019
Others	1,745,565	1,032,856
	4,618,296	3,127,852
Less: Allowance for possible losses for other accounts receivable	(2,806)	(4,277)
	₩ 4,615,490	₩ 3,123,575

8. DEPOSITS

Deposits as of December 31, 2007 and 2006, are as follows:

		(In millions of Korean won)	
	Annual interest rates [%] as of Dec. 31, 2007	2007	2006
Local currency deposits			
Demand deposits			
Checking accounts	-	₩ 1,348	₩ 3,337
Temporary deposits	0.01	470,833	129,662
Passbook deposits	0.22	5,907	7,318
Others	0.25	2,552	2,642
		480,640	142,959
Time and savings deposits			
Time deposits	5.09	2,139,814	2,230,054
Installment savings deposits	3.80	121,532	122,453
Corporate savings deposits	4.13	2,527,764	3,569,165
Savings deposits	2.25	113,475	145,616
Others	6.43	4,658	36,598
		4,907,243	6,103,886
Total local currency deposits		5,387,883	6,246,845
Foreign currencies deposits			
Checking accounts	-	1,036	7,869
Temporary deposits	3.31	220,142	222,945
Passbook deposits	-	369	118
Time deposits	4.63	525,599	262,317
Others	1.78	7,074	7,806
		754,220	501,055
Negotiable certificates of deposits	5.02	3,479,169	3,177,053
		₩ 9,621,272	₩ 9,924,953

The maturities of time and savings deposits in local and foreign currencies as of December 31, 2007, are as follows:

					(In millions of Korean won)
	Time deposits	Installment savings deposits	Time deposits in foreign currencies	Total	
Within 3 months	₩ 1,024,972	₩ 18,455	₩ 299,034	₩ 1,342,461	
More than 3 ~ 6 months	737,581	30,940	135,988	904,509	
More than 6 months ~ 1 year	301,460	35,064	83,650	420,174	
More than 1 ~ 2 years	63,668	26,077	2,089	91,834	
More than 2 ~ 3 years	9,609	10,996	2,911	23,516	
More than 3 ~ 5 years	2,524	-	1,927	4,451	
	₩ 2,139,814	₩ 121,532	₩ 525,599	₩ 2,786,945	

Notes to Non-Consolidated Financial Statements

December 31, 2007 and 2006

9. BORROWINGS

Borrowings as of December 31, 2007 and 2006, are as follows:

		(In millions of Korean won)	
	Annual interest rates (%) as of Dec. 31, 2007	2007	2006
Borrowings in local currency			
Ministry of Finance and Economy	4.51	₩ 1,099,028	₩ 1,197,720
Industrial Bank of Korea	4.24	237,810	255,157
Small Business Corp.	3.86	523,867	492,448
Ministry of Culture and Tourism	3.17	1,067,893	959,388
Korea Energy Management Corporation	3.17	817,106	781,282
Local governments	3.90	112,420	112,244
Others	2.14 ~ 3.59	883,304	1,000,064
		4,741,428	4,798,303
Borrowings in foreign currencies			
KFW group in Germany	6.34	2,010	5,327
International Bank for Reconstruction and Development	6.05	1,940,985	2,295,039
Others	3.95 ~ 6.01	10,841,955	8,698,802
		12,784,950	10,999,168
Other borrowings			
Bonds sold under repurchase agreements	5.02	9,099,782	6,681,358
Notes sold	3.80	102	1,052
Call money	5.04	1,411,598	1,683,726
		10,511,482	8,366,136
		₩ 28,037,860	₩ 24,163,607

As of December 31, 2007, the Bank has local loans receivable denominated in foreign currencies of ₩18,165 million and foreign currency loans of ₩5,070 million, which were both sourced from the Bank's borrowings from Japan Bank for International Cooperation amounting to ₩23,235 million.

The maturities of borrowings in local and foreign currencies as of December 31, 2007, are as follows:

(In millions of Korean won)

	Borrowings in local currency		Borrowings in foreign currencies		Offshore borrowings in foreign currencies	Total
Within 3 months	₩	586,783	₩	4,567,431	₩ 206,404	₩ 5,360,618
More than 3 ~ 6 months		145,005		2,008,974	46,910	2,200,889
More than 6 months ~ 1 year		310,839		2,015,896	544,156	2,870,891
More than 1 ~ 2 years		760,959		760,784	46,910	1,568,653
More than 2 ~ 3 years		572,930		1,061,510	46,910	1,681,350
More than 3 ~ 4 years		536,749		843,509	-	1,380,258
More than 4 ~ 5 years		462,324		447,915	-	910,239
More than 5 years		1,365,839		187,641	-	1,553,480
	₩	4,741,428	₩	11,893,660	₩ 891,290	₩ 17,526,378

The subordinated debts included in borrowings as of December 31, 2007 and 2006, are as follows:

(In millions of Korean won)

	Annual interest rates (%) as of Dec. 31, 2007	2007	2006	Repayment terms
Government funds	4.51	₩ 1,099,028	₩ 1,197,985	Installment reimbursement
Agency for International Development re-lending facilities	1.99	-	34	Installment reimbursement
International Bank for Reconstruction and Development re-lending facilities	6.05	1,940,985	2,295,039	Installment reimbursement
		₩ 3,040,013	₩ 3,493,058	

10. INDUSTRIAL FINANCE BONDS

Industrial Finance Bonds (IFBs) as of December 31, 2007 and 2006, are as follows:

(In millions of Korean won)

	Annual interest rates (%) as of Dec. 31, 2007	2007	2006
IFB in local currency	4.87	₩ 41,487,854	₩ 35,365,985
IFB in foreign currencies	4.82	11,741,743	9,883,094
Offshore IFB in foreign currencies	5.30	3,103,431	1,840,703
		56,333,028	47,089,782
Premiums on IFB		8,085	17,721
Discounts on IFB		(45,842)	(37,907)
		₩ 56,295,271	₩ 47,069,596

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December 31, 2007 and 2006

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, 2007 and 2006.

The Bank acquired IFBs during the year ended December 31, 2007, whose book value amounted to ₩43,004 million (2006: ₩695 million). The treasury bonds are deducted from Industrial Finance Bonds.

The maturities of IFBs as of December 31, 2007, 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	₩ 4,956,191	₩ -	₩ 490,729	₩	5,446,920
More than 3 ~ 6 months	4,005,398	541,665	158,618		4,705,681
More than 6 months ~ 1 year	6,110,225	1,472,694	785,280		8,368,199
More than 1 ~ 2 years	12,271,828	3,027,529	494,607		15,793,964
More than 2 ~ 3 years	10,442,261	2,281,315	350,971		13,074,547
More than 3 ~ 4 years	237,581	1,599,876	18,395		1,855,852
More than 4 ~ 5 years	934,164	1,582,574	579,881		3,096,619
More than 5 years	2,530,206	1,236,090	224,950		3,991,246
	₩ 41,487,854	₩ 11,741,743	₩ 3,103,431	₩	56,333,028

11. OTHER LIABILITIES

Other liabilities as of December 31, 2007 and 2006, are as follows:

(In millions of Korean won)		
	2007	2006
Trust account debit	₩ 695,509	₩ 639,010
Other accounts payable	2,103,637	1,144,518
Accrued expense	921,878	725,386
Advanced income	69,283	65,124
Guarantee deposits	35,388	28,531
Others	2,953,203	1,676,572
	₩ 6,778,898	₩ 4,279,141

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, 2007 and 2006, are as follows:

(In millions of Korean won)

	Guarantees		Allowance for possible losses	
	2007	2006	2007	2006
Settled guarantees and commitments	₩ 12,029,665	₩ 8,680,114	₩ 56,180	₩ 37,450
Unsettled guarantees and commitments	11,195,150	7,539,111	19,761	12,936
Endorsed notes	298	3,666	3	26
	₩ 23,225,113	₩ 16,222,891	₩ 75,944	₩ 50,412

Unused loan commitments and the related allowances for possible losses as of December 31, 2007 and 2006, are as follows:

(In millions of Korean won)

	Unused loan commitment		Allowance for possible losses	
	2007	2006	2007	2006
Loans receivable	₩ 2,696,690	₩ 2,759,885	₩ 11,585	₩ 10,321
Guarantees and acceptances	12,112,458	10,257,257	44,064	30,295
Loan commitment	4,300,041	5,474,143	15,910	16,090
	₩ 19,109,189	₩ 18,491,285	₩ 71,559	₩ 56,706

The unsettled commitments provided by the Bank as of December 31, 2007 and 2006, are as follows:

(In millions of Korean won)

	2007	2006
Commitments		
For loans in local currency	₩ 3,670,126	₩ 5,050,526
For loans in foreign currencies	629,915	423,617
	4,300,041	5,474,143
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\$2,971 million, JPY1,275 million, EUR38 million, CNY32 million and HKD32 million (equivalent to ₩2,858,476 million) and ₩909,930 million, of which US\$1,139 million, JPY392 million, and CNY27 million (equivalent to ₩1,075,308 million) and ₩83,092 million have not been withdrawn by borrowers as of December 31, 2007.

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December 31, 2007 and 2006

Loans sold to KDB First Securitization Specialty Co., Ltd. and others in accordance with the Asset Securitization Plan as of December 31, 2007, 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	₩ 201,800	₩ 120,000
KDB Second SPC	November 8, 2000	914,764	423,600	143,600	80,000
KDB Third SPC	September 20, 2001	1,793,546	949,900	349,900	186,000
KDB Fifth SPC	December 13, 2001	765,358	528,400	238,400	100,000
		₩ 4,424,295	₩ 2,501,900	₩ 933,700	₩ 486,000

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 ₩4,300,041 million, of which ₩7,257 million was withdrawn as of December 31, 2007.

As of December 31, 2007, the Bank still has the valid legal right to seek indemnity for ₩1,535,054 million as part of the loans receivable written off.

The Bank has outstanding loans receivable amounting to ₩596,378 million, and securities amounting to ₩336,028 million as of December 31, 2007, from companies under workout, court receivership, court mediation or other restructuring process. The Bank recorded ₩148,384 million as allowances for possible loan losses, and ₩2,363 million for present value discount with regard to these loans receivable. Actual losses from these loans may differ from the allowances recorded.

As of December 31, 2007, the Bank faces 17 legal cases involving an aggregate amount of ₩10,595 million, and has filed eight lawsuits, with an aggregate amount of ₩514,932 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, 2007, 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		4,956,874		-		4,956,874		-		-		-
Swap		116,672,092		5,447,545		122,119,637		(257,721)		(18,052)		(275,773)
Option												
Buy		552,022		1,170,000		1,722,022		526		606		1,132
Sell		512,023		1,425,418		1,937,441		175		(1,263)		(1,088)
		122,693,011		8,042,963		130,735,974		(257,020)		(18,709)		(275,729)
Currency												
Forward		56,464,775		-		56,464,775		175,426		-		175,426
Futures		3,324,136		-		3,324,136		-		-		-
Swap		38,351,647		5,011,966		43,363,613		40,095		358,899		398,994
Option												
Buy		8,354,813		-		8,354,813		66,495		-		66,495
Sell		10,160,123		-		10,160,123		(36,284)		-		(36,284)
		116,655,494		5,011,966		121,667,460		245,732		358,899		604,631
Stock price index												
Futures		44,640		-		44,640		-		-		-
Option												
Buy		398,392		-		398,392		721		-		721
Sell		439,067		-		439,067		(1,735)		-		(1,735)
		882,099		-		882,099		(1,014)		-		(1,014)
Commodity												
Forward		649,197		-		649,197		6,843		-		6,843
Swap		269,062		-		269,062		3,212		-		3,212
Futures		25,765		-		25,765		-		-		-
Option												
Buy		154,887		-		154,887		32		-		32
Sell		154,887		-		154,887		32		-		32
		1,253,798		-		1,253,798		10,119		-		10,119
	₩	241,484,402	₩	13,054,929	₩	254,539,331	₩	(2,183)	₩	340,190	₩	338,007
											₩	376,221

Notes to Non-Consolidated Financial Statements

December 31, 2007 and 2006

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, 2007. The total paid-in capital of the Bank outstanding as of December 31, 2007, is ₩8,241,861 million.

On April 30, 2004, the Korean government increased the Bank's capitalization by ₩1,000 billion by additionally contributing KEPCO shares of ₩695 billion and subscription certificates of Korean Water Resources Corporation amounting to ₩305 billion.

Capital Surplus

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

Accumulated Other Comprehensive Gain

The changes in valuation gain and loss from investment securities recorded as accumulated other comprehensive gain for the years ended December 31, 2007 and 2006, are as follows:

	2007			2006
	Available-for-sale securities	Equity method investments	Total	Total
Beginning balance	₩ 2,464,609	₩ 22,396	₩ 2,487,005	₩ 2,431,079
Cumulative effect of accounting changes	-	(5,831)	(5,831)	-
Increase(decrease) due to disposals and others	(383,773)	(1,864)	(385,637)	(110,792)
Valuation gain(loss) during the year	1,508,166	(118,711)	1,389,455	180,567
Transfer to deferred tax assets(liabilities)	(309,208)	27,963	(281,245)	(13,849)
Ending balance	₩ 3,279,794	₩ (76,047)	₩ 3,203,747	₩ 2,487,005

(In millions of Korean won)

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

Total expected dividends amount to ₩300,000 million with the dividend payout ratio (total dividend/ net income) of 14.65%.

16. OTHER NON-INTEREST REVENUE AND EXPENSES

Other non-interest revenue and expenses for the years ended December 31, 2007 and 2006, are as follows:

(In millions of Korean won)

	2007		2006	
Other non-interest revenue				
Gain on disposal of equity method investments	₩	896,464	₩	1,459
Gain on foreign currency transactions		585,825		540,284
Gain on disposal of loans receivable		14,797		2,967
Gain on valuation of hedged items		135,449		454,747
Others		19,761		18,423
	₩	1,652,296	₩	1,017,880
Other non-interest expense				
Loss on foreign currency transactions	₩	403,806	₩	820,127
Provision for losses from guarantees and acceptances		25,622		10,631
Provision for losses from unused loan commitments		14,836		25,752
Loss on valuation of hedged items		636,262		235,954
Others		198,545		202,519
	₩	1,279,071	₩	1,294,983

17. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the years ended December 31, 2007 and 2006, are as follows:

(In millions of Korean won)

	2007		2006	
Salaries	₩	222,141	₩	208,513
Retirement allowance		27,886		22,609
Employee benefits		17,991		16,262
Rent		9,300		8,396
Depreciation		20,401		21,100
Taxes and dues		17,206		15,388
Printing		4,452		4,242
Travel		3,362		3,641
Commission		14,317		13,344
Others		71,453		69,344
	₩	408,509	₩	382,839

Notes to Non-Consolidated Financial Statements

December 31, 2007 and 2006

18. NON-OPERATING INCOME AND EXPENSES

Non-operating income and expenses for the years ended December 31, 2007 and 2006, are as follows:

	(In millions of Korean won)	
	2007	2006
Non-operating income		
Gain on disposal of premises and equipment	₩ 745	₩ 54
Rental income	1,739	1,729
Valuation gain on equity method investments	1,476,012	1,527,336
Others	1,684	12,677
	1,480,180	1,541,796
Non-operating expenses		
Loss on disposal of premises and equipment	460	435
Valuation loss on equity method investments	7,372	27,982
Others	7,818	124,692
	15,650	153,109
	₩ 1,464,530	₩ 1,388,687

19. INCOME TAX

Income tax expense for the years ended December 31, 2007 and 2006, consists of:

	(In millions of Korean won)	
	2007	2006
Income tax	₩ 9,628	₩ 5,176
Change in deferred income tax due to temporary difference	14,327	133,350
Income tax expense accounted for as accumulated other comprehensive income	286,623	29,533
Change in deferred income tax due to tax loss	248,059	(304,320)
	₩ 558,637	₩ (136,261)

Income tax expense accounted for as accumulated other comprehensive income for the years ended December 31, 2007 and 2006, consists of :

	(In millions of Korean won)	
	2007	2006
Valuation gain and loss on available-for-sale securities	₩ 309,208	₩ 73,875
Valuation gain and loss on equity method investments	(22,585)	(44,322)
	₩ 286,623	₩ 29,533

The tax adjustments for the year ended December 31, 2007, are as follows:

(In millions of Korean won)

	Temporary difference	Permanent difference
Additions		
Prior year valuation gain and loss on equity method investments	₩ 5,464,395	₩ -
Prior year financial derivative assets	2,197,260	-
Financial derivative liabilities	2,889,057	-
Prior year valuation gain and loss on hedged items	550,249	-
Gain and loss on foreign currency translation of hedged item	178,859	-
Others	487,708	7,323
	₩ 11,767,528	₩ 7,323

(In millions of Korean won)

	Temporary difference	Permanent difference
Deductions		
Equity method investments	₩ 6,105,261	₩ -
Financial derivative assets	3,181,778	-
Prior year financial derivative liabilities	2,304,277	-
Valuation gain and loss on hedged items	225,778	-
Prior year gain and loss on foreign currency translation of hedged item	400,167	-
Dividends received	-	85,325
Foreign tax paid	-	9,629
Others	1,079,247	120,918
	₩ 13,206,508	₩ 215,872

Notes to Non-Consolidated Financial Statements

December 31, 2007 and 2006

The changes of temporary differences and deferred tax assets and liabilities for the year ended December 31, 2007, are as follows:

	Temporary differences and tax loss				Deferred tax assets and liabilities		
	Beginning balance	Decrease	Increase	Ending balance	Beginning balance	Changes	Ending balance
Equity method investments ¹	₩(5,464,395)	₩(5,464,395)	₩(6,015,261)	₩(6,015,261)	₩(1,292,245)	₩(81,523)	₩(1,373,768)
Financial derivative assets	(2,197,260)	(2,197,260)	(3,181,778)	(3,181,778)	(604,247)	(270,742)	(874,989)
Gain and loss on valuation of hedged items	(550,249)	(550,249)	178,859	178,859	(151,318)	200,504	49,186
Impairment loss on debt securities	358,924	2,776	4,441	360,589	98,704	458	99,162
Impairment loss on equity securities ²	763,197	6,577	16,270	772,890	209,879	2,666	212,545
Provision for loan losses	1,600,351	41,752	-	1,558,599	440,097	(11,482)	428,615
Financial derivative liabilities	2,304,277	2,304,277	2,889,057	2,889,057	633,676	160,815	794,491
Dividends	315,176	-	2,557	317,733	86,673	704	87,377
Others	784,754	928,672	(260,975)	(404,893)	19,121	(302,350)	(283,229)
	(2,085,225)	(4,927,850)	(6,366,830)	(3,524,205)	(559,660)	(300,950)	(860,610)
Tax loss and others	1,148,294	958,695	56,664	246,263	315,781	(248,059)	67,722
	₩(936,931)	₩(3,969,155)	₩(6,310,166)	₩(3,277,942)	₩(243,879)	₩(549,009)	₩(792,888)

¹ Deferred tax effect amounting to ₩280,429 million was not recognized because the sale of the securities under equity method or declaration of dividends are deemed to have no future benefits.

² Deferred tax effect amounting to ₩171,881 million due to impairment loss on investment securities is not recognized as temporary differences are deemed to have no future benefits.

³ 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.

In 2007, the Bank applied newly revised Korea Accounting Institute Opinion 06-2, Deferred Income Taxes on Investments in Subsidiaries, Associates and Interests in Joint Ventures, amended by the Korea Accounting Standards Board on February 22, 2008. Accordingly, the Company has changed its accounting method related to the recognition of deferred income tax related to investment assets in investee companies. However, the prior year financial statements, presented herein for comparative purposes, have not been restated to reflect this change in accordance with the revised Korea Accounting Institute Opinion 06-2, and the Bank reflected the cumulative effect of the change of the accounting method on the beginning balances of the current year's financial statements balances. As a result of the change, beginning balance of deferred income tax liabilities increased by ₩391,640 million, retained earnings decreased by ₩385,809 million, gain on valuation of equity method investments decreased by ₩7,160 million, and

gain on valuation of negative-equity method investments decreased by ₩1,329 million as compared to the amount computed under the previous method.

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, 2007 and 2006, are as follows:

	2007		2006	
	Average amount	Interest income or expense	Average amount	Interest income or expense
Assets				
Due from banks	₩ 1,978,386	₩ 86,418	₩ 1,428,400	₩ 63,141
Securities	25,683,332	1,267,059	18,042,526	852,538
Loans receivable	53,683,838	3,082,061	49,535,946	2,709,800
Others		43,497		25,044
		₩ 4,479,035		₩ 3,650,523
Liabilities				
Deposits	₩ 10,335,803	₩ 466,352	₩ 10,610,115	₩ 417,560
Borrowings	24,914,661	1,153,441	21,537,489	883,777
Bonds	52,926,561	2,583,733	44,220,813	1,972,659
Others		34,842		20,342
		₩ 4,238,368		₩ 3,294,338

Notes to Non-Consolidated Financial Statements

December 31, 2007 and 2006

21. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

Significant assets and liabilities denominated in foreign currencies as of December 31, 2007 and 2006, are as follows:

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

	Foreign currency ¹		Equivalent in Korean won	
	2007	2006	2007	2006
Asset				
Cash	US\$ 4,241	US\$ 3,930	₩ 3,979	₩ 3,654
Due from banks	1,073,973	610,064	1,007,601	567,115
Trading securities	372,963	927,809	349,914	862,492
Investment securities (available-for-sale)	4,447,308	3,959,644	4,172,464	3,680,885
Investment securities (held-to-maturity)	7,992	12,979	7,498	12,065
Equity method investments	430,112	328,034	403,531	304,941
Bills bought	1,788,278	1,684,849	1,677,762	1,566,235
Call loans	935,849	971,700	878,014	903,292
Loans receivable	15,769,308	13,162,980	14,794,765	12,236,307
Domestic import usance bills	2,399,756	2,052,304	2,251,451	1,907,822
Receivables	1,301,543	771,877	1,221,108	717,537
Other assets	2,977,303	3,324,429	2,793,306	3,090,390
	US\$ 31,508,626	US\$ 27,810,599	₩ 29,561,393	₩ 25,852,735
Liabilities				
Deposits	US\$ 803,901	US\$ 539,001	₩ 754,220	₩ 501,056
Borrowings	13,627,105	11,832,152	12,784,950	10,999,168
Bonds sold under repurchase agreements	1,790,937	768,344	1,680,257	714,253
Call money	543,699	819,090	510,098	761,426
Bonds	15,814,316	12,597,873	14,836,991	11,710,982
Other liabilities	2,805,564	1,800,314	2,632,180	1,673,572
	US\$ 35,385,522	US\$ 28,356,774	₩ 33,198,696	₩ 26,360,457

¹ Assets or liabilities denominated in foreign currencies other than in US\$ have been converted into US\$ using the exchange rate in effect on December 31, 2007.

22. RELATED PARTY TRANSACTIONS

The subsidiaries and equity-method investees as of December 31, 2007, are as follows:

	Related Companies
Domestic Companies	The KDB Capital Corp., Daewoo Shipbuilding & Marine Engineering Co., Ltd., Daewoo Securities Co., Ltd., Korea Infrastructure Fund, KDB Asset Management Co., Ltd., KDB Value Private Equity Fund I, Korea Aerospace Industries, Ltd., KDB Value Private Equity Fund II, Samwon Industrial Co., Ltd.
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, 2007 and 2006, and the related account balances as of December 31, 2007 and 2006, are as follows :

(In millions of Korean won)								
	Interest income and others		Interest expense and others		Loans receivable		Borrowings	
	2007	2006	2007	2006	2007	2006	2007	2006
Subsidiaries	₩137,824	₩ 101,098	₩123,074	₩ 6,136	₩ 6,954,493	₩ 5,516,322	₩ 783,739	₩206,967
Equity-method investees	337,682	377,351	17,315	6,215	7,019,393	7,884,328	241,555	-
	₩475,506	₩ 478,449	₩140,389	₩ 12,351	₩13,973,886	₩13,400,650	₩1,025,294	₩ 206,967

23. COMPREHENSIVE INCOME

Comprehensive income for the years ended December 31, 2007 and 2006, consists of :

	(In millions of Korean won)	
	2007	2006
Net income	₩ 2,047,604	₩ 2,100,824
Other comprehensive gain	722,573	55,926
Gain on valuation of equity method investments ¹	(92,612)	(138,834)
Gain on valuation of available-for-sale securities ²	815,185	194,760
	₩ 2,770,177	₩ 2,156,750

¹ Related tax effect in 2007 amounts to ₩ (22,585) million (2006: ₩ (44,322) million).

² Related tax effect in 2007 amounts to ₩309,208 million (2006: ₩73,875 million).

Notes to Non-Consolidated Financial Statements

December 31, 2007 and 2006

24. OPERATING RESULTS OF TRUST ACCOUNTS

The revenue and expenses of the trust accounts for the years ended December 31, 2007 and 2006, are as follows:

	(In millions of Korean won)	
	2007	2006
Revenue		
Interest income	₩ 218,534	₩ 190,944
Gain from securities	457,927	27,514
Others	32,044	12,548
	₩ 708,505	₩ 231,006
Expenses		
Dividends of trust profits to beneficiaries	₩ 653,752	₩ (1,218,074)
Commissions paid	4,862	5,481
Loss from securities	17,901	1,412,527
Trust fee to the Bank	16,490	15,112
Provisions for possible loan losses	20	92
Others	15,480	15,868
	₩ 708,505	₩ 231,006

25. SUPPLEMENTAL CASH FLOW INFORMATION

Transactions not involving any inflow or outflow of cash for the years ended December 31, 2007 and 2006, are as follows:

	(In millions of Korean won)	
	2007	2006
Loans converted into equity securities	₩ 21,260	₩ 29,547

26. OPERATING RESULTS FOR THE FINAL INTERIM PERIOD

Significant operating results for the three-month period ended December 31, 2007, are as follows:

	(In millions of Korean won)	
	4 th quarter, 2007	4 th quarter, 2006
Operating income	₩ 3,599,684	₩ 1,840,689
Operating profit (loss)	19,565	(310,547)
Net income	39,724	315,282

27. RESTATEMENT OF PRIOR YEAR FINANCIAL STATEMENTS

The Bank adopted early the Financial Supervisory Service's Accounting Implementation Guide 06-5 and changed its accounting method for valuation of non-listed equity securities to comply with the new requirement.

As the Bank was not able to reasonably determine the cumulative effect of accounting changes due to the Financial Supervisory Service's Accounting Implementation Guide 06-5, the effect of changes in accounting method is reflected in the current and future periods.

28. RECLASSIFICATION OF PRIOR YEAR FINANCIAL STATEMENTS

Certain amounts in the financial statements as of and for the year ended December 31, 2006, have been reclassified to conform to the new requirements of Statement of Korean Financial Accounting Standards No. 24. These reclassifications have no effect on previously reported net income or shareholder's equity.

Report of Independent Auditors



Samil PricewaterhouseCoopers

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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, 2007 and 2006, 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.

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, 2007 and 2006, and the results of its operations for the years then ended in conformity with trust accounting principles generally accepted in the Republic of Korea.

A handwritten signature in cursive script that reads "Samil PricewaterhouseCoopers".

Seoul, Korea
February 15, 2008

This report is effective as of February 15, 2008, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

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

Trust Accounts Balance Sheets

December 31, 2007 and 2006

(In millions of Korean won)

	2007	2006
Assets		
Cash deposits (Note 5)	₩ 53,953	₩ 47,141
Securities (Note 6)	5,595,743	5,090,804
Loans receivable (Note 7)	45,476	38,912
Monetary claims for collection (Note 8)	7,607,151	9,587,098
Real estate in trust (Note 9)	1,041,703	884,446
Accrued income	46,510	31,188
Due from banking accounts (Note 15)	665,549	617,338
Other assets (Note 13)	2,168	2,696
Allowance for possible loan losses	(9,290)	(9,934)
Total assets	₩ 15,048,963	₩ 16,289,689
Liabilities		
Money trusts	₩ 3,441,568	₩ 2,404,541
Monetary claims in trust	7,795,699	9,720,019
Securities in trust (Note 10)	2,654,842	2,978,070
Real estate collateral trusts	1,011,703	854,445
Mortgage bond trusts	30,000	30,000
Accrued trust dividends	94,375	272,261
Other liabilities (Note 13)	8,736	20,102
Reserve for future trust losses (Note 3)	12,040	10,251
Total liabilities	₩ 15,048,963	₩ 16,289,689

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

Trust Accounts Statements of Income

Years Ended December 31, 2007 and 2006

(In millions of Korean won)

	2007		2006	
Revenue				
Interest on securities	₩	191,919	₩	148,920
Interest on loans		2,658		2,292
Interest on due from banking accounts (Note 15)		24,197		14,010
Other interest income		23,958		25,722
		242,732		190,944
Gains on derivatives transactions		3,859		7,987
Gains on securities		457,927		27,514
Other income (Note 14)		3,242		2,868
Reversal of provision for possible loan losses		745		1,694
		708,505		231,007
Expenses				
Commission expenses		4,862		5,481
Losses on derivatives transactions		10,307		7,724
Losses on securities		17,901		1,412,528
Trust fees to the Bank (Note 15)		16,490		15,112
Other expenses (Note 14)		5,173		8,144
Reserve for possible loan losses		20		92
		54,753		1,449,081
Dividends of trust profit to beneficiaries	₩	653,752	₩	(1,218,074)

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

Notes to Financial Statements (Trust Accounts)

December 31, 2007 and 2006

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 trustor 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, 2007 and 2006 are as follows :

(In millions of Korean won)					
Bank Accounts			Trust Accounts		
	2007	2006		2007	2006
Cash and due from banks	₩ 2,893,757	₩ 1,448,362	Cash deposits	₩ 53,953	₩ 47,141
Securities	53,988,637	46,181,620	Securities	5,595,743	5,090,804
Loans receivable	57,031,868	50,739,909	Loans receivable	45,476	38,912
Other assets	8,701,683	6,153,420	Due from banking accounts	665,549	617,338
Assets	₩ 122,615,945	₩ 104,523,311	Monetary claims for collection	7,607,151	9,587,098
			Other assets	1,090,381	918,330
Deposits	9,621,272	9,924,953	Allowance for possible loan losses	(9,290)	(9,934)
Borrowings	84,333,130	24,163,607	Assets	₩ 15,048,963	₩ 16,289,689
Other liabilities	10,074,859	53,928,584			
Liabilities	₩ 104,029,261	₩ 88,017,144	Money trusts	3,441,568	2,404,541
Shareholders' equity	₩ 18,586,684	₩ 16,506,167	Property trusts	11,462,244	13,552,534
			Other liabilities	145,151	332,614
			Liabilities	₩ 15,048,963	₩ 16,289,689

Notes to Financial Statements (Trust Accounts)

December 31, 2007 and 2006

2. SUMMARY OF THE TRUST ACCOUNTS

Major assets of the Trust Accounts, as of December 31, 2007 and 2006, are as follows:

	(In millions of Korean won)			
	Amount		Ratio (%)	
	2007	2006	2007	2006
Cash deposits	₩ 53,953	₩ 47,141	0.4	0.3
Securities	5,595,743	5,090,804	37.2	31.3
Loans receivable	45,476	38,912	0.3	0.2
Due from banking accounts	665,549	617,338	4.4	3.8
Monetary claims for collection	7,607,151	9,587,098	50.6	58.9
Other assets	1,090,381	918,330	7.2	5.6
Allowance for possible loan losses	(9,290)	(9,934)	(0.1)	(0.1)
	₩ 15,048,963	₩ 16,289,689	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 the 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 the 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.

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.

Notes to Financial Statements (Trust Accounts)

December 31, 2007 and 2006

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, 2007, reserve for future trust losses amounts to ₩12,040 million (2006: ₩10,251 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.

4. NATURE OF MONEY TRUST ACCOUNTS

The details of the Bank's money trust accounts as of December 31, 2007 and 2006, are as follows:

(In millions of Korean won)			
Trusts	Trust terms of Maturity (Years)	2007	2006
General unspecified money trusts	over 1.5 ¹	₩ 11	₩ 11
Installment money trusts	over 1.5 ³	82	81
Corporation money trusts	1.5 ³	1	1
Household money trusts	1.5 ³	215	326
Old-age living pension trusts	over 5 ²	2,586	4,766
Specified money trusts	-	2,189,206	1,254,003
Individual pension trusts	over 10 ²	186,398	179,211
Household long-term trusts	3 ~ 5	409	644
Labor preferential trusts	3 ~ 5	55	76
New installment trusts	over 1.5	409	561
Unit-type money trusts	1	100	100
Retirement trusts	- ²	903,867	855,962
Additional money trusts	1	2,685	4,786
New individual pension trusts	over 10 ²	17,732	18,804
New old-age living pension trusts	over 5 ²	3,850	8,022
Pension trusts	over 10 ²	61,592	55,256
Long-term trusts for housing	7 ~ 10	22,084	20,002
Retirement pension trusts	-	50,285	1,929

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.

Notes to Financial Statements (Trust Accounts)

December 31, 2007 and 2006

5. CASH DEPOSITS

Cash deposits as of December 31, 2007 and 2006 are as follows:

		(In millions of Korean won)	
	Annual interest rate (%) as of December 31, 2007	2007	2006
Cash deposits			
JP Morgan chase	-	₩ -	₩ 37,648
The Korea Development Bank and others	3.4 ~ 6.4	53,953	8,819
		53,953	46,467
Deposits for derivatives			
Mirae Asset Securities and others	-	-	674
		₩ 53,953	₩ 47,141

6. SECURITIES

Securities as of December 31, 2007 and 2006, are as follows:

		(In millions of Korean won)	
	Annual interest rate (%) as of December 31, 2007	2007	2006
Equity securities	3.0 ~ 5.3	₩ 1,855,816	₩ 2,083,385
Government bonds	4.9 ~ 5.5	193,051	153,804
Monetary stabilization bonds	4.9 ~ 7.4	19,810	10,740
Other financial bonds	0.0 ~ 13.0	956,783	998,659
Corporate bonds	5.8 ~ 12.1	1,184,036	1,508,939
Foreign currency securities	5.8 ~ 7.0	22,534	22,314
Commercial paper	0.0 ~ 9.3	1,327,023	311,410
Beneficiary certificates	0.0 ~ 9.5	8,366	1,553
Certificate of deposit	3.0 ~ 5.3	28,324	-
		₩ 5,595,743	₩ 5,090,804

Investments in bonds classified by valuation methods as of December 31, 2007, are as follows:

		(In millions of Korean won)	
	Trusts by cost methods	Trusts by fair value methods	Total
Government bonds	₩ 49,955	₩ 143,095	₩ 193,050
Monetary stabilization bonds	-	19,810	19,810
Other financial bonds	926,658	30,124	956,782
Corporate bonds	678,388	505,648	1,184,036
Others	1,268,595	117,654	1,386,249
	₩ 2,923,596	₩ 816,331	₩ 3,739,927

The information on securities according to country, type and customer as of December 31, 2007, are as follows:

(In millions of Korean won)

By Country	Amount	Ratio (%)
Korea	₩ 5,555,427	99.28%
Foreign countries	40,316	0.72%
	₩ 5,595,743	100.00%

By Type	Amount	Ratio (%)
Fixed rate bonds	₩ 2,273,504	40.63%
Floating rate bonds	131,033	2.34%
Equity securities	1,855,816	33.16%
Beneficiary certificates	8,367	0.15%
Commercial papers	1,327,023	23.72%
	₩ 5,595,743	100.00%

By Customer	Amount	Ratio (%)
Government investment organization	₩ 212,985	3.81%
Financial institution	2,462,579	44.01%
Manufacturing and service industries	2,674,689	47.80%
Others	245,490	4.38%
	₩ 5,595,743	100.00%

The aggregate maturities of debt securities outstanding at December 31, 2007, are as follows:

(In millions of Korean won)

	Government bonds	Financial bonds	Corporate bonds	Foreign Currency securities	Commercial paper	Other securities	Total
Within 3 month	₩ 10,472	₩ -	₩ 124,757	₩ -	₩ 869,930	₩ -	₩ 1,005,159
Within 6 month	1,841	9,978	213,437	-	391,299	-	616,555
Within 1 year	22,163	227,037	272,883	17,846	65,794	28,324	634,047
Within 2 year	109,636	39,578	356,318	4,688	-	-	510,220
Within 3 year	39,182	-	119,180	-	-	-	158,362
Within 4 year	9,757	-	68,760	-	-	-	78,517
Within 5 year	-	700,000	19,697	-	-	7,153	726,850
More than 5 year	-	-	9,004	-	-	1,213	10,217
	₩ 193,051	₩ 776,593	₩ 1,184,036	₩ 22,534	₩ 1,327,023	₩ 36,690	₩ 3,739,927

Notes to Financial Statements (Trust Accounts)

December 31, 2007 and 2006

As of December 31, 2007, 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	₩	193,051	₩	-	₩	-	₩	-	₩	193,051
Allowance for possible loan losses		-		-		-		-		-
Allowance ratio		-		-		-		-		-
Financial bonds										
Book value		976,593		-		-		-		976,593
Allowance for possible loan losses		-		-		-		-		-
Allowance ratio		-		-		-		-		-
Corporate bonds										
Book value		1,174,707		-		-		9,329		1,184,036
Allowance for possible loan losses		2		-		-		9,242		9,244
Allowance ratio		-		-		-		99.07%		0.78%
Foreign currency securities										
Book value		22,534		-		-		-		22,534
Allowance for possible loan losses		-		-		-		-		-
Allowance ratio		-		-		-		-		-
Commercial papers										
Book value		1,327,023		-		-		-		1,327,023
Allowance for possible loan losses		-		-		-		-		-
Allowance ratio		-		-		-		-		-
Equity securities										
Book value		1,855,816		-		-		-		1,855,816
Allowance for possible loan losses		-		-		-		-		-
Allowance ratio		-		-		-		-		-
Other securities										
Book value		36,690		-		-		-		36,690
Allowance for possible loan losses		-		-		-		-		-
Allowance ratio		-		-		-		-		-
Total										
Book value	₩	5,586,414	₩	-	₩	-	₩	-	₩	5,595,743
Allowance for possible loan losses		2		-		-		9,242		9,244
Allowance ratio		-		-		-		99.07%		0.17%

7. LOANS RECEIVABLE

Loans receivable as of December 31, 2007 and 2006, are as follows:

(In millions of Korean won)							
		Annual interest rate [%] as of December 31, 2007		2007		2006	
Loans collateralized by :							
Marketable securities		0.0 ~ 8.76		₩	6,211	₩	5,744
Real estates		0.0 ~ 12.5			31		42
Bonds		0.0 ~ 9.26			5,171		6,623
Beneficiary certificates		0.0 ~ 9.54			34,058		26,498
Other loans		-			5		5
				₩	45,476	₩	38,912

As of December 31, 2007, 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	₩	6,211	₩	-	₩	-	₩	-	₩	-	₩	6,211
Allowance for possible loan losses		-		-		-		-		-		-
Allowance ratio		-		-		-		-		-		-
Bonds loans												
Book value		5,171		-		-		-		-		5,171
Allowance for possible loan losses		-		-		-		-		-		-
Allowance ratio		-		-		-		-		-		-
Beneficiary certificates loans												
Book value		34,058		-		-		-		-		34,058
Allowance for possible loan losses		-		-		-		-		-		-
Allowance ratio		-		-		-		-		-		-
Real estates loans and others												
Book value		21		-		-		-		15		36
Allowance for possible loan losses		-		-		-		-		15		15
Allowance ratio		-		-		-		-		100.00%		41.66%
Total												
Book value	₩	45,461	₩	-	₩	-	₩	-	₩	15	₩	45,476
Allowance for possible loan losses		-		-		-		-		15		15
Allowance ratio		-		-		-		-		100.00%		0.03%

Notes to Financial Statements (Trust Accounts)

December 31, 2007 and 2006

8. MONETARY CLAIMS FOR COLLECTION

Monetary claims for collection, as of December 31, 2007 and 2006, are as follows:

	(In millions of Korean won)	
	2007	2006
Receivables trusted by :		
Doosan Construction & Engineering (7th)	₩ -	₩ 84,000
Asiana Airlines (1st)	-	352,004
Dream line	272,463	381,702
LG Card	1,341,184	1,413,651
Asiana Airlines (OZ)	3,283	5,357
Special Asset Investment Trust (Real estate)	-	6,000
Doosan Industrial Development (10th)	-	78,213
Asiana Airlines (5th)	747,966	1,080,619
Dong bu Construction (express bus)	-	18,679
Lotte Card	-	97,475
Erae Electronics Industry	96,339	96,944
Choongwae Pharma	-	56,597
Dongyang Major	232,106	399,612
Choongwae Pharma (3th)	50,585	56,230
Save Zone	474,314	153,687
Save Zone Libera	213,151	66,121
Doosan Industrial Development (12th)	-	51,069
Special Real Estate Investment Trust (KDB plus 2)	-	10,000
Special Real Estate Investment Trust (KDB plus 3)	-	15,000
LG Card (foreign bond 2)	611,015	555,867
LG Card (foreign bond 3)	420,980	444,094
Special Real Estate Investment Trust (KDB plus 4)	16,000	51,000
Specified Money Trust Combination	-	104,830
Special Real Estate Investment Trust (KDB plus 5)	-	6,000
Special Real Estate Investment Trust (KDB plus 6)	5,000	10,000
Hyundai Capital Services	568,024	568,853
KDB noksan private equity special asset	-	84,500
LG Card (Asset backed)	-	1,030,833
LG Card (foreign bond)	574,786	530,584
Special Real Estate Investment Trust (KDB plus 7)	7,000	28,000
Doosan Industrial Development (13th)	172,565	216,108
Eland World	867,434	1,380,469
Real Estate 8th (Gunsan Vivaldi)	7,500	30,000
Real Estate 9th (KDB Opo fill you)	7,000	23,000
Real Estate 10th (Daegu Sangdong Hi)	30,000	100,000
SK Enclean (6th)	764,032	-
Choongwae Pharma	48,346	-
Daewoo Securities (Realestate)	25,000	-
Daewoo Shipbuilding & Marine Engineering Co	2,000	-
Dongbu Express (1st)	49,078	-
	₩ 7,607,151	₩ 9,587,098

9. REAL ESTATE IN TRUST

Real estates in trust as of December 31, 2007 and 2006 are as follows :

	(In millions of Korean won)			
	2007		2006	
Trusted by :				
SKC	₩	30,000	₩	30,000
Chung Hae Ik and 7 other individuals		-		6,830
Dong Il Construction		-		23,739
Sae Han		-		256,000
Pohang namgu sangdodong		-		21,000
Pusan noksan waste dump site		-		84,500
Daejeon Namkwang engineering & Construction		-		66,300
Chunan sungdodong		195,000		195,000
Sungnam apartment factory		-		18,912
Daejeon hakha town		64,520		64,520
Universehousing		-		59,662
Daejeon hakha town 2nd		20,283		20,283
Woolim		-		37,700
Youngdeungpo-gu Yangpyoung-dong		36,400		-
Yongin Gongseri		390,000		-
Changwon APT factory		149,500		-
Suwon Songjuk-dong		156,000		-
	₩	1,041,703	₩	884,446

10. SECURITIES IN TRUST

Securities in trust as of December 31, 2007 and 2006, are as follows :

	(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

Notes to Financial Statements (Trust Accounts)

December 31, 2007 and 2006

(In millions of Korean won)

Trusted securities	2006					Total
	Stocks	Financial bonds	Corporate bonds	Government bonds		
GM-Daewoo	₩ 1,488,700	₩ -	₩ -	₩ -		₩ 1,488,700
Provalue	-	-	22,500	-		22,500
MIC 2nd (*1)	-	100,000	-	-		100,000
MIC 3th	-	100,000	-	-		100,000
MIC 4th	-	100,000	-	-		100,000
MIC 5th	-	100,000	-	-		100,000
MIC 6th	-	100,000	-	-		100,000
MIC 7th	-	100,000	-	-		100,000
MIC 8th	-	100,000	-	-		100,000
MIC 9th	-	100,000	-	-		100,000
Provalue (B series)	-	-	187,000	-		187,000
Provalue (C series)	-	-	100,000	-		100,000
Provalue (D series)	-	-	150,000	-		150,000
Provalue (E series)	-	200,000	-	-		200,000
Small business investment funds	-	770	28,036	984		29,870
	₩ 1,488,700	₩ 1,000,770	₩ 487,536	₩ 984		₩ 2,978,070

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

11. DERIVATIVES

The notional amounts outstanding for derivatives contracts as of December 31, 2007 and 2006 are as follows:

(In millions of Korean won)

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

(In millions of Korean won)

	2006									
	Amount outstanding		Gain		Loss		Assets		Liabilities	
Currency forward (selling)	₩	34,380	₩	135	₩	-	₩	135	₩	-
Currency forward (buying)		11,665		-		214		-		214
Interest futures (selling)		177,855		-		-		-		-
KOSPI futures (selling)		14,383		-		-		-		-
	₩	238,283	₩	135	₩	214	₩	135	₩	214

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

The Accounts enter 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 Accounts enter 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, 2007 and 2006, are as follows:

(In millions of Korean won)

	2007				Mortgagee
	Face value		Substitute price		
Corporate Bonds					
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	Hanmak Futures and others
	₩	22,250	₩	18,768	

Notes to Financial Statements (Trust Accounts)

December 31, 2007 and 2006

(In millions of Korean won)

	2006		
	Face value	Substitute price	Mortgagee
Corporate Bonds			
SKC107	₩ 13,550	₩ 11,694	Dongyang Futures and others
Nexen tire 38th	1,700	1,440	Woori Futures and others
Dong Kook Steel Mill (65-1st)			
Unguaranteed Bond	400	337	Dongyang Futures and others
Daesang 112	300	256	NongHyup Futures and others
Koreanair18	50	42	Dongyang Futures and others
	16,000	13,769	
Stocks			
Samsung Electronics	43	4,017	Hankook Securities and others
Kookmin Bank	113	1,360	CJ Securities and others
	156	5,377	
	₩ 16,156	₩ 19,146	

13. OTHER ASSETS AND LIABILITIES

As of December 31, 2007 and 2006, details of other assets and other liabilities are as follows:

(In millions of Korean won)

	2007	2006
Other assets		
Other accounts receivables	₩ 1,647	₩ 1,334
Prepaid expenses	479	1,195
Derivatives financial instruments	11	135
Others	31	32
	₩ 2,168	₩ 2,696

(In millions of Korean won)

	2007	2006
Other liabilities		
Other accounts payables	₩ 1,742	₩ 11,270
Accrued payable trust fees	6,528	8,099
Accrued expenses	322	331
Discounted present value	107	187
Advanced income	1	1
Derivatives financial instruments	36	214
	₩ 8,736	₩ 20,102

14. OTHER INCOME AND OTHER EXPENSES

For the years ended December 31, 2007 and 2006, details of other income and other expenses are as follows:

	(In millions of Korean won)	
	2007	2006
Other income		
Commission received	₩ 11	₩ 13
Transfer from special provision	478	463
Others	2,753	2,392
	₩ 3,242	₩ 2,868

	(In millions of Korean won)	
	2007	2006
Other expenses		
Provision for special provision	₩ 2,267	₩ 2,096
Insurance fees on trusts	1,035	958
Contribution to Credit Guarantee Fund	4	10
Others	1,867	5,080
	₩ 5,173	₩ 8,144

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, 2007 and 2006, are as follows:

	(In millions of Korean won)	
	2007	2006
Assets or Liabilities		
Due from banking accounts	₩ 665,549	₩ 617,338
Revenues or Expenses		
Interest on due from banking accounts	24,197	14,010
Trust fee	16,490	15,112

Notes to Financial Statements (Trust Accounts)

December 31, 2007 and 2006

The significant transactions with related companies for the years ended December 31, 2007 and 2006, and the related account balances as of December 31, 2007 and 2006, are as follows:

		(In millions of Korean won)	
Account		2007	2006
KDB Capital - Bonds	Bonds	₩ 13,313	₩ 29,269
	Interest income	3,651	63
KDB Capital -Money Trust (Retirement Trust)	The amount deposited into the Money Trust	4,861	1,764
	Trust profit	128	90
Daewoo Shipbuilding and Marine Engineering -Money Trust (Retirement Trust)	The amount deposited into the Money Trust	122,031	132,611
	Trust profit	5,270	3,105

Transactions and transfers among trust accounts for the year ended December 31, 2007, amounted to ₩46,129 million (2006:₩25,882 million).

16. DETAIL OF THE TRUST ACCOUNTS

The condensed balance sheets as of December 31, 2007 and 2006, and statements of operations for the years then ended of the Trust Accounts by category are as follows:

Condensed Balance Sheets

		(In millions of Korean won)			
	Guaranteed principal or rate of return trusts	Non-guaranteed trusts ¹	Property trusts	Total	
Cash deposits	₩ -	₩ 26,991	₩ 26,962	₩	53,953
Securities	949,974	1,992,277	2,653,492		5,595,743
Loans receivable	45,476	-	-		45,476
Money receivables for collection	-	-	7,607,151		7,607,151
Real estate trusted	-	-	1,041,703		1,041,703
Due from banking accounts	209,401	313,896	142,252		665,549
Other assets	9,180	20,116	19,381		48,677
Allowance for possible loan losses	[9,290]	-	-		[9,290]
Total in 2007	₩ 1,204,741	₩ 2,353,280	₩ 11,490,942	₩	15,048,963
Total in 2006	₩ 1,158,714	₩ 1,545,857	₩ 13,585,118	₩	16,289,689
Money and other trusts	₩ 1,176,036	₩ 2,265,703	₩ 11,492,244	₩	14,933,983
Accrued trust dividends	9,954	86,741	[2,491]		94,204
Reserve for future trust losses	12,031	9	-		12,040
Others	6,720	827	1,189		8,736
Total in 2007	₩ 1,204,741	₩ 2,353,280	₩ 11,490,942	₩	15,048,963
Total in 2006	₩ 1,158,714	₩ 1,545,857	₩ 13,585,118	₩	16,289,689

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.

Condensed Statements of Income

(In millions of Korean won)

	Guaranteed principal or rate of return trusts		Non-guaranteed trusts ¹		Property trusts		Total	
Revenue								
Interest on securities	₩	52,994	₩	60,837	₩	78,088	₩	191,919
Interest on loans		2,658		-		-		2,658
Gains on securities		3,799		453,443		685		457,927
Interest on due from banking Accounts		3,078		13,617		7,502		24,197
Reversal of provision for possible loan losses		745		-		-		745
Other revenues		3,408		8,282		19,369		31,059
		66,682		536,179		105,644		708,505
Expenses								
Loss on securities		12,068		3,891		1,942		17,901
Trust fees to the Bank		9,744		1,690		5,056		16,490
Reserve for future trust losses		2,267		-		-		2,267
Reserve for possible loan losses		20		-		-		20
Other expenses		5,737		6,257		6,081		18,075
		29,836		11,838		13,079		54,753
Dividends of trust profit to beneficiaries								
2007	₩	36,846	₩	524,341	₩	92,565	₩	653,752
2006	₩	47,784	₩	53,341	₩	(1,319,199)	₩	(1,218,074)

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



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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, 2007 and 2006, and the related consolidated statements of income and cash flows for the years ended December 31, 2007 and 2006, and the related consolidated statement of changes in shareholder's equity for the year ended December 31, 2007, expressed in Korean won. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Daewoo Shipbuilding & Marine Engineering Co., Ltd. and ten other consolidated subsidiaries, whose financial statements reflect total assets of ₩28,799,012 million as of December 31, 2007, and total revenues of ₩13,170,983 million for the year ended December 31, 2007. These statements were audited by other auditors whose reports have been furnished us and our opinion, insofar as it relates to the amounts included for Daewoo Shipbuilding & Marine Engineering Co., Ltd. and ten other consolidated subsidiaries, is based solely on the reports of the other auditors.

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, 2007 and 2006, and the results of their operations and their cash flows for the years ended December 31, 2007 and 2006, and the changes in its shareholder's equity for the year ended December 31, 2007, in conformity with accounting principles generally accepted in the Republic of Korea.

As discussed in Notes 22 and 23, the Bank applied newly revised Korea Accounting Institute Opinion 06-2, amended by the Korea Accounting Standards Board on February 22, 2008. However, the prior year financial statements, presented herein for comparative purposes, have not been restated to reflect this change in accordance with the revised Korea Accounting Institute Opinion 06-2, and the Bank reflected the cumulative effect of accounting changes on the beginning balances of the current year's financial statements balances.

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 shareholder's 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.

Samil PricewaterhouseCoopers

Seoul, Korea
March 27, 2008

This report is effective as of March 27, 2008, 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, 2007 and 2006

(In millions of Korean won)

	2007	2006
Assets		
Cash and due from banks (Note 3)	₩ 6,487,772	₩ 3,958,744
Securities (Note 4)	62,442,306	52,260,119
Loans receivable, net (Note 5)	60,689,258	52,404,546
Property and equipment, net (Note 6)	3,633,810	3,547,646
Intangible assets, net	377,793	351,104
Guarantee deposits	217,649	209,870
Derivative financial instruments (Note 14)	3,705,223	2,755,780
Trade accounts receivable, net	2,195,802	1,920,601
Prepaid expenses	261,568	293,492
Other assets, net (Note 7)	6,883,945	4,595,620
Total assets	₩ 146,895,126	₩ 122,297,522
Liabilities and Shareholder's Equity		
Deposits (Note 8)	₩ 12,042,398	₩ 11,894,696
Borrowings (Note 9)	34,154,326	28,946,417
Debentures, net (Note 10)	57,708,082	47,696,900
Allowance for possible guarantee losses (Note 12)	75,944	50,584
Allowance for unused loan commitments (Note 12)	71,932	56,706
Accrued severance benefits, net	298,256	218,433
Other accounts payable	2,744,261	1,699,333
Accrued expenses	1,091,658	834,737
Derivative financial instruments (Note 14)	3,156,186	2,389,953
Unearned income	113,256	91,945
Trade accounts payable	734,561	546,108
Other liabilities (Note 11)	13,049,673	8,636,886
Total liabilities	125,240,533	103,062,698
Commitments and contingencies (Note 13)		
Shareholders' equity (Note 15)		
Capital stock	8,241,861	8,241,861
Capital adjustments	(163,422)	(171,080)
Accumulated other comprehensive income	3,445,220	2,703,709
Retained earnings	7,070,518	5,713,187
Minority interest in consolidated subsidiaries	3,060,416	2,747,147
Total shareholders' equity	21,654,593	19,234,824
Total liabilities and shareholders' equity	₩ 146,895,126	₩ 122,297,522

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, 2007 and 2006

(In millions of Korean won)

	2007	2006
Interest income		
Interest on loans receivable	₩ 3,255,146	₩ 2,805,234
Interest on due from banks	216,815	190,313
Interest on trading securities	333,464	227,256
Interest on available-for-sale securities	1,140,446	787,256
Interest on held-to-maturity securities	113,734	46,663
Other interest income	71,567	43,688
	5,131,172	4,100,410
Interest expenses		
Interest on deposits	533,950	442,502
Interest on borrowings	1,400,157	1,020,670
Interest on bonds payable	2,646,553	2,020,238
Other interest expenses	52,078	32,522
	4,632,738	3,515,932
Net interest income	498,434	584,478
Provision for loan losses	177,278	6,992
Net interest income after provision for loan losses	321,156	577,486
Non-interest revenue		
Fees and commissions	1,092,656	821,812
Gain from trading securities	1,669,380	238,199
Gain from available-for-sale securities	649,871	642,876
Gain on disposal of equity method securities	896,478	1,459
Gain from derivative financial instruments	6,834,608	8,446,427
Gain on foreign currency transactions	886,719	717,798
Sales from manufacturing activities	8,354,418	6,005,210
Others (Note 16)	278,545	179,340
	20,662,675	17,053,121
Non-interest expenses		
Fees and commissions	92,055	72,751
Loss from trading securities	1,610,335	185,543
Loss from available-for-sale securities	75,302	116,631
Loss from derivative financial instruments	6,900,879	8,006,937
Loss on foreign currency transactions	652,320	967,690
General and administrative expenses (Note 17)	1,376,073	1,099,360
Cost of sales from manufacturing activities	7,709,200	5,926,397
Others (Note 16)	233,224	189,325
	18,649,388	16,564,634
Operating income	2,334,443	1,065,973
Non-operating income, net	991,751	1,207,186
Income before income taxes	3,326,194	2,273,159
Income tax expense (Note 18)	806,878	(106,752)
Net income	2,519,316	2,379,911
Attributable to:		
Equity holders of the parent	2,048,695	2,120,604
Minority interests	470,621	259,307
	₩ 2,519,316	₩ 2,379,911

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

Consolidated Statement of Changes in Shareholders' Equity

Year Ended December 31, 2007

(In millions of Korean won)

	Capital Stock	Capital Surplus	Capital Adjustments	Accumulated other Comprehensive Income	Retained Earnings	Minority Interest in Consolidated Subsidiaries	Total
January 1, 2007							
(Reported amount)	₩ 8,241,861	₩ -	₩ (171,080)	₩ 2,703,709	₩ 5,713,187	₩ 2,747,147	₩ 19,234,824
Cumulative effect of accounting changes (Note 18)	-	-	-	(5,831)	(385,809)	-	(391,640)
January 1, 2007	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

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

Consolidated Statements of Cash Flows

Years Ended December 31, 2007 and 2006

(In millions of Korean won)

	2007		2006	
Cash flows from operating activities				
Net income	₩	2,048,695	₩	2,120,604
Adjustments to reconcile net income to net cash used in operating activities				
Gain on trading securities, net		(9,898)		(45,357)
Gain on available-for-sale securities, net		(30,274)		(426,573)
Loss (Gain) on held-to-maturity securities, net		1,668		(197)
Gain on equity method securities, net		(1,026,300)		(1,233,402)
Provision for loan losses		177,278		6,992
Depreciation on property and equipment		63,548		70,378
Gain on foreign currency translation, net		(223,643)		(125)
Loss (Gain) from derivative financial instruments		93,799		(439,491)
Others, net		559,700		388,393
		(394,122)		(1,679,382)
Changes in operating assets and liabilities				
Acquisition of trading securities, net		(1,331,794)		(2,435,996)
Acquisition of other investment securities, net		(6,872,532)		(4,616,760)
Acquisition of loans receivable		(8,220,649)		(639,367)
Net increase in derivative financial instruments		(456,752)		(20,854)
Decrease (Increase) in other accounts receivable		(791,975)		189,465
Increase in other accounts payable		93,629		136,481
Increase (Decrease) in prepaid expenses		31,924		(29,429)
Increase in accrued expenses		256,921		97,679
Others, net		4,066,633		(554,613)
		(13,224,595)		(7,873,394)
Net cash used in operating activities		(11,570,022)		(7,432,172)
Cash flows from investing activities				
Acquisition (Disposal) of due from banks, net		(2,345,859)		2,376,297
Acquisition of property and equipment, net		(149,830)		(719,690)
Acquisition of intangible assets, net		(55,064)		(352,937)
Others, net		(949,596)		(433,400)
Net cash provided by (used in) investing activities		(3,500,349)		870,270
Cash flows from financing activities				
Receipt (Repayment) of deposits, net		147,702		(3,237,541)
Receipt of borrowings, net		2,332,121		960,432
Issuance of bonds, net		9,991,487		4,659,924
Others, net		2,782,230		4,134,988
Net cash provided by financing activities		15,253,540		6,517,803
Increase in cash due to change in consolidation scope		-		15,181
Net increase (decrease) in cash and cash equivalents		183,169		(28,918)
Cash and cash equivalents				
Beginning of year		74,957		103,875
End of year	₩	258,126	₩	74,957

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

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

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 40 local branches, 6 overseas branches, 5 overseas subsidiaries and 2 overseas offices as of December 31, 2007. 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, 2007 and 2006, is as follows:

Subsidiaries	Invested amount		Percentage of ownership (%) as of December 31, 2007
	2007	2006	
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	56,719	45,908	85.00
KDB Asset Management Co., Ltd. ¹	47,378	47,378	93.52
KDB Value Private Equity Fund 1	175,900	171,400	66.76
KDB Value Private Equity Fund 2	14,000	11,400	50.00
Korea Aerospace Industries, Ltd.	133,900	133,900	30.21
Samwon Industrial Co., Ltd. ¹	575	575	42.31
DSEC Co., Ltd.	19,153	10,671	95.07
Welliv Corp.	23,617	23,617	100.00
Shinhan Machinery Co., Ltd.	67,389	-	98.22
DSME Construction Co., Ltd. ¹	30,797	30,797	87.99
	₩ 2,167,656	₩ 2,073,874	

¹ 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.

(In thousands)

Subsidiaries	Invested amount		Percentage of ownership (%)	
	2007	2006	as of December 31, 2007	
Overseas				
KDB Asia (HK) Ltd.	US\$ 140,000	US\$ 90,000		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 Brasil S.A.	BRL 67,554	BRL 67,554		100.00
KDB Bank (Uzbekistan) Ltd.	US\$ 8,949	US\$ 6,949		61.11
Metropolitan Industrial Leasing Co., Ltd.	THB 50,000	THB 50,000		49.00
Vietnam International Leasing Co., Ltd.	US\$ 3,854	US\$ 1,886		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\$ 20,000		100.00

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

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

Subsidiaries	Incorporation date	Outstanding capital		Major business
		2007	2006	
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	₩ 70,601	₩ 57,882	Investing and financing for companies operating social infrastructure.
KDB Asia (HK) Ltd.	January 1986	US\$ 140,000	US\$ 90,000	Providing financing services to Korean companies and investing in securities. Also conducting international securities operations.
KDB Ireland 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.

(Continued)

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

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

Subsidiaries	Incorporation date	Outstanding capital		Major business
		2007	2006	
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	₩ 263,500	₩ 256,800	Investing in securities.
Banco KDB 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\$ 4,685	US\$ 1,575	Providing financing services to Korean companies and investing in securities.
KDB Value Private Equity Fund 2	September 2006	₩ 28,000	₩ 22,800	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

Equity-Method Investments

The equity method investments included in the consolidated financial statements as of December 31, 2007, are as follows:

(In millions of Korean won)

Investee	Investor	Invested amount	Percentage of ownership (%) as of Dec. 31, 2007	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
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
Indtek Co., Ltd.	KDB	4,000	21.34	Manufacture of broadcast receivers
Tong Myung Mottrol Co., Ltd.	KDB	3,000	25.61	Manufacture of engines and motors
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
Hanmi Fine Chemical Co., Ltd.	KDB Capital Corporation	1,500	25.00	Manufacture of medicines

Use of the Report of Other Auditors

The audited December 31, 2007 financial statements of Daewoo Shipbuilding & Marine Engineering Co., Ltd., Daewoo Securities Co., Ltd., The KDB Capital Corp., Korea Infrastructure Fund, 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 and Korea Aerospace Industries, Ltd. issued by other auditors were used in the preparation of the December 31, 2007 consolidated financial statements of the Bank.

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 Financial Services Commission of Korea. The Bank has adopted SKFAS No.1 through No. 25, except No. 14, in its financial statements as of and for the year ended December 31, 2007. Significant accounting policies adopted by the Bank for the consolidated financial statements are identical to the accounting policies followed by the Bank for the annual consolidated financial statements for the year ended December 31, 2006, except for SKFAS Nos. 11, 21 through 25, and

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the Korea Accounting Institute opinion on Korean Accounting Statement Implementation 06-2, the Financial Supervisory Service's Accounting Implementation Guide 06-5, which became effective for the Bank on January 1, 2007.

However, the consolidated statement of changes in shareholder's equity is not presented comparatively as allowed under SKFAS No. 21.

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" has changed from 0.7% to 0.85%, while the percentage for construction, wholesale and retail trade, accommodation and food service activities, real estate activities, and renting and leasing industries is 0.9%, in 2007. The allowance for possible loan losses has increased by ₩70,503 million due to the change in minimum provision percentage.

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.

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, 2007, amount to ₩32,421 million (2006: ₩97,269 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

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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 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.

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 (₩938.2: US\$1) 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.

Actual payments of severance benefits of the Bank for the year ended December 31, 2007, totaled ₩11,044 million (2006: ₩5,241 million).

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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

The Bank sets up a provision for possible losses on guarantees outstanding based on a credit risk rating of the companies for which guarantees are provided. The allowance for possible guarantee losses is calculated by applying minimum provision percentage described below and credit conversion ratio. The allowance is 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. The minimum provision percentage to loan classifications of "normal" has changed from 0.7% to 0.85%, while the percentage for construction, wholesale and retail trade, accommodation and food service activities, real estate activities, and renting and leasing industries is 0.9%, in 2007. The allowance for possible guarantee losses as of December 31, 2007, have increased by ₩11,769 million, due to the changes in minimum provision percentages described below.

Additionally, the minimum provision percentages for allowance for loan commitments classified as "normal" have changed from 0.7% to 0.85%, while the percentage for construction, wholesale and retail trade, accommodation and food service activities, real estate activities, and renting and leasing industries is 0.9%, in 2007. The allowance for unused loan commitments as of December 31, 2007, has increased by ₩12,200 million due to the changes in minimum provision percentages described below and is shown in the liability section.

Classifications	Minimum Provision Percentages
Normal	0.85% (0.9%)
Precautionary	7%
Substandard	20%
Doubtful	50%
Expected Loss	100%

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.

3. CASH AND DUE FROM BANKS

Cash and due from banks as of December 31, 2007 and 2006, are as follows:

		(In millions of Korean won)	
	Annual interest rates (%) as of Dec. 31, 2007	2007	2006
Cash on hand in local currency	-	₩ 193,007	₩ 67,485
Cash on hand in foreign currencies	-	65,119	7,472
Due from banks in local currency	0.00 ~ 6.50	5,343,160	3,233,742
Due from banks in foreign currencies	0.00 ~ 11.19	886,486	650,045
		₩ 6,487,772	₩ 3,958,744

Due from banks in local currency as of December 31, 2007 and 2006, are as follows:

		(In millions of Korean won)	
Bank	Annual interest rates (%) as of Dec. 31, 2007	2007	2006
The Bank of Korea	-	₩ 694,695	₩ 211,135
Others	0.00 ~ 6.50	4,648,465	3,022,607
		₩ 5,343,160	₩ 3,233,742

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Due from banks in foreign currencies as of December 31, 2007 and 2006, are as follows:

(In millions of Korean won)				
Bank	Annual interest rates (%) as of Dec. 31, 2007	2007		2006
The Bank of Korea	-	₩	25,811	₩ 31,191
Shinhan Bank	1.53 ~ 5.83		68,213	89,781
Hana Bank	1.53 ~ 5.83		29,084	15,133
Korea Exchange Bank	1.53 ~ 5.83		46,813	44,196
Woori Bank	1.53 ~ 5.83		34,770	57,268
Others	0.00 ~ 11.19		681,795	412,476
		₩	886,486	₩ 650,045

Restricted deposits included in due from banks as of December 31, 2007, are as follows:

(In millions of Korean won)	
Reserve deposits with the Bank of Korea	₩ 720,506
Kookmin Bank	125,834
Shinhan Bank	3,880
Industrial & Commercial Bank of China (ICBC) - Shanghai, China	24,685
Others	1,148,448
	₩ 2,023,353

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, 2007, 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, 2008	₩ 2,924,706	₩ 297,450	₩	3,222,156
June 30, 2008	842,482	119,748		962,230
Dec. 31, 2008	878,618	162,011		1,040,629
Dec. 31, 2009	-	65,059		65,059
Dec. 31, 2010	-	65,710		65,710
Dec. 31, 2011	-	28,146		28,146
Dec. 31, 2012	-	46,910		46,910
Thereafter	697,354	101,452		798,806
	₩ 5,343,160	₩ 886,486	₩	6,229,646

4. SECURITIES

Trading securities as of December 31, 2007 and 2006, are as follows:

(In millions of Korean won)

	The Bank		Subsidiaries		Total	
	2007	2006	2007	2006	2007	2006
Equity investments	₩ 33,997	₩ 83,670	₩ 273,320	₩ 369,003	₩ 307,317	₩ 452,673
Government and public bonds	157,075	407,586	1,152,500	2,683,240	1,309,575	3,090,826
Corporate bonds	264,694	155,195	4,221,712	1,263,788	4,486,406	1,418,983
Beneficiary certificates	-	-	118,412	92,990	118,412	92,990
Securities in foreign currencies	349,914	862,491	64,252	45,050	414,166	907,541
Others	176,829	53,470	2,389,021	1,843,551	2,565,850	1,897,021
	₩ 982,509	₩ 1,562,412	₩ 8,219,217	₩ 6,297,622	₩ 9,201,726	₩ 7,860,034

Par value, acquisition cost and fair value of trading debt securities as of December 31, 2007 and 2006, are as follows:

(In millions of Korean won)

	Par value		Acquisition cost		Fair value	
	2007	2006	2007	2006	2007	2006
Government and public bonds	₩ 1,378,151	₩ 3,166,970	₩ 1,321,294	₩ 3,051,928	₩ 1,309,575	₩ 3,090,826
Corporate bonds	4,568,060	1,419,068	4,516,961	1,405,644	4,486,406	1,418,983
Securities in foreign currencies	467,550	884,036	415,623	903,836	414,166	907,541
	₩ 6,413,761	₩ 5,470,074	₩ 6,253,878	₩ 5,361,408	₩ 6,210,147	₩ 5,417,350

Trading securities in foreign currencies as of December 31, 2007 and 2006, are as follows:

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

Foreign currencies				Equivalent in Korean won	
2007	2006	2007	2006		
US\$ 150,266	US\$ 345,940	₩ 140,983	₩ 321,791		
EUR 19,642	EUR 286,778	27,131	350,511		
JPY 30,200	JPY 235,400	252	1,840		
HUF 502,900	HUF 2,208,047	2,736	10,709		
GBP 129,611	GBP 122,082	242,904	222,690		
HKD 1,331		160	-		
		₩ 414,166	₩ 907,541		

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Available-for-sale securities as of December 31, 2007 and 2006, are as follows:

(In millions of Korean won)

	The Bank		Subsidiaries		Total	
	2007	2006	2007	2006	2007	2006
Equity investments	₩13,448,663	₩11,618,980	₩1,267,870	₩1,010,747	₩14,716,533	₩12,629,727
Government and public bonds	911,749	927,790	181,522	46,357	1,093,271	974,147
Corporate bonds	17,972,481	13,468,724	607,812	337,902	18,580,293	13,806,626
Beneficiary certificates	340,338	393,963	167,134	48,932	507,472	442,895
Other securities in local currency	-	-	61,023	252	61,023	252
Other securities in foreign currencies	4,172,463	3,680,885	457,767	448,734	4,630,230	4,129,619
	₩ 36,845,694	₩ 30,090,342	₩ 2,743,128	₩ 1,892,924	₩ 39,588,822	₩ 31,983,266

Available-for-sale equity securities not accounted for under the equity method as of December 31, 2007, are as follows:

(In millions of Korean won, shares in thousands)

	Number of shares	Percentage of ownership (%) as of Dec. 31, 2007	Acquisition cost	Book value	Fair value or net book value
Korea Highway Corporation	143,010	7.82	₩ 1,430,100	₩ 1,430,184	₩ 1,560,572
Hynix Semiconductor Inc.	32,413	7.06	287,021	802,058	841,116
Hyundai Engineering & Construction Co., Ltd.	16,290	14.69	311,384	1,137,285	1,436,735
Industrial Bank of Korea - preferred stock	46,915	-	326,906	743,138	743,138
SK Networks - common stock	28,948	12.08	150,207	600,907	649,888
Doosan Heavy Industries & Construction Co., Ltd.	13,129	12.60	222,616	1,654,314	1,654,314
GM Daewoo Auto & Technology Company - preferred stock	108	-	261,375	439,637	439,637
Industrial Bank of Korea - common stock	10,490	2.60	73,094	184,624	184,624
Daewoo International Corp.	5,047	5.31	25,237	176,730	199,877
Samsung Life Insurance Co., Ltd.	378	1.89	264,496	132,248	174,956
SK Networks - preferred stock	733	-	35,407	59,979	13,452
Ssangyong Cement Industry Co., Ltd.	11,091	13.81	186,434	139,257	179,672
Others			10,858,161	7,249,012	6,182,670
			₩ 14,432,438	₩ 14,749,373	₩ 14,260,651

Available-for-sale debt securities as of December 31, 2007 and 2006, are as follows:

	(In millions of Korean won)					
	Par value		Acquisition cost		Book value	
	2007	2006	2007	2006	2007	2006
Government and public bonds	₩ 1,144,682	₩ 997,357	₩ 1,152,284	₩ 1,011,878	₩ 1,093,271	₩ 974,147
Corporate bonds	19,235,058	14,009,136	19,085,683	13,963,646	18,580,293	13,806,626
Beneficiary certificates	449,382	434,441	468,553	437,135	507,472	442,895
Investment securities in local currency	61,023	252	61,023	252	61,023	252
Investment securities in foreign currencies	4,697,341	4,076,298	4,703,320	4,095,764	4,597,390	4,106,263
	₩25,587,486	₩ 19,517,484	₩25,470,863	₩19,508,675	₩24,839,449	₩ 19,330,183

Held-to-maturity debt securities as of December 31, 2007 and 2006, are as follows:

	(In millions of Korean won)					
	Par value		Acquisition cost		Carrying value	
	2007	2006	2007	2006	2007	2006
Government and public bonds	₩2,667,576	₩1,250,376	₩2,629,554	₩1,241,497	₩2,665,286	₩1,412,654
Corporate bonds	56,798	48,374	58,368	48,374	58,368	50,413
Investment debt securities in local currency	783	809	773	803	778	850
Investment debt securities in foreign currencies	51,026	31,199	50,433	29,768	50,463	29,781
	₩2,776,183	₩1,330,758	₩2,739,128	₩1,320,442	₩2,774,895	₩1,493,698

Securities accounted for under the equity method as of December 31, 2007 and 2006, are as follows:

Investee	Number of shares	Percentage of ownership (%) as of Dec. 31, 2007	(In millions of Korean won, shares in thousands)					
			Acquisition cost		Book value		Fair value or net book value	
			2007	2006	2007	2006	2007	2006
Korea Electric Power Corporation	192,160	29.95	₩4,491,411	₩4,491,411	₩ 9,403,531	₩ 8,825,769	₩13,187,909	₩12,867,620
LG Card Co., Ltd.	-	-	-	421,331	-	961,904	-	692,519
GM Daewoo Auto & Technology Company	70,706	27.97	213,206	213,206	364,980	343,662	364,980	343,662
STX Pan Ocean Co., Ltd.	319,998	15.54	31,907	31,907	275,916	146,418	282,338	153,398
Korea Tourism Organization	2,824	43.58	35,529	35,529	170,874	146,509	170,874	146,509
Korea Asset Management Corporation	14,000	26.92	70,000	70,000	103,870	97,311	103,870	97,311
Tong Myung Mottrol Co., Ltd.	600	25.61	3,000	3,000	16,890	13,645	17,409	14,251
Others			785,502	370,011	540,802	387,903	962,904	388,947
			₩5,630,555	₩5,636,395	₩10,876,863	₩ 10,923,121	₩15,090,284	₩14,704,217

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Valuation on the securities accounted for under the equity method for the year ended December 31, 2007, 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	₩ 8,825,769	₩ -	₩ 192,160	₩ 730,113	₩ -	₩ 39,809	₩ 9,403,531
GM Daewoo Auto & Technology Company	343,662	-	-	151,757	2,506	(132,945)	364,980
STX Pan Ocean Co., Ltd.	146,418	61,885	6,910	73,515	-	1,008	275,916
Korea Tourism Organization	146,509	-	2,135	26,500	-	-	170,874
Korea Asset Management Corporation	97,311	-	2,100	14,801	-	(6,142)	103,870
Tong Myung Mottrol Co., Ltd.	13,645	-	450	3,695	-	-	16,890
Others	1,349,807	(735,808)	5,091	25,919	37	(94,062)	540,802
	₩10,923,121	₩(673,923)	₩208,846	₩1,026,300	₩ 2,543	₩(192,332)	₩10,876,863

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.

Investees in which the Bank holds more than 15% of voting shares but are not valued using the equity method as of December 31, 2007, are as follows:

(In millions of Korean won, shares in thousands)					
Investee	Number of shares	Percentage of ownership (%) as of Dec. 31, 2007	Acquisition cost	Book value	Fair value or net book value
Korea Land Corp. ¹	-	26.66	₩ 1,161,903	₩ 1,191,329	₩ 1,458,374
Donghae Pulp Co., Ltd.	12,900	62.37	39,652	132,225	132,225
Hyundai Corporation	5,032	22.53	59,113	93,852	93,852
Others			300,095	255,960	66,588
			₩ 1,560,763	₩ 1,673,366	₩ 1,751,039

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, 2007 and 2006, are as follows:

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

Foreign currencies				Equivalent in Korean won			
2007		2006		2007		2006	
Available-for-sale debt securities							
US\$	3,080,946	US\$	3,605,966	₩	2,890,542	₩	3,352,106
JPY	66,757,483	JPY	22,975,199		556,310		179,627
GBP	372,715	GBP	30,538		698,504		55,704
EUR	292,083	EUR	381,220		403,443		465,943
CNY	-	CNY	60,124		-		7,153
HUF	8,932,101	HUF	9,428,861		48,591		45,730
				₩	4,597,390	₩	4,106,263
Held-to-maturity debt securities							
US\$	7,992	US\$	12,980	₩	7,498	₩	12,066
HUF	7,897,926	HUF	3,652,613		42,965		17,715
				₩	50,463	₩	29,781

As of December 31, 2007, investment securities amounting to ₩11,814,012 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, 2007.

5. LOANS RECEIVABLE

Loans receivable as of December 31, 2007 and 2006, are as follows:

(In millions of Korean won)

	2007	2006
Loans receivable in local currency	₩ 26,950,698	₩ 20,091,972
Loans receivable in foreign currencies	15,501,676	12,468,559
Notes purchased	4,205	2,305
Bills purchased	1,687,598	1,578,206
Advances for customers	138,406	172,008
Bonds purchased under repurchase agreements	302,516	132,000
Others	17,158,877	18,839,740
	61,743,976	53,284,790
Less: Allowance for possible loan losses	(1,054,718)	(880,244)
	₩ 60,689,258	₩ 52,404,546

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Loans receivable in local and foreign currencies as of December 31, 2007 and 2006, are as follows:

(In millions of Korean won)

	The Bank		Subsidiaries		Total	
	2007	2006	2007	2006	2007	2006
Loans receivable in local currency						
Loans for working capital	₩ 9,895,271	₩ 7,311,224	₩ 1,188,489	₩ 787,500	₩ 11,083,760	₩ 8,098,724
Loans for facilities	14,669,316	11,136,849	1,385,996	973,264	16,055,312	12,110,113
Inter-company loans	(188,374)	(116,865)	-	-	(188,374)	(116,865)
	₩ 24,376,213	₩ 18,331,208	₩ 2,574,485	₩ 1,760,764	₩ 26,950,698	₩ 20,091,972
Loans receivable in foreign currencies						
Loans for working capital	₩ 2,756,935	₩ 2,548,089	₩ 641,602	₩ 305,958	₩ 3,398,537	₩ 2,854,047
Loans for facilities	12,037,830	9,688,218	326,856	182,727	12,364,686	9,870,945
Inter-company loans	(261,547)	(256,433)	-	-	(261,547)	(256,433)
	₩ 14,533,218	₩ 11,979,874	₩ 968,458	₩ 488,685	₩ 15,501,676	₩ 12,468,559

The maturity of loans receivable in local and foreign currencies as of December 31, 2007, 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 in foreign currencies	Loans for facilities in foreign currencies	Total
March 31, 2008	₩ 1,685,154	₩ 598,772	₩ 453,661	₩ 445,130	₩ 3,182,717
June 30, 2008	3,017,786	880,533	566,533	382,465	4,847,317
Dec. 31, 2008	3,307,628	1,000,123	792,634	1,105,205	6,205,590
Dec. 31, 2009	1,269,535	2,762,018	645,426	1,815,215	6,492,194
Dec. 31, 2010	917,577	3,449,777	271,039	2,204,646	6,843,039
Dec. 31, 2011	122,460	2,272,250	84,604	1,483,550	3,962,864
Dec. 31, 2012	199,430	1,804,205	255,775	2,319,254	4,578,664
Thereafter	564,190	3,287,634	328,865	2,609,221	6,789,910
	₩ 11,083,760	₩ 16,055,312	₩ 3,398,537	₩ 12,364,686	42,902,295
Inter-company loans receivable					(449,921)
					₩ 42,452,374

The Bank's restructured loans receivable as of December 31, 2007 and 2006, due to court receivership, court mediation or other financial restructuring processes are as follows:

(In millions of Korean won)

	2007	2006
Conversion to equity investment	₩ 21,260	₩ 29,547

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.

6. PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2007 and 2006, are as follows:

(In millions of Korean won)						
	Acquisition cost or revaluation amount		Accumulated depreciation		Net book value	
	2007	2006	2007	2006	2007	2006
Land	₩1,166,857	₩1,160,344	₩ -	₩ -	₩1,166,857	₩1,160,344
Buildings	1,274,931	1,341,518	303,518	271,331	971,413	1,070,187
Structures	667,545	622,592	151,318	131,642	516,227	490,950
Machinery	804,926	720,219	482,036	425,504	322,890	294,715
Vehicles	122,353	114,422	90,299	79,557	32,054	34,865
Ships	136,606	117,053	36,453	27,400	100,153	89,653
Construction-in-progress	326,899	230,181	1,084	424	325,815	229,757
Other property and equipment	662,035	594,929	463,634	417,754	198,401	177,175
	₩5,162,152	₩4,901,258	₩1,528,342	₩1,353,612	₩3,633,810	₩3,547,646

The government-valued price of the Bank and its subsidiaries' land as of December 31, 2007, is ₩1,205,656 million (2006: ₩1,054,174 million).

As of December 31, 2007, property and equipment, and other assets are insured against fire and other casualty losses for up to approximately ₩3,746,242 million (2006: ₩2,431,293 million).

7. OTHER ASSETS

Other assets as of December 31, 2007 and 2006, are as follows:

(In millions of Korean won)		
	2007	2006
Other accounts receivable	₩ 2,297,197	₩ 1,505,223
Accrued income	669,976	609,105
Deferred income tax assets	15,342	174,433
Inventory	1,530,098	859,228
Others	2,458,097	1,545,246
	6,970,710	4,693,235
Loss: Allowance for possible losses	(86,765)	(97,615)
	₩ 6,883,945	₩ 4,595,620

Notes to Consolidated Financial Statements

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8. DEPOSITS

Deposits as of December 31, 2007 and 2006, are as follows:

		(In millions of Korean won)	
	Annual interest rates [%] as of Dec. 31, 2007	2007	2006
Demand deposits			
Local currency deposits	0.00 ~ 2.25	₩ 1,673,754	₩ 1,244,366
Checking deposits	-	24,397	7,869
Passbook deposits	2.00 ~ 3.31	254,080	230,674
Temporary deposits	-	369	18,375
Others	0.05 ~ 1.78	7,074	7,806
		1,959,674	1,509,090
Time deposits			
Local currency savings deposits	0.00 ~ 11.29	5,970,091	6,809,392
Foreign currencies time deposits	2.32 ~ 6.68	633,464	368,517
		6,603,555	7,177,909
Negotiable certificates of deposits	5.02	3,479,169	3,207,697
		₩ 12,042,398	₩ 11,894,696

9. BORROWINGS

Borrowings as of December 31, 2007 and 2006, are as follows:

		(In millions of Korean won)	
	Annual interest rates [%] as of Dec. 31, 2007	2007	2006
Borrowings in local currency			
Borrowings from the Korean government	3.17 ~ 4.51	₩ 2,166,921	₩ 2,157,108
Others	0.50 ~ 10.00	4,268,768	4,015,478
		6,435,689	6,172,586
Borrowings in foreign currencies			
Borrowings from the Korean government	5.35 ~ 6.34	3,719,875	3,638,019
Off shore borrowings	5.55 ~ 6.10	891,290	852,776
Others	3.95 ~ 7.50	8,774,708	6,844,040
		13,385,873	11,334,835
Other borrowings			
Bonds sold under repurchase agreements	4.97 ~ 5.40	11,927,105	8,941,018
Notes sold	3.80	102	1,052
Call money	4.80 ~ 5.19	2,387,577	2,496,926
Others	-	17,980	-
		14,332,764	11,438,996
		₩ 34,154,326	₩ 28,946,417

The subordinated debts included in borrowings from the Korean government as of December 31, 2007 and 2006, are as follows:

(In millions of Korean won)				
Type	Annual average interest rates (%) as of Dec. 31, 2007	2007	2006	Condition of Borrowings
Government fund	4.51	₩ 1,099,028	₩ 1,197,985	Installment reimbursement
Agency for International Development re-lending facilities	1.99	-	34	"
International Bank for Reconstruction and Development re-lending facilities	6.05	1,940,985	2,295,039	"
		₩ 3,040,013	₩ 3,493,058	

The maturities of borrowings in local and foreign currencies as of December 31, 2007, are as follows:

(In millions of Korean won)				
Maturing on or before	Borrowings in local currency	Borrowings in foreign currencies	Total	
March 31, 2008	₩ 984,203	₩ 3,922,951	₩	4,907,154
June 30, 2008	438,127	2,251,457		2,689,584
Dec. 31, 2008	681,090	3,043,073		3,724,163
Dec. 31, 2009	848,810	1,221,858		2,070,668
Dec. 31, 2010	662,464	1,284,229		1,946,693
Dec. 31, 2011	632,211	873,352		1,505,563
Dec. 31, 2012	557,099	572,414		1,129,513
Thereafter	1,631,685	216,539		1,848,224
	₩ 6,435,689	₩ 13,385,873	₩	19,821,562

10. DEBENTURES

Debentures as of December 31, 2007 and 2006, are as follows:

(In millions of Korean won)				
	Annual interest rates (%) as of Dec. 31, 2007	2007	2006	
Industrial finance bonds ("IFB") in local currency	3.09 ~ 10.57	₩ 41,362,528	₩ 35,170,716	
IFB in foreign currencies	4.73 ~ 9.98	11,779,307	9,883,094	
Offshore IFB in foreign currencies	4.73 ~ 11.54	3,093,965	1,824,873	
Others	4.50 ~ 6.72	1,510,700	841,000	
		57,746,500	47,719,683	
Add: Premiums on IFB		8,915	17,721	
Less: Discounts on IFB		(47,332)	(40,504)	
		₩ 57,708,083	₩ 47,696,900	

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Under the Korea Development Bank Act, the Bank has authority to issue Industrial Finance Bonds (IFBs). The amount of the Bank's issued bonds and guarantees outstanding 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, 2007 and 2006.

The Bank redeemed its IFBs during the year ended December 31, 2007, whose book value amounted to ₩43,004 million (2006: ₩695 million). The treasury bonds are deducted from Industrial Finance Bonds.

The maturities of debentures as of December 31, 2007, are as follows:

(In millions of Korean won)				
Maturing on or before	Industrial finance bonds		Industrial finance bonds	
	in local currency		in foreign currencies	
				Total
March 31, 2008	₩	4,733,299	₩	260,822 ₩ 4,994,121
June 30, 2008		4,125,398		756,575 4,881,973
Dec. 31, 2008		6,310,225		2,351,794 8,662,019
Dec. 31, 2009		12,902,528		3,536,209 16,438,737
Dec. 31, 2010		10,916,447		2,726,106 13,642,553
Dec. 31, 2011		407,109		1,618,271 2,025,380
Dec. 31, 2012		948,016		2,162,455 3,110,471
Thereafter		2,530,206		1,461,040 3,991,246
	₩	42,873,228	₩	14,873,272 ₩ 57,746,500

11. OTHER LIABILITIES

Other liabilities as of December 31, 2007 and 2006, are as follows:

(In millions of Korean won)		
	2007	2006
Advances received	₩ 5,525,500	₩ 3,484,634
Borrowings from trust accounts	486,108	474,070
Deferred income tax liabilities	2,010,836	995,506
Deposits received	182,606	135,726
Others	4,844,623	3,546,950
	₩ 13,049,673	₩ 8,636,886

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, 2007 and 2006, are as follows:

(In millions of Korean won)

	Guarantees		Allowance for possible losses	
	2007	2006	2007	2006
Settled guarantees and commitments	₩ 12,029,665	₩ 8,680,114	₩ 56,180	₩ 37,450
Unsettled guarantees and commitments	11,195,150	7,539,111	19,761	12,936
Endorsed notes	298	3,666	3	26
	₩ 23,225,113	₩ 16,222,891	₩ 75,944	₩ 50,412

Unused loan commitments and the related allowances for possible losses of the Bank as of December 31, 2007 and 2006, are as follows:

(In millions of Korean won)

	Unused loan commitment		Allowance for possible losses	
	2007	2006	2007	2006
Loans receivable	₩ 2,696,690	₩ 2,759,885	₩ 11,585	₩ 10,321
Guarantees and acceptances	12,112,458	10,257,257	44,064	30,295
Loan commitment	4,300,041	5,474,143	15,910	16,090
	₩ 19,109,189	₩ 18,491,285	₩ 71,559	₩ 56,706

The unsettled commitments provided by the Bank as of December 31, 2007 and 2006, are as follows:

(In millions of Korean won)

	2007	2006
Commitments		
For loans in local currency	₩ 3,670,126	₩ 5,050,526
For loans in foreign currencies	629,915	423,617
	4,300,041	5,474,143
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\$2,971 million, JPY1,275 million, EUR38 million, CNY32 million and HKD32 million (equivalent to ₩2,858,476 million) and ₩909,930 million, of which US\$1,139 million, JPY392 million, and CNY27 million (equivalent to ₩1,075,308 million) and ₩83,092 million have not been withdrawn by borrowers as of December 31, 2007.

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Loans sold to KDB First Securitization Specialty Co., Ltd. and others in accordance with the Asset Securitization Plan as of December 31, 2007, 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	₩ 201,800	₩ 120,000
KDB Second SPC	November 8, 2000	914,764	423,600	143,600	80,000
KDB Third SPC	September 20, 2001	1,793,546	949,900	349,900	186,000
KDB Fifth SPC	December 13, 2001	765,358	528,400	238,400	100,000
		₩ 4,424,295	₩ 2,501,900	₩ 933,700	₩ 486,000

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 ₩4,300,041 million, of which ₩7,257 million was withdrawn as of December 31, 2007.

As of December 31, 2007, the Bank still has the valid legal right to seek indemnity for ₩1,535,054 million as part of the loans receivable written off.

The Bank has outstanding loans receivable amounting to ₩596,378 million, and securities amounting to ₩336,028 million as of December 31, 2007, from companies under workout, court receivership, court mediation or other restructuring process. The Bank recorded ₩148,384 million as allowances for possible loan losses, and ₩2,363 million for present value discount with regard to these loans receivable. Actual losses from these loans may differ from the allowances recorded.

As of December 31, 2007, the Bank faces 17 legal cases involving an aggregate amount of ₩10,595 million, and has filed eight lawsuits, with an aggregate amount of ₩514,932 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.

The unsettled contract amounts of the Bank's derivatives and the related valuation gain(loss) as of and for the year ended December 31, 2007, 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	4,956,874	-	4,956,874	-	-	-	-
Swap	116,672,092	5,447,545	122,119,637	(257,721)	(18,052)	(275,773)	(370,950)
Option							
Buy	552,022	1,170,000	1,722,022	526	606	1,132	28,922
Sell	512,023	1,425,418	1,937,441	175	(1,263)	(1,088)	(28,996)
	122,693,011	8,042,963	130,735,974	(257,020)	(18,709)	(275,729)	(371,024)
Currency							
Forward	56,464,775	-	56,464,775	175,426	-	175,426	(4,773)
Futures	3,324,136	-	3,324,136	-	-	-	-
Swap	38,351,647	5,011,966	43,363,613	40,095	358,899	398,994	757,298
Option							
Buy	8,354,813	-	8,354,813	66,495	-	66,495	111,246
Sell	10,160,123	-	10,160,123	(36,284)	-	(36,284)	(123,527)
	116,655,494	5,011,966	121,667,460	245,732	358,899	604,631	740,244
Stock price index							
Futures	44,640	-	44,640	-	-	-	-
Option							
Buy	398,392	-	398,392	721	-	721	34,180
Sell	439,067	-	439,067	(1,735)	-	(1,735)	(37,288)
	882,099	-	882,099	(1,014)	-	(1,014)	(3,108)
Commodity							
Forward	649,197	-	649,197	6,843	-	6,843	6,843
Swap	269,062	-	269,062	3,212	-	3,212	3,266
Futures	25,765	-	25,765	-	-	-	-
Option							
Buy	154,887	-	154,887	32	-	32	2,942
Sell	154,887	-	154,887	32	-	32	(2,942)
	1,253,798	-	1,253,798	10,119	-	10,119	10,109
	₩ 241,484,402	₩ 13,054,929	₩ 254,539,331	₩ (2,183)	₩ 340,190	₩ 338,007	₩ 376,221

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

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, 2007. The total paid-in capital of the Bank outstanding as of December 31, 2007, is ₩8,241,861 million.

On April 30, 2004, the Korean government increased the Bank's capitalization by ₩1,000 billion by additionally contributing KEPCO shares of ₩695 billion and subscription certificates of Korea Water Resources Corporation amounting to ₩305 billion.

Capital Adjustments

Capital adjustments as of December 31, 2007 and 2006, are as follows:

	(In millions of Korean won)	
	2007	2006
Treasury stock	₩ (62,996)	₩ (62,970)
Discounts on stock	(100,600)	(108,133)
Others	174	23
	₩ (163,422)	₩ (171,080)

Accumulated Other Comprehensive Income

Accumulated other comprehensive income as of December 31, 2007 and 2006, consists of:

	(In millions of Korean won)	
	2007	2006
Gain on valuation of available-for-sales securities	₩ 3,679,146	₩ 2,707,371
Loss on valuation of securities under the equity method	(192,332)	(137,573)
Overseas operations translation debit	(43,308)	(46,643)
Gain on valuation of derivatives instruments for cash flow hedge	810	180,554
Others	904	-
	₩ 3,445,220	₩ 2,703,709

Retained Earnings

Retained earnings as of December 31, 2007 and 2006, consist of:

	(In millions of Korean won)	
	2007	2006
Legal reserve	₩ 5,956,300	₩ 4,101,730
Retained earnings before appropriations	1,114,218	1,611,457
	₩ 7,070,518	₩ 5,713,187

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.

16. OTHER NON-INTEREST REVENUES AND EXPENSES

Other non-interest revenues and expenses for the years ended December 31, 2007 and 2006, are as follows:

(In millions of Korean won)			
	2007		2006
Other non-interest revenue			
Fees on trust accounts	₩	25,453	₩ 21,944
Others		253,092	157,396
	₩	278,545	₩ 179,340
Other non-interest expenses			
Contribution to funds	₩	66,088	₩ 48,105
Provision for losses from guarantees and acceptances		25,623	25,752
Others		141,513	115,468
	₩	233,224	₩ 189,325

17. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the years ended December 31, 2007 and 2006, are as follows:

(In millions of Korean won)			
	2007		2006
Salaries	₩	484,154	₩ 410,672
Retirement allowance		63,469	51,281
Welfare expenses		95,850	147,732
Rent		39,590	37,921
Depreciation		63,548	70,378
Taxes and dues		49,587	42,445
Advertising expenses		41,770	23,424
Commission		75,237	60,134
Others		462,868	255,373
	₩	1,376,073	₩ 1,099,360

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

18. INCOME TAXES

The statutory income tax rate applicable to the Bank including resident tax surcharges, is 27.5%.

Income tax expense of the Bank and its subsidiaries for the years ended December 31, 2007 and 2006, consist of:

	(In millions of Korean won)	
	2007	2006
Income tax of the Bank		
Income tax payable	₩ 9,628	₩ 5,176
Changes in deferred income taxes due to temporary differences	14,327	133,350
Changes in deferred income taxes due to tax loss	248,059	(304,319)
Income tax expense accounted for as capital adjustment	286,623	29,553
	558,637	(136,240)
Income tax expense of subsidiaries	248,241	29,488
	₩ 806,878	₩ (106,752)

Deferred tax effect amounting to ₩280,429 million was not recognized because the sale of the securities under equity method or declaration of dividends are deemed to have no future benefits.

Deferred tax effect amounting to ₩171,881 million due to impairment loss on investment securities is not recognized as temporary differences are deemed to have no future benefits.

In 2007, the Bank applied newly revised Korea Accounting Institute Opinion 06-2, *Deferred Income Taxes on Investments in Subsidiaries, Associates and Interests in Joint Ventures*, amended by the Korea Accounting Standards Board on February 22, 2008. Accordingly, the Company has changed its accounting method related to the recognition of deferred income tax related to investment assets in investee companies. However, the prior year financial statements, presented herein for comparative purposes, have not been restated to reflect this change in accordance with the revised Korea Accounting Institute Opinion 06-2, and the Bank reflected the cumulative effect of the change of the accounting method on the beginning balances of the current year's financial statements balances. As a result of the change, beginning balance of deferred income tax liabilities increased by ₩391,640 million, retained earnings decreased by ₩385,809 million, gain on valuation of equity method investments decreased by ₩7,160 million, and gain on valuation of negative-equity method investments decreased by ₩1,329 million as compared to the amount computed under the previous method.

19. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

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

	Foreign currency ¹		Equivalent in Korean won	
Assets				
Cash	US\$	69,408	₩	65,119
Due from banks		944,879		886,486
Trading securities		441,447		414,166
Investment securities (available-for-sale)		4,935,228		4,630,230
Investment securities (held-to-maturity)		53,787		50,463
Bills purchased		1,798,761		1,687,598
Call loans		926,911		869,627
Loans receivable		16,522,784		15,501,676
Domestic import usance bills		2,161,868		2,028,265
Receivables		6,378		5,984
Other assets		8,264,464		7,753,720
	US\$	36,125,915	₩	33,893,334
Liabilities				
Deposits	US\$	964,939	₩	905,306
Borrowings		14,267,611		13,385,873
Bonds sold under repurchase agreements		1,918,864		1,800,278
Call money		532,698		499,777
Bonds in foreign currencies		12,546,643		11,771,261
Offshore IFB in foreign currencies		3,297,622		3,093,829
Others		2,775,267		2,603,755
	US\$	36,303,644	₩	34,060,079

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, 2007.

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

20. INTERCOMPANY TRANSACTIONS

Significant transactions made in the ordinary course of business for the years ended December 31, 2007 and 2006, between the Bank and its subsidiaries, and the related account balances as of December 31, 2007 and 2006, which have been eliminated in the accompanying consolidated financial statements, are summarized as follows:

(In millions of Korean won)

	2007	2006
Inter-company deposits / due from banks	₩ 1,319,320	₩ 831,293
Inter-company borrowings from trust accounts / loans receivable	209,401	164,940
Inter-company borrowings / loans receivable	449,921	373,298
Inter-company debentures / securities	627,284	793,947
Inter-company interest income / expense	72,821	103,718
Others	16,469	18,981

21. INDUSTRY SEGMENT REPORTING

The assets and liabilities summarized by industry segment as of December 31, 2007 and 2006, are as follows:

(In millions of Korean won)

	Finance		Non-finance ¹	
	2007	2006	2007	2006
Assets				
Cash and due from banks	₩ 4,422,619	₩ 3,266,044	₩ 2,697,453	₩ 1,070,867
Securities	62,896,732	52,804,726	256,258	116,028
Loans receivable, net	61,059,021	52,619,128	-	-
Property and equipment, net	884,882	895,051	2,748,928	2,860,827
Others	8,678,756	6,147,544	4,997,535	3,723,494
	₩ 137,942,010	₩ 115,732,493	₩ 10,700,174	₩ 7,771,216
Liabilities				
Deposits	₩ 12,239,698	₩ 12,272,862	₩ -	₩ -
Borrowings and debentures	91,936,358	76,127,298	752,802	754,819
Others	13,675,255	9,603,854	7,780,593	4,960,536
	₩ 117,851,311	₩ 98,004,014	₩ 8,533,395	₩ 5,715,355

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, 2007 and 2006, are as follows:

(In millions of Korean won)					
	Finance		Non-finance ¹		
	2007	2006	2007	2006	
Interest income	₩ 5,005,819	₩ 4,073,994	₩ 129,070	₩ 66,359	
Interest expense	4,592,083	3,521,380	45,113	34,494	
Net interest income after provision	413,736	552,614	83,957	31,865	
Non-interest revenue	12,102,105	10,745,207	8,633,094	6,360,635	
Non-interest expenses	10,605,946	10,286,800	8,300,669	6,345,379	
Operating income	1,909,895	1,011,021	416,382	47,121	
Non-operating income, net	1,115,629	1,179,785	(12,316)	59,385	
Income before income taxes	3,025,524	2,190,806	404,066	106,506	
Income tax expense	684,508	(131,386)	122,370	24,634	
Net income	₩ 2,341,016	₩ 2,322,192	₩ 281,696	₩ 81,872	

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

22. RESTATEMENT OF PRIOR YEAR FINANCIAL STATEMENTS

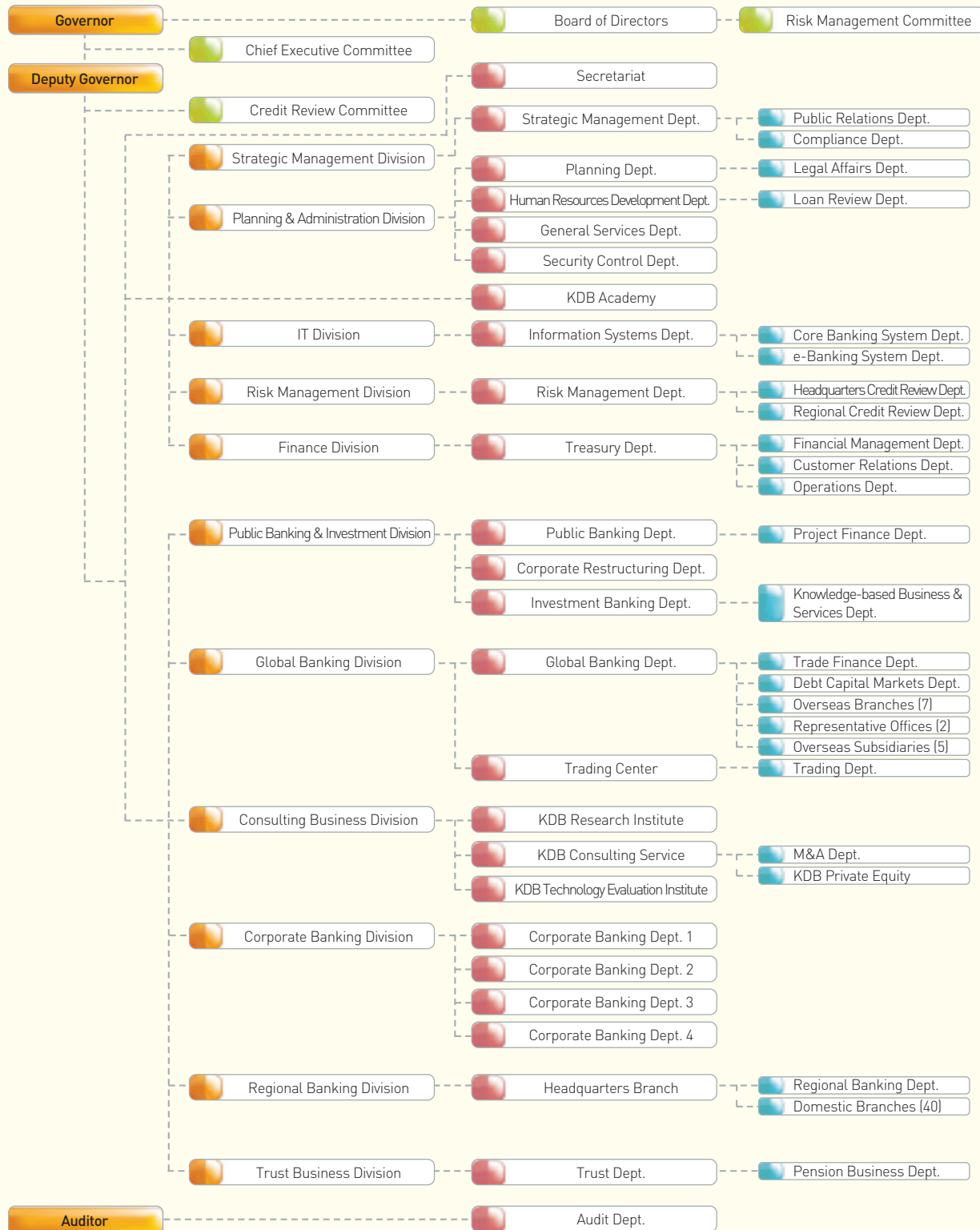
The Bank adopted early the Financial Supervisory Service's Accounting Implementation Guide 06-5 and changed its accounting method for valuation of non-listed equity securities to comply with the new requirement.

As the Bank was not able to reasonably determine the cumulative effect of accounting changes due to the Financial Supervisory Service's Accounting Implementation Guide 06-5, the effect of changes in accounting method is reflected in the current and future periods.

23. RECLASSIFICATION OF PRIOR YEAR FINANCIAL STATEMENTS

Certain amounts in the consolidated financial statements as of and for the year ended December 31, 2006, have been reclassified to conform to the new requirements of Statement of Korean Financial Accounting Standards No. 24. These reclassifications have no effect on previously reported net income or shareholders' equity.

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