Annual Report 2005

Raising the Bar

kdb

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Profile

Korea Development Bank was founded in 1954 under *The Korea Development Bank* Act to help promote Korea's industrial development and economic growth. For over 50 years, KDB has contributed to the growth and competitiveness of Korea's strategic industries through timely and efficient supply of capital. With unique expertise in corporate restructuring accumulated throughout the years, KDB has also guided the business turnaround and revitalization of a large number of underperforming companies across a wide range of industries.

With an extensive business network of 39 domestic branches, three domestic subsidiaries, six overseas branches, five overseas subsidiaries, and two representative offices, KDB provides a broad scope of financial services backed by 2,155 dedicated professionals.

As a leading bank wholly owned by the government, KDB plays a pivotal role in promoting the growth of Korea's financial service industry. Along with its traditional role of supplying industrial capital, KDB is actively expanding its banking operations in order to cultivate future growth industries and contribute to the nation's balanced regional economic development.

Financial Highlights

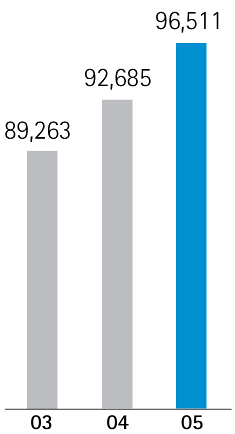
(billions of won, %)

	2005	2004	Change
Income Statement Data			
Interest Income	3,029	2,847	6.4%
Net Interest Income	431	318	35.5%
Operating Income	227	261	-13.0%
Net Income	2,422	1,078	124.7%
Balance Sheet Data			
Total Assets	96,511	92,685	4.1%
Total Liabilities	81,766	81,964	-0.2%
Total Shareholder's Equity	14,745	10,721	37.5%
Profitability			
ROA (%)	2.6%	1.2%	1.4%
ROE (%)	19.3%	11.8%	7.5%
NIM (%)	0.61%	0.47%	0.14%
Asset Quality			
NPL Ratio (%)	1.0%	1.6%	-0.6%
Loan Loss Coverage Ratio (%)	117.6%	113.2%	4.4%
Capital Adequacy			
BIS Ratio (%)	18.4%	18.1%	0.3%
Tier I CAR (%)	14.9%	13.3%	1.6%
Tier II CAR (%)	3.5%	4.7%	-1.2%

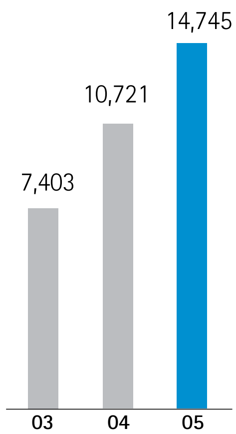
Size & Earnings

(billions of won)

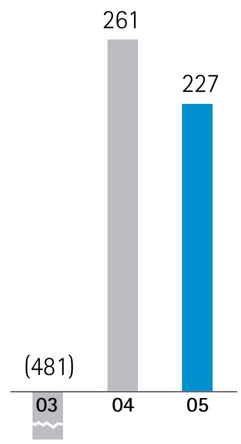
Total Assets



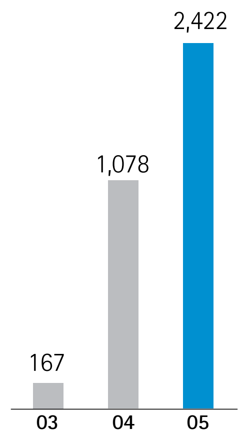
Total Equity



Operating Income



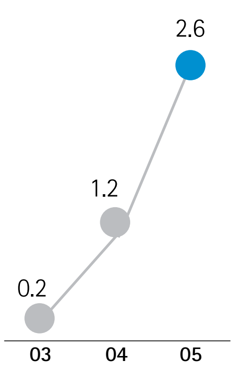
Net Income



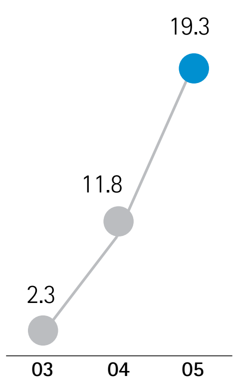
Financial Ratios

(%)

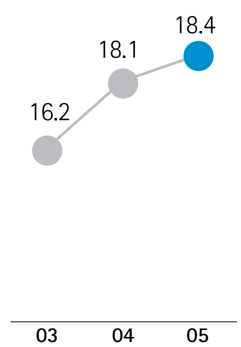
ROA



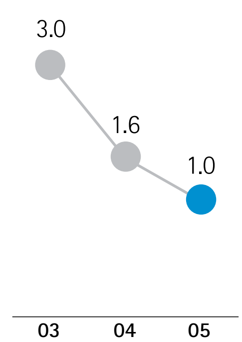
ROE



BIS Ratio



NPL Ratio



Credit Ratings

(As of December 31, 2005)

Moody's	S&P	Fitch
A3	A	A+

Vision

KDB's long-term vision is to develop into a world-class financial institution. To this end, the Bank is striving to be a leading bank in Asia by 2011 by focusing on its four core financial services-corporate banking, investment banking, international banking, and corporate restructuring and consulting.

KDB will continue to grow as a competitive financial institution playing an integral part in transforming Korea's financial service industry as the growth engine for the national economy, and positioning Korea as the financial hub of Northeast Asia. By utilizing the expertise and know-how it has accumulated as a development financial institution, KDB also aims to provide support for promising businesses and advance the financial infrastructure in Northeast Asia.

"World Class
Financial Institution"

Long-term Vision

By sharing its knowledge base with local and global business partners, the Bank will strive to advance the financial service industry in Korea and Northeast Asia to the next level. KDB's achievements to date will pave the way for our emergence as the world's *Great* bank.

Korea Development Bank once again turned in an outstanding performance in 2005, with key business areas setting record results unprecedented in its 51-year history.

Over the decades, KDB has continuously contributed to the development and growth of key industries and supported balanced national development. In addition to providing professional banking services for our corporate clients, we continued to assist various government-led initiatives aimed at reinforcing Korea's growth potential. Our endeavors included spearheading the restructuring of underperforming companies, assisting small & medium-sized enterprises and start-ups, and financing major public projects. We also embraced the government's bold vision of transforming Korea into a financial hub for Northeast Asia by enhancing our global network and helping Korean companies expand their businesses to overseas markets.

KDB set a new milestone in 2005 with a record-high net income of ₩2.4 trillion, while remaining faithful to its mandate as a state-owned financial institution. With ROA of 2.58%, NPL ratio of 1.01%, and BIS capital adequacy ratio of 18.43%, KDB's asset and capital strengths now rival those of any world-class bank.

The notable achievements in 2005 came on the heels of equally impressive results in 2004, leaving no doubt that last year's accomplishments were by no means a one-time event. Most importantly, the strong results demonstrate the soundness of the growth strategy envisioned and executed by KDB's dedicated staff and management.

Korea's financial service industry is currently undergoing a series of significant changes accompanied by a host of new challenges. Financial liberalization and deregulation have heightened competition and accelerated the pace of service integration and convergence. At the same time, restructuring and consolidation in the financial service sector continues unabated, while corporate clients increasingly demand more sophisticated and customized financial products and services.

We are well aware that we must not be complacent in our mission to enhance our profitability, expand our operations, and maximize the growth potential of the national economy. Rather than resting on the laurels of our past accomplishments, we will continue to build upon our successes and set our sight on new opportunities and challenges.

"Raising the Bar," the theme of this year's annual report, reflects our commitment to the highest standards in terms of our management practices, business performance, and public responsibility for the larger purpose of joining the ranks of the world's leading financial institutions.

Governor's Message

Our primary objectives for 2006 are as follows:

- Raise total assets to ₩100 trillion and net income to ₩1 trillion, and maintain NPL ratio at or below 1%
- Allocate ₩24.5 trillion to high-tech and service industries so as to contribute to the national economy and maximize its growth potential
- Reduce corporate funding cost by raising our volume of low-interest deposits through marketing schemes that target private banking and corporate clients
- Increase support for promising SMEs and venture businesses to help narrow the gap between large and small companies
- Take the lead in providing financing for regional and social development projects in pursuit of balanced national development
- Expand the range of investment banking services including M&A advisory, private equity funds, and underwriting of corporate bond issues and foster the development of domestic capital market
- Promote inter-Korean economic cooperation projects by providing support for South Korean companies seeking to enter the North Korean market
- Strengthen global presence with a particular focus on the Northeast Asian countries and the BRICs
- Explore new business opportunities and growth areas in pursuit of mid- to long-term revenue sources, which includes expanding the scope of our consulting services
- Improve customer satisfaction through ethical management practices and management reform

The vast reservoir of expertise and experience in corporate and development financing accumulated over the last 51 years has made KDB Korea's representative bank. They will also enable KDB to transform itself from a *Good* Bank to a *Great* Bank that can make a difference in the global financial industry. As the first move to realizing this goal, KDB fully intends to develop itself into Asia's leading bank by 2011. By sharing its knowledge base with our local and global business partners, the Bank will strive to advance the financial service industry in Korea and Northeast Asia to the next level. KDB's achievements to date will pave the way for our emergence as the world's *Great* bank.

On behalf of everyone at KDB, I would like to express my appreciation for your partnership and ask for your continued interest and encouragement as we move forward together.

Chang-Lok Kim
Governor

Highlights of 2005

Posting Record-high Income and Raising Asset Quality

Despite intense competition and challenging business environment at home and abroad, KDB earned its highest-ever net income of ₩2.4 trillion in 2005 and achieved ROA of 2.58%, ROE of 19.29%, and BIS capital adequacy ratio of 18.43%. As a result of improved asset soundness stemming from successful corporate restructuring, the NPL ratio was pared to 1.01%.

Introducing New Corporate Identity for Greater International Recognition

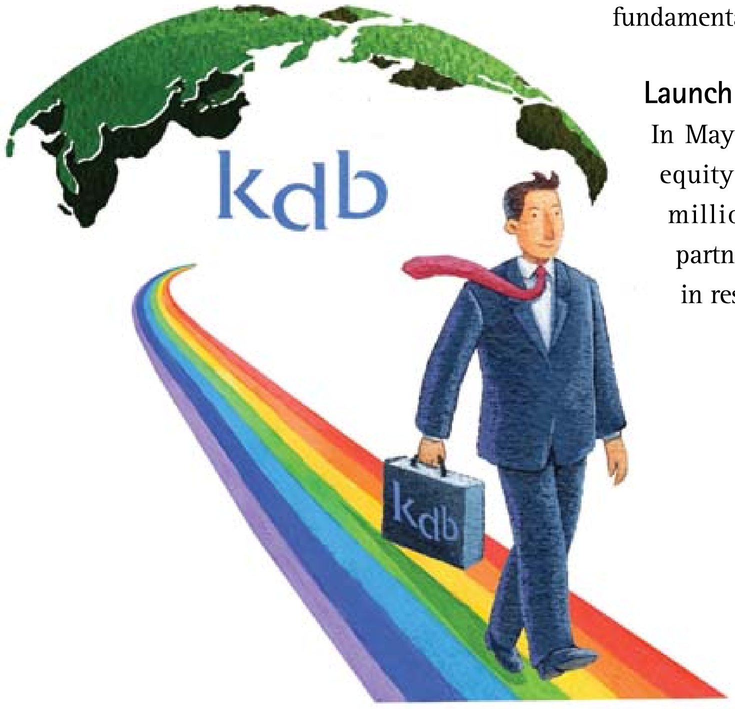
KDB unveiled a new CI and a new word mark with the goal of enhancing its visual image as a leading global banking institution and maximizing customer recognition through a more attractive and distinctive design and slogan.

Attaining Credit Rating Upgrades

Standard & Poor's and Fitch, two leading international credit rating agencies, upgraded KDB's credit ratings from A- to A (S&P) and from A to A+ (Fitch) in July and October 2005, respectively. The rating upgrades attest to KDB's exceptional performance of the past two years, stable revenue-generating capacity, and sharply improved asset soundness.

Earning Recognition for High Integrity and Innovation Excellence

In December 2005, KDB was selected from a pool of 325 institutions for its high business ethics and integrity by the Korea Independent Commission against Corruption in the Commission's 2005 Evaluation of Integrity. In the same month, the Bank was officially cited by the Ministry of Finance and Economy for business innovation. Like other distinctions and accolades KDB has received over the years, this recognition would not have been possible without KDB's highly motivated and dedicated professionals, who have aggressively adapted to the ever-changing market environment, contributing to the fundamental strengths of the Bank.



Launching KDB Private Equity Fund

In May 2005, KDB launched "KDB Value PEF I," its first private equity fund that raised ₩300 billion (approximately U$300 million) from local institutional investors. As a limited partnership, the fund offers greater flexibility than mutual funds in respect of formation, contract, and distribution.

Board of Directors

Chang-Lok Kim
Governor

Jong Bae Kim
Deputy Governor

Chang-Mo Moon
Auditor

In-Chul Kim
Executive Director

Ho In
Executive Director

Young Chan Kim
Executive Director

Sang Kwon Lee
Executive Director

Sung Joon Rhee
Executive Director

Young-Kee Kim
Executive Director

Kang Ryung Lee Non-executive Director

Raising the Bar in

Business Practices

Since its establishment, KDB has never ceased to re-invent and re-vitalize itself, continuously improving its banking operations and redefining its role in line with changing demands of the time. By embracing change, driving reform, and fostering a culture of innovation, the Bank has improved its productivity and customer satisfaction. KDB also upgraded customer services through customer-oriented activities such as *Six Sigma Campaign for Credit Assessment* and *Commission-free Zone*. Moreover, the Bank built a system including *Integrated Knowledge Search System* and *Marketing X-pert Column* to foster knowledge-based management. Above all, KDB has raised the bar in its business practices by integrating accounting operations of overseas branches for the first time in Korea. As a result, the Bank's innovation management structure serves as a model for the industry to follow.

Endeavoring for Business Innovation

KDB has never ceased to re-invent and re-vitalize itself, continuously improving its banking operations and redefining its role in line with changing demands of the time. Throughout its evolution, the Bank has been a positive force for the development and growth of the Korean economy. It now focuses its efforts on creating a corporate culture that breeds innovation and encourages the voluntary participation of all employees. This will help KDB adapt to changes taking place in the market in a timely manner and establish its corporate identity. KDB is not fixated on short-term achievements. As laid out in our mid- to long-term vision, the emphasis is on enhancing the capabilities of the Bank's employees as the basis for achieving the organizational goals.

KDB's outstanding accomplishments have been achieved through a process of two-way innovation involving both top-down and bottom-up reforms. In addition, small changes in everyday work tasks have resulted in a positive "big bang" in the Bank's operations.

Following are some of the key activities of 2005 that have been undertaken to improve customer satisfaction and innovate the Bank's business practices.

Improving Customer Satisfaction

An independent research agency retained by KDB has conducted annual customer satisfaction surveys and monitored employee interactions with customers.

As a way to ensure superior customer service, KDB introduced an exit poll that gauges customer satisfaction. Customer feedback from the new system has helped the Bank to move aggressively in identifying areas in need of improvement and taking remedial measures. This initiative has already produced tangible results as demonstrated by the continued rise in customer satisfaction ratings in the core areas of deposit taking and lending services.

KDB now focuses its efforts on creating a corporate culture that breeds innovation and encourages voluntary participation of all employees. This will help the bank adapt to changes in the market in a timely manner.

Innovation in credit assessment will continue so that problems can be analyzed, resolved, and submitted through the feedback process using Six Sigma business improvement tools.

Upgrading Customer Services

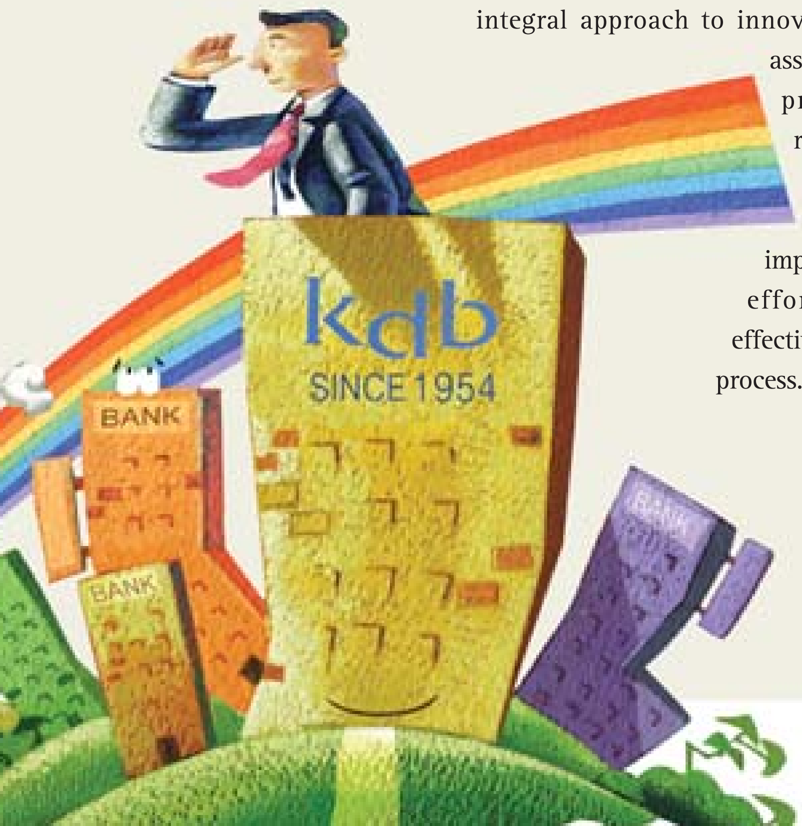
Six Sigma Campaign for Credit Assessment

Fully committed to improving its competitiveness in corporate banking, KDB devised a blueprint to apply the Six Sigma methodology to the credit assessment processes. The primary objective of the new initiative is to shorten the assessment period and avoid deviation among the credit officers.

The application of Six Sigma methodology in credit assessment has several key implications. Firstly, it offers an opportunity to review the quality of credit assessment. Although a number of bank employees were somewhat complacent about the successful results, the new approach did suggest room for significant improvement.

Secondly, KDB is the first financial institution in Korea to apply the Six Sigma methodology in this area of system and process reinvention. KDB believes the same techniques are also applicable to its consulting, investment, deposit and planning fields. This will in turn help put KDB on a par with the standards and benchmarks set by its competitors.

Thirdly, the initiative lays the necessary groundwork for implementing Six Sigma methodology as an ongoing and integral approach to innovation. Innovation in credit assessment will continue so that problems can be analyzed, resolved, and submitted through the feedback process using Six Sigma business improvement tools. All of these efforts will provide for more effective and efficient loan review process.



KDB became the first Korean bank to integrate the accounting operations of its overseas branches under a single unified system.

Commission-free Zone

KDB is implementing new measures to strengthen its competitiveness in deposit-taking operations without raising service charges. The approach KDB has taken represents its commitment to a customer-service strategy that does not resort to the excessively profit-driven business practices that currently prevail in the domestic banking industry. In an effort to pass on to customers cost savings from other banking operations, KDB has gradually eliminated most transaction fees since declaring its “Commission-free Zone” concept.

KDB eliminated all service fees for online and phone-banking transactions to lower the cost of banking for its customers in 2004, compensating for the Bank’s relatively small domestic branch network.

Even as many domestic banks continue to generate hefty service fees, KDB boldly eliminated deposit service fees for face-to-face transactions in 2005. KDB also did away with credit-related fee systems to help corporate customers improve their competitive edge, a well-chosen strategic move given the Bank’s focus on corporate banking.

The move toward fee-free services has brightened KDB’s image as a customer-friendly bank. Unlike most banks, KDB’s branches operate with considerable flexibility to exempt their corporate clients from various service fees, thereby facilitating genuinely autonomous and customized marketing at the forefront of banking operations.

Bolstering Information Management

Integrated Knowledge Search System

In the knowledge-based society of the 21st century, it is essential for banks and businesses to be able to access, accumulate, and utilize the latest information in the timeliest fashion. This requires not only well-established operational procedures and management processes, but also systematic information infrastructure and hardware. In order to improve its knowledge-based processes and productivity, KDB has benchmarked the successes of the Ministry of Labor and the National Computerization Agency starting from the end of 2004. Following a six-month testing period, KDB established “Wise Aviation, Very Alert (WAVA),” a highly integrated and advanced knowledge search system.

"Marketing X-pert Column"

The management and utilization of knowledge is crucial to the competitive strength of any business entity in today's financial service industry. In order to ensure that its extensive expertise and know-how is disseminated and shared seamlessly throughout the banking operations, KDB launched "Marketing X-pert Column" on the Bank's intranet. This knowledge pool is an instantly accessible means of relaying success stories in marketing and disseminating best practices throughout the organization.

The Column currently includes "Top Deposit Marketing Models," "Our Branch's Business Strategies," "My Know-how," "Success Stories," and "Tips & Pointers." The online column breaks from the traditional and static case-study approach to knowledge diffusion, allowing KDB to institutionalize best practices and utilize them as benchmarks for business operations.

First Korean Bank to Integrate Accounting Operations of Overseas Branches

KDB became the first Korean bank to integrate the accounting operations of its overseas branches under a single unified system. The unified accounting system has proven effective, and KDB's successful integration of varying accounting standards of different countries has become a model for other financial institutions. Because the integrated accounting system is highly advanced, it can accommodate the individual reporting requirements of seven countries including U.S. and U.K., in addition to the domestic reporting criteria. This has made it possible for the headquarters to efficiently manage its domestic and global accounting operations.

Because of its highly automated accounting data production, acquisition and reporting capabilities, the integrated system also reduces the number of accounting and IT personnel. Moreover, the system brings the added benefit of sharply reduced operational risks from higher transparency and fewer errors in accounting data.

Raising the Bar in
Business Performance

KDB enjoys a leading position in Korea's corporate, investment and international banking fields bolstered by its capability to effectively respond to industry changes and clients' needs, while pioneering new market opportunities. This was made possible through the stable control by the Bank's advanced and sophisticated risk management and IT system. In addition, timely funding structure and efficient financial management system helped KDB to achieve an outstanding performance in banking and trust operations. In other words, the Bank's current dominant position in the financial market is secured by checks and balances of the front, middle and back offices. With the expertise accumulated over the past five decades and under the highly developed control system, KDB will raise the bar in its business performance.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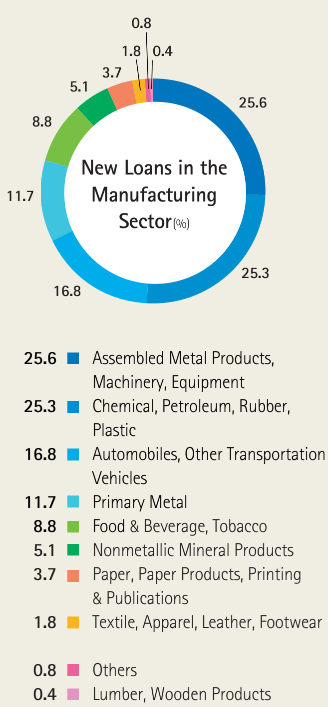
Corporate Banking

KDB will expand its capital provision in order to offer customized services that satisfy the financial needs of each stage of corporate life cycle. The capital will also go towards nurturing SMEs and attaining balanced regional development.



The core policy objectives of KDB's Corporate Banking Division in 2005 were i) to lead the revitalization of the national economy through stable provision of industrial capital, mainly distributed as facility loans and working capital loans, and ii) to promote the balanced growth of the nation by executing regional development projects. Owing to the Bank's efforts to encourage corporate facility investments and the improved confidence in line with the second-half upturn in the economy, new loans and investments in 2005 rose 21.3% over the previous year to ₩21 trillion.

Augmenting Facility Loans to Promote Corporate Investment

In spite of sluggish domestic demand, KDB's facility loans marked a 12.9% year-on-year increase to ₩6.9 trillion. Of this amount, ₩2.4 trillion was extended through existing and new special funds including the "High-tech Industry Support Fund." By borrower segment, large corporations accounted for the largest portion with 40.1% of the total, followed by the public sector with 37.7%, and SMEs with 22.2%. The amount allocated to the public sector increased, with Korea Electric Power Corporation and the Small Business Corporation each receiving ₩1.1 trillion. The Bank's facility loans were denominated in won (55.2%), dollar (36.4%), yen (5.6%), and euro (2.8%).

Extending Adequate Working Capital Loans

Working capital loans increased 14.2% over 2004 to ₩4.9 trillion, as slack domestic demand fueled the need for fresh operational capital. A total of ₩2 trillion in special funds was extended in the form of low-yield, three-month floating-rate working capital loans (₩1.3 trillion) and special working capital loans to SMEs (₩700 billion).

Large corporations accounted for 58.3% of KDB's total working capital loans, and SMEs and the public sector took in 41.5% and 0.2%, respectively, with the portion extended to SMEs expanding from the previous year's 39.6% due to the "Special Measures to Stabilize Management of SMEs" introduced in November 2004. By currency, won, yen, dollar, and euro represented 80.1%, 12.7%, 6.7%, and 0.5%, respectively, of the working capital loans. In recent years, there has been a notable decrease in demand for dollar-denominated loans.

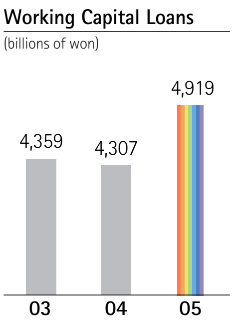
The manufacturing sector accounted for 48.9% (₩10.3 trillion) of total loans and investments, while the non-manufacturing sector took up 51.1% (₩10.7 trillion). Within the manufacturing sector, assembled metal products, machinery and equipment

Diversifying Industry Portfolio for New Loans and Investments

(billions of won, %)

	Loans			Investment	Total	Composition	YoY Change
	Facility	Working Capital	Subtotal				
Agriculture, Forestry, Fisheries	-	12	12	1	13	0.1%	-66.7%
Mining	4	13	17	-	17	0.1%	-86.4%
Manufacturing	2,857	3,928	6,785	3,483	10,268	48.9%	18.2%
Electricity, Gas, Water	1,310	47	1,357	70	1,427	6.8%	-37.4%
Construction	162	52	214	203	417	2.0%	51.1%
Wholesale & Retail, Restaurants, Hotels	241	219	460	362	822	3.9%	-16.3%
Transport, Storage, Communications	1,263	275	1,538	929	2,467	11.7%	11.2%
Finance, Insurance, Real Estate, Services	381	329	710	3,123	3,833	18.3%	62.2%
Social & Private Services	1,463	141	1,604	134	1,738	8.3%	396.6%
Total	7,681	5,016	12,697	8,305	21,002	100.0%	21.3%

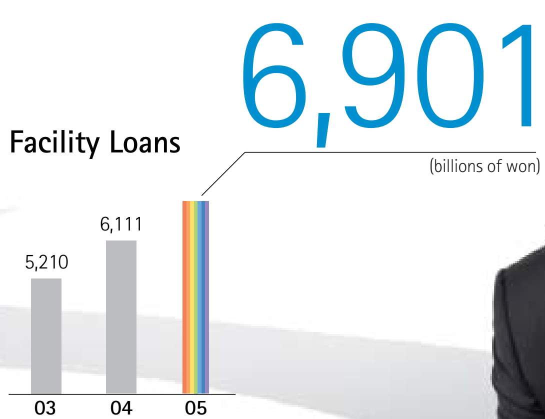
industries took up the largest share of 25.6%, followed by chemical, petroleum, rubber, plastic (25.3%), and automobiles and other transportation vehicles (16.8%). Meanwhile, financial, insurance, real estate and services industries accounted for the largest share of loans (35.7%) in the non-manufacturing sector, followed by transport, storage, and communications (23.0%).



Supporting Regional Economies for Balanced Development

From 2000 to the end of 2005, KDB provided a total of ₩3 trillion in funding to stimulate regional economies and balanced regional development through its “Regional Economy Stimulation Fund” and concluded cooperation agreements with 25 regional government agencies. In 2005, the Bank supplied funds totaling ₩771 billion, of which ₩240 billion went toward building regional industrial complexes such as Daedeok Techno Valley, ₩461 billion to 296 regional SMEs, and ₩69 billion toward assisting the relocation of companies from Seoul to other areas.

For the third “Regional Economy Stimulation Fund,” ₩200 billion has been set aside for 2006, of which half has been earmarked for SMEs. Additionally, to assist SMEs relocate to provincial regions, the Bank plans to offer these firms loans at preferred interest rates up to 1.25%p lower than those for standard loans.



Investment Banking

By striking an appropriate balance between the clients' interest and the Bank's profitability, KDB's Investment Banking Division leads the development of the country's investment banking industry.

Comprising Project Finance Department, Investment Banking Development Department, Capital Markets Department, Investment Banking Department, and M&A Department, KDB's Investment Banking Division leads the development of the country's investment banking industry by striking an appropriate balance between clients' interest and the Bank's profitability, while attaining market stability.

Last year witnessed the full-fledged advance of major global financial institutions into the domestic market, raising concerns that these formidable competitors would encroach on KDB's position in project finance, asset management, M&A, and other areas of investment banking. Nevertheless, KDB's competitive edge in the SOC field including highway, railway, and port projects ensured the Bank its continued leadership in Korea's project finance market in 2005. KDB was also ranked No. 1 in corporate bond underwriting for the fifth consecutive year, due in large part to its high creditworthiness, superior analytical capabilities, and active marketing efforts, distinguishing itself as a provider of comprehensive corporate restructuring-related advisory services.

Reinforcing Social Infrastructure through Project Finance

Since its arrangement of the ₩1.3 trillion Incheon International Airport Highway project, KDB has steadily gained the recognition of the global financial industry for its world-class expertise and success in arranging the financing for grand-scale public projects.

In 2005, the Bank significantly expanded the scope and volume of its project finance business, providing financial advisory services for 32 projects and arranging financing deals totaling ₩2.7 trillion. In recognition of this achievement, the authoritative industry journal *Project Finance* published by Euromoney, ranked KDB No. 1 Arranger in Asia-Pacific for 2005.

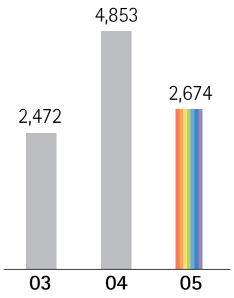
The Bank maintained its momentum in project finance in 2005, successfully arranging nine projects including Seoul Subway Corp.'s New Bundang Line, the Seoul-Yongin

Expressway, and GS EPS (formerly LG Energy). The latter project, which involves the construction of a second combined thermal power plant for GS EPS in Bugok, Korea, was named “Deal of the Year” for 2005 in the Power category by *Project Finance*.

With its accumulated experiences and know-how, KDB will strive to continue leading the project finance market for domestic projects. The Bank has pioneered new frontiers in project finance in recent years including the merchant power industry, regional development projects, and free economic zone development. Success in these areas and the creation of innovative new financing structures will enable KDB to retain its lead in this key sector of investment banking well into the future.

Furthermore, KDB has expanded its geographical reach of financial services to Asia Pacific and the Middle East. In Vietnam, KDB is providing financial advisory services for GS Engineering and Construction in connection with the U$1 billion development plan of Ho Chi Minh City involving airport highway construction, major urban development projects, and suburban development. KDB also bolstered its presence in the Middle Eastern PF market in 2005 as a Mandated Lead Arranger for Aromatics Oman Project. Due to its size and importance, the U$1.1 billion project is considered as the landmark project of the Omani economy.

Project Finance
(Arranged Amount)
(billions of won)

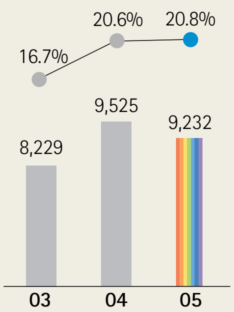


KDB’s success in the Project Finance market and the creation of innovative new financing structures will enable KDB to retain its lead in this key sector of investment banking well into the future.

No.1

"No.1 Arranger in Asia-Pacific" &
"Deal of the Year"
(Project Finance)

Domestic Corporate Bond
(Underwriting Amount, Mkt. Share)
(billions of won, %)



Leading Domestic Capital Market

Despite aggressive marketing by securities companies, KDB maintained its position as Korea's No. 1 corporate bond underwriter by dint of its high creditworthiness, superior analytical capabilities, and active marketing efforts. Amid an overall decrease in corporate bond issuance, the Bank underwrote long-term bonds including SOC bonds, fostering growth of the nation's long-term bond market. In addition to arranging project finance and M&A-related projects, it also served as a market maker, enabling companies with speculative grades to issue convertible bonds.

In addition to handling ABS with master trust structures and MBS businesses, KDB introduced a wide range of structured finance products in 2005 including the U$300 million offering of private placement bonds backed by beneficial interest in trust.

In connection with bond trading, KDB has increased the amount of underwriting for the Bank itself and the volume it underwrites on behalf of other institutional investors since obtaining a primary dealer license for Korea Treasury Bonds (KTBs) in 2004. This has led KDB to perform its function as a state-owned bank in supporting government bond issuance and financing.

These efforts secured KDB's grip on the No.1 position in public bond arrangement with a 20.8% market share amounting to ₩9,231.7 billion, as well as the Bank's title as the nation's largest underwriter, taking up 15.6% in market share, or ₩6,933.7 billion. These achievements were duly recognized by Thomson Group's *International Financial Review*, which selected KDB as the winner of "2005 IFR Asia Award" for the Korean Bond Market category.

In the years ahead, KDB will continue to add funding support for SMEs and innovative enterprises by developing and arranging more stable structured bond products. Seeking qualitative growth in bond underwriting operations, it will also devise new derivatives-linked securities products.

The bank will leverage its know-how and distinguished performance record to further consolidate its position as the nation's leading M&A house, achieving continued growth with a focus on large scale deals.

Underscoring Top M&A Advisor Position

KDB was ranked third in the Bloomberg League Table in terms of total amount of the deals completed in Korea in 2005, underscoring its status as Korea's top M&A advisor and its ability to compete with the best foreign investment banks. The highlight of the year was the closing of the Jinro M&A, the largest deal in Korea in 2005 valued at ₩3.4 trillion. The Bank's sophisticated deal structure, attraction of financial investors, and acquisition price led to the success of the deal. The deal won three awards including "Best M&A Deal in Asia" by *Finance Asia* magazine, and "Best Domestic M&A Deal" for 2005 by *The Asset* magazine.

The Bank will leverage its know-how and distinguished performance record to further consolidate its position as the nation's leading M&A house, achieving continued growth with a focus on large-scale deals. In particular, KDB will hone its edge in high value-added advisory services by identifying demand in management strategies including restructuring, pre-workout, and business portfolio restructuring. Lastly, in line with the ongoing globalization of the Korean economy, the Bank plans to strengthen its capabilities to provide comprehensive advisory services for inbound and outbound cross-border M&A deals.

Stimulating Growth through Venture Capital Investments

In 2005, KDB invested a total of ₩192.5 billion in venture companies, up 300% from the previous year's ₩47.9 billion. The staggering increase resulted from the bank's efforts to provide capital for venture companies at their early stages.

To assist start-up venture businesses, particularly those involved in new product research and development activities, KDB introduced the "New Start Venture Fund." The Fund provides capital to start-up companies to cover the cost of R&D and technology commercialization. The Bank also offered more indirect support for investment partnerships established by venture capital. KDB has employed a diverse range of strategies to recover its investments in venture companies including IPOs, block sales, backdoor listings, and reselling of shares of ailing companies in which it has invested, thus maximizing the efficiency of its asset management.

International Banking

KDB is sharpening its competitive edge to encompass high value-added instruments including fixed-rate bonds, equity-linked notes, and structured finance. It is also expanding its overseas network mainly in emerging markets to provide financial services to Korean corporate clients engaged in overseas operations.

With the aim of becoming Asia's leading bank, KDB took far-reaching steps in 2005 to strengthen the capabilities and competitiveness of its international banking operations. Toward this end, International Banking Division focused on upgrading international investment banking, leading the derivatives market, strengthening its trading competencies, expanding its overseas network into emerging markets, and spearheading development finance in Northeast Asia.

Progressing in Syndicated Loans Arrangement

In line with the ongoing march of globalization, more Korean companies are advancing into overseas markets. To meet the growing demand for foreign capital from such companies, KDB leads syndicated loan arrangements and FRN issuances in the international market, remaining Korea's No.1 deal arranger since 2002. The Bank arranged a total of U$1.5 billion for 22 deals in 2005, taking up a 13.2% share in the international syndicated loan market for Korean companies.

Faced with growing competition from domestic banks and major global investment banks in the international investment banking market, KDB is sharpening its competitive edge to encompass high value-added instruments including fixed-rate bonds, equity-linked notes, and structured finance. At the same time, it is expanding its client base to include foreign companies. By arranging foreign currency fixed-rate bonds issued by LG Electronics worth U$600 million in June 2005, KDB made a successful debut in the market previously dominated by foreign investment banks. In December 2005, the Bank co-arranged LG Card's issuance of cross-border ABS worth U$300 million and SKC's overseas BW issuance amounting to U$40 million. Additionally, it increased its activities in the structured finance business, such as ship/aircraft lease finance and arrangement for issuing ABS backed by aircraft account receivables.

KDB also provides a wide array of consulting services for Korean corporate clients seeking opportunities in emerging markets. In response to the growing need for more comprehensive services there, the Bank expanded its business scope overseas to cover consulting services including M&A, equity investment, and financial management. For example, the Shanghai branch, with combined assistance from the Bank's headquarters, were able to offer corporate clients with extensive consulting services ranging from feasibility assessment to support for investment negotiations in setting up factories. For clients engaged in M&A deals or equity investment, the branch conducted value assessments and legal consultations, while giving advice on the preparation for negotiations. Aside from the services for start-ups, KDB developed financial strategies for the companies that have long been operating in China, helping them heighten their competitiveness.

Driving Derivatives Market

KDB has long been Korea's premier derivatives house. In 2005, the Bank turned in another stellar performance, with derivatives trading activities advancing 59.0% from U$46.5 billion in 2004 to U$73.9 billion. Foreign exchange risk hedging for importing/exporting companies constitutes the largest portion of this business, while currency risk hedging for domestic asset management companies and insurers, together with equity-linked derivatives trade for asset management companies and brokerages, also enjoyed significant growth.

In addition to the accomplishments in swap and option trading, KDB became the first Korean bank to establish a dedicated team of experts trading and structuring credit

To meet the growing demand for foreign capital by domestic corporates, KDB leads syndicated loan arrangement and foreign currency bond issuance.

U$ 1.5 billion

Int'l Syndicated Loan Arrangements

The Bank will consolidate its dominant position in the traditional derivatives market for swap and option trading, while also exploring new opportunities to lead the market's development in credit and commodity derivatives.

derivatives. Created under Financial Engineering Department in 2004, Credit Derivatives Team successfully co-arranged the issuance of foreign-currency synthetic CDOs worth U$20 million in October 2005. Building on this experience, it is now developing KRW synthetic CDOs using Korean primary bonds as the underlying assets. In due recognition of the Bank's superb expertise in the derivatives field, *Asia Risk* named KDB as "House of the Year" (Best Derivatives Dealer) in Korea for the second year in 2005.

In 2006, KDB will work to consolidate its dominant position in the traditional derivatives market for swap and option trading, while also exploring new opportunities to lead the market's development in credit derivatives, commodity derivatives, and long-term swaps.

Upgrading International Treasury Businesses

KDB once again lived up to its reputation as the preeminent market maker in Korean won (KRW)/US dollar (USD) trading and in trading foreign currency-denominated Korean Papers in 2005. Its KRW/USD trading totaled U$121.7 billion, while the volume of foreign exchange trading in non-dollar currencies reached U$19.5 billion. The total trading volume for KDB's clients rose to U$39.5 billion as KDB sought to provide better F/X risk management services to its corporate customers. The Bank also traded U$132.8 billion in the international money market and foreign currency-denominated securities worth U$10.2 billion in the secondary market.

Focusing on the key task of upgrading its trading business, KDB promoted NDF desk trades through its London branch and set up a system for non-deliverable forwards (NDF) trading of the Chinese yuan. The Bank continues to sharpen its competitive edge as a market maker for Korean bonds and plans to introduce a two-way quote system for Korean public bonds in 2006.

Expanding Overseas Network in Emerging Markets

Korean companies are making active forays into BRICs economies and other emerging markets, which are enjoying rapid growth rates and higher profiles in the global economy. Consequently, KDB is aggressively expanding its overseas network focusing on these regions in order to provide universal financial services to clients in BRICs, Southeast Asia, and other emerging economies.

As of the end of 2004, KDB's overseas network was oriented toward developed countries, with six branches or overseas affiliates and one liaison office located in advanced nation, whereas there were only one branch and a liaison office in China, and one affiliate in Hungary. On the other hand, the Bank opened an additional branch in Guangzhou, China in July and established a subsidiary in Sao Paolo, Brazil in October 2005.

In 2006, KDB plans to open new overseas branches mainly in emerging markets including China, India, Thailand, and Hungary, provide extensive financial services in corporate, international and investment banking to Korean corporate clients engaged in overseas operations, and gradually expand its presence in financial centers of the Middle East such as Dubai.

As part of this strategy, KDB invited high-ranking government and central bank officials from emerging markets to Korea last year to introduce the country and KDB itself, and to explore business opportunities and stimulate cooperative relations. The invitees also attended the Bank's 58th Guest Observer Course (GOC), which included a seminar on emerging markets. The 58th GOC distinguished itself from the previous GOCs in which participants were limited to the Bank's bond investors. Since 1968, KDB has hosted 58 seminars on international finance and banking, with attendees totaling around 1,100 individuals from 60 countries and 400 institutions.

Exploring New Projects through NADFC

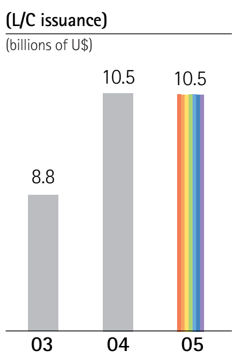
In support of the Korean government's financial hub initiative and other development projects in Northeast Asia, KDB formed the Northeast Asia Development Financing Council (NADFC) in collaboration with China Development Bank and Mizuho Corporate Bank of Japan.

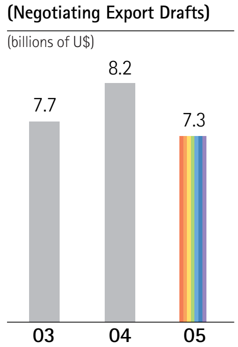
For effective collaboration among the NAFDC's member banks in preparing the Council's business agenda, a steering committee meeting was held at KDB's headquarters in December 2005. At the meeting, members deliberated on the creation of the NADFC Fund for channeling investments in Korean and Japanese enterprises advancing into China. Future tasks include exploring new development projects in the region, launching the NADFC Fund, and strengthening ties among the Council members so that the NADFC makes a meaningful contribution to the regional development and cooperation.

Strengthening and Diversifying Trade Finance Schemes

In 2005, KDB provided a total of U$17.8 billion in trade financing, including U$7.3 billion in export financing and U$10.5 billion in import financing. In addition, the Bank upgraded its trade finance services via Electronic Data Interchange (EDI) and Internet banking platforms such as electronic L/C, while making qualitative improvements in credit line extensions, resulting in more convenient services for clients engaged in import-export businesses. The Bank will continue to expand its product portfolio and customer base by providing credit extension services.

Total Volume of Trade Finance





Consulting

KDB will focus on devising restructuring plans tailored to the characteristics of each company and maximizing the value of companies faced with sell-offs by ensuring their prompt and transparent sale. By doing so, the Bank will heighten its profile as a service provider to better assist innovative SMEs and venture companies.

The Bank created Consulting Business Division in 2003 in response to the growing corporate demand for specialized services outside the scope of conventional banking such as financial arrangement and advisory. KDB's answer to these needs was to establish a one-stop financial services system that conveniently handles all financial processes from planning to follow-up measures. KDB's Consulting Business Division consists of KDB Research Institute, Consulting Business Department, KDB Technology Evaluation Institute, Corporate Restructuring Department, and PEF Department.

Consulting Business Division has created new markets and profit models by organically integrating economic data, industrial and technology analysis, and corporate restructuring, areas that had previously been dealt with separately. The Division also plays a key role in helping realize KDB's vision by analyzing new business environments, presenting long-term goals, and formulating strategies. Furthermore, utilizing advanced financial techniques and expertise from its consulting operations enables KDB to render more effective support for the broader goals of cultivating new growth industries and attaining regionally balanced economic development.

Piloting Corporate Restructuring

Corporate Restructuring Department brings unmatched expertise to the task of handling NPLs and corporate restructuring-related work. Since the financial crisis of the late 1990s, the Department has contributed immeasurably to stabilizing Korea's financial markets through successful restructuring of large distressed domestic companies.

The Bank employs a wide range of methods to resolve NPLs including workouts, NPL sell-offs, ABS issuance, M&A, and auctions. KDB is also fully devoted to preventing bad loans and inducing corporate restructuring beforehand by disseminating its know-how and expertise within the Bank, thus serving as a "control tower" against NPLs and corporate bankruptcies.

KDB reduced its NPL ratio to 1.01% in 2005, strengthening asset soundness and contributing to the highest net income in the Bank's history. Considering the average NPL ratio of 1.22% for the domestic banking industry, KDB's asset quality is comparable to that of the world's leading banks. Although new NPLs arose in 2005, KDB managed to reduce total NPLs by a sizable amount, thereby bolstering its asset quality and expanding its business base.

In 2006, Corporate Restructuring Department will seek to maintain the Bank's NPL ratio at the 1% range and further strengthen its corporate restructuring activities. To this end, KDB will focus on devising restructuring plans tailored to the characteristics of each company and maximizing the value of companies faced with sell-offs by ensuring their prompt and transparent sale.

With regard to SMEs, the Bank's emphasis will be on preventing their insolvencies and providing other financial services for business normalization. In addition, the Bank plans to leverage its extensive know-how to create new revenue sources in overseas NPL markets including China's.

Building Up Capacity as Comprehensive Consulting Services Provider

In February 2003, Consulting Business Department was established to leverage the vast experience and know-how of Corporate Business Division to create a new revenue source for the Bank. In the early stages of operation, Consulting Business Department assessed the feasibility of new business projects and devised business strategies. Over time, it has steadily expanded its range of activities to include high value-added consulting services, as well as public sector projects promoted by central and local government agencies. The Department has succeeded in carving out a significant niche in the domestic consulting market through collaboration with related departments within the Bank and close ties with outside institutions, recording revenues of ₩2.8 billion in 2004 and ₩5.9 billion in 2005, reflecting a massive 110.7% year-on-year gain.

₩5.9 billion

110.7%

Consulting Services Revenues
(yoy increase)

In 2005, Consulting Business Department extended to some of Korea's most renowned companies a variety of consulting services, including strategies on advancing into foreign markets, conducting general business operations, and increasing corporate value. The Department also applied its professional expertise on the public sector and development projects.

Forecasting continued expansion in market size and increased competition in consulting services, KDB will heighten its profile as a service developer and provider for both public and private sector projects. At the same time, the Department will strengthen its revenue structure by providing post-merger integration consulting for M&A clients, IT consulting, and many new services. To better assist innovative SMEs and venture companies, KDB will make more consulting services available to them. In carrying out these activities, the Bank will continue to enhance its consulting capabilities by elevating the quality and expertise of its services and personnel through projects and staff exchanges with outside agencies.

Offering Technology Assessment and Support

KDB Technology Evaluation Institute is an entity unique to KDB which performs highly specialized tasks associated with long-term facility financing along with the technology consulting and evaluation necessary for the financing. The Institute conducts various technology-related review procedures, including feasibility studies of borrowers' business strategies, calculation of required capital, and Earned Value Management System (EVMS) tests, thereby assisting the Bank's loan screening and post management functions. KDB is striving to meet increased corporate demand for technology consulting by widening its business scope to include construction technology consulting and technology assessment.

The Technology Evaluation Institute focused on strengthening internal technology assessment capabilities in 2005, helping upgrade the competence and efficiency of the Bank's corporate financing operations. As a result, the Institute received orders for 10 construction consulting projects valued at a total of ₩2.4 billion including the Daedeok Techno Valley Construction Project. In 2005, KDB became the first Korean bank to extend technology-based loans, providing ₩42.0 billion in assistance to corporate borrowers who had lacked sufficient collateral but possessed promising technologies.

Also during the year, KDB published periodicals including *KDB Techno Report, Technology Management Information,* and *Product & Technology Briefs*, while hosting special lectures and seminars on industries and technologies, demonstrating the Bank's commitment to facilitating technology development through acquisition and diffusion of information.

In 2006, KDB Technology Evaluation Institute will be expanded in response to increasing demand for technology consulting services. The Institute, staffed by around 50 engineering specialists, will operate "Technology Assessment Center," which will make technology assessments, manage a technology commercialization fund, and arrange technology trading. The Institute is expected to invigorate Korea's technology financing market through identification and commercialization of promising technologies, while also diversifying KDB's income sources through its fee-based technology consulting services.

Conducting Competitive Analyses & Researches

KDB Research Institute conducts an extensive scope of analyses and research activities, covering topics from macroeconomics to the financial market, corporate financing, industry analysis, and issues pertaining to Northeast Asia. This basic research forms the basis of practical knowledge that can be applied directly to real-world business settings. The real strength behind the Bank's research prowess lies in the abundant on-hands experiences of its research personnel in the areas of corporate finance and investment banking, ensuring that the strategies and countermeasures they propose are grounded in reality.

The activities of the Research Institute in 2005 once again demonstrated the Bank's unmatched analytical and research capabilities. To define KDB's vision and formulate strategies, the Institute published numerous studies during the year including *Analysis of the Evolution of Corporate Finance* and *Forecast of Changes in the Banking Industry in 2006*. Additionally, the Institute's *Corporate Finance Index* is a useful resource on Korea's corporate finance industry, as well as a practical tool for forecasting future trends and making corporate strategies and government policies.

KDB also produces monthly publications offering analyses of long-term economic trends and occasional reports focused on pending economic issues. The Bank's macroeconomic model contributes to making more accurate annual economic forecasts. The biweekly *World Economic & Financial Issues* provide information on the trends in the global economy, exchange rates, and interest rates.

Among the Bank's industry analyses published last year were *Korean Industry 2005*, a report examining the status and prospects of the nation's major industries, and *Industry Issues*, a biweekly publication launched in March 2005. Other studies on facility investment, economic outlook, and financial conditions provide reliable sources of useful information to economists and businesspeople.

Northeast Asia and inter-Korean economic cooperation are two new areas of increasing focus for KDB. As the nation's premier development financier, the Bank has strengthened its support for the government policy goal of transforming Korea into the financial hub of Northeast Asia. It also serves as the secretariat for the "Forum for 100 Experts on the North Korean Economy," an annual event held for the past three years.

KDB Research Institute will concentrate on strengthening its competitive standing in the fields of corporate finance, investment banking, and Northeast Asian and North Korean economic development. At the same time, the Institute is developing a fee-based profit model utilizing its accumulated information and differentiated research acumen.

Trust & PEF

KDB will concentrate on providing more comprehensive trust services covering numerous types of assets including cash, personal property, and real estate, while exploring the new PEF market in pursuit of new demand in the areas of SMEs and corporate governance improvement.

KDB has provided efficient trust fund operation and management services since 1988 primarily to corporate clients in an effort to advance Korea's capital markets while satisfying customers' asset management needs. The Bank is now seeking to achieve profit targets through a wide selection of trust and indirect investment products ranging from ABS-backed trusts for corporate clients and retirement trusts that safeguard the post-retirement benefits to real estate money trusts for stable and profitable indirect investment in the property market. For individual customers, KDB manages pension trusts to build retirement-age savings, indirect investment products, and other welfare-type trust services.

Private equity funds (PEFs) were first introduced in Korea in 2004. They represent a field with significant growth potentials in the Korean capital market. The Bank entered this new market in 2005 with the aim of enhancing its investment banking capabilities, as PEFs, with better flexibility, provide ideal solutions for investors with similar investment characteristics. KDB's strengths in both domestic and international financial markets place the Bank in a favorable position to lead the domestic PEF market. PEFs are expected to not only contribute to the nation's capital market development, but also create profitable returns for investors.

Contributing to Public Welfare through Trust Business

Trust Business Division is at the forefront of KDB's support of government policy goals to build a social safety net and promote the sound development of the asset management sector.

A key priority this year will be to put employer-sponsored pension products, the foundation of a country's social safety net, on a firm and stable footing. In the first half of 2006, the Bank will establish an advanced IT system to provide customized services to retirees. KDB will also leverage its extensive experience in real estate development financing to offer real estate funds targeting social infrastructure construction and overseas real estate development projects.

As the Korean society ages and the number of nuclear families rises, the importance of wealth management is growing immensely. Taking these changes into account, KDB will concentrate on providing more comprehensive trust services covering numerous types of assets including cash, personal property, and real estate.

Enhancing Trust Business Performance

In 2005, the Act on Business of Operating Indirect Investment and Assets banned sales of unspecified trust products, putting substantial pressure on KDB's money trust businesses. The nations' sluggish real estate market and the winding-up of corporate restructuring activities put the brakes on the ABS market, which in turn led to a contraction in property trust business.

In spite of these unfavorable circumstances, real estate money trust sales soared by more than ₩2.0 trillion over 2004 amid the introduction of a variety of new trust products. Overall trust sales for the year reached ₩17.6 trillion, an increase of more than 9% year-on-year.

KDB recorded totals of ₩12.6 trillion in trust size and ₩39.3 billion in trust fees and commissions. Of the latter figure, ₩12.6 billion was earned from continued sales of the Bank's newly developed real estate fund and related trusts, ₩6.9 billion from expanding sales of property trusts amid active development of new business models, and ₩4.8 billion through growing sales of indirect investment products.

Launching KDB Value PEF I

KDB launched Value I PEF worth ₩300 billion in March 2005. A total of ₩128.1 billion was injected into three companies through the fund last year, including ₩100 billion for Jinro. Following the successful debut in the PEF market, the Bank will concentrate on establishing a firm base of operations in 2006.

To secure stable sources of investment capital, the Bank will deploy marketing strategies targeting institutional investors such as pension funds, as well as investors in Japan and Hong Kong. KDB will explore the new PEF market in pursuit of new demand in the areas of SMEs and corporate governance improvement. KDB will advance into Southeast Asian NPL markets to attain its long-term vision of becoming an international investment fund specialist on the basis of its recognized abilities and experiences.

Risk Management

The Bank continues to make extensive preparations to establish an advanced risk management system required by the New Basel Accord. In line with this, it will focus on establishing an operational risk management framework.

KDB has adopted several principles to ensure effective risk management. First, it sets risk capital limits upon approval of the Board of Directors and manages risks for each business area so that risk does not exceed a certain level of its equity capital. Second, the operational cap on risk capital is determined based on business environment, risk management strategy, and the current risk level with respect to credit, market, operational and interest rate risks. Third, risk levels in each business area are assessed with respect to portfolio characteristics and business plans. Fourth, for efficient overall risk management, the Bank monitors risk limits via diverse tools on a regular basis. The Bank's current risk management system monitors and manages credit, market, operational, interest rate and liquidity risks.

Comprehensively Managing Credit Risks

From a macro perspective, credit risk limits are determined based on a company's industry, group affiliation, size, and credit rating. KDB conducts an analysis on business performance and monitoring based on risk-adjusted return on capital (RAROC). To measure industry-specific risks, the Bank also undertakes biannual industrial assessments that determine the credit rating of each industry and sets guidelines for management of relevant credit exposure. From a micro perspective, KDB controls credit risks of each company through (S)CO/RM and a credit assessment committee.

Advancing Market Risk Management

Unfavorable changes in stock prices, interest rates, and foreign exchange rates could result in losses on stocks, bonds, foreign reserves, and financial derivatives held by the Bank. Recognizing this, KDB continuously manages such risks through bank-wide systems. As a result of the diversification of hybrid derivative product transactions driven by recent advances in financial engineering and accelerated globalization of financial markets, it has become essential for banks to identify, assess and manage risks associated with investment assets. KDB has been responding by advancing its market risk management system. Market risk limits are set based on the extent of losses that the Bank can tolerate, while exposure and stop-loss limits also serve as effective tools to reduce risks.

KDB is prevailing in the Korean financial derivatives market, which carries high potential risks. Taking the lead in developing a wide range of new financial instruments, the Bank has enhanced measuring and management methods of non-linear risks including vega and gamma risks.

KDB has implemented contingency plans to respond to any given scenario from normal market factors to critical situations that could affect the very existence of the Bank. Market risks are assessed and reported on a daily basis. Changes in financial markets such as exchange rate fluctuations that could have an effect on the Bank's portfolio are reported immediately, so that such information can be used in devising business strategies. For more accurate calculations of the amount of capital under market risk, KDB developed Internal Models Approach that represents a significant improvement over the existing Standardized Method. The Bank plans to prepare the process required in order to get approval from the Financial Supervisory Service.

Setting Up New Operational Risk Management Framework for Basel II

KDB continues to make extensive preparations to establish an advanced operational risk structure required by the New Basel Accord (Basel II). In June 2005, the Bank had its risk management system diagnosed by an independent consulting firm. The objective is to satisfy the requirements for the Standardized Approach in calculating regulatory capital and to ultimately lay the groundwork for the application of the

KDB has implemented contingency plans to respond to any given scenario from normal market factors to critical situations that could affect the very existence of the Bank.

Advanced Measurement Approach. Based on the diagnosis, the Bank started building up a new operational risk management system in December 2005. The system provides improved bank-wide operational risk and regulatory capital calculations.

In 2006, KDB will focus on establishing an operational risk management framework that include documentation of revised policies and procedures regarding operational risks, and clarified roles and responsibilities of each management unit. To deal with operational risks more efficiently, the Bank will enhance the risk control function of each department.

Closely Monitoring Interest Rate and Liquidity Risks

KDB set up an independent risk management center that regularly monitors risks associated with interest rates and liquidity. When risk levels exceed set limits, the Bank devises solutions through consultation with relevant departments including Treasury. Currently, interest rate and liquidity risks are managed at levels well within those required by financial regulatory authorities.

The Bank retained the services of a group of outside experts in 2004 with a view to upgrading its interest rate and liquidity risk management systems. Based on the results thereof, KDB commenced work on establishing a new risk management system for interest rates and liquidity. The new system will also manage risks associated with the Bank's overseas network.

The introduction of this new system signifies a major qualitative improvement in KDB's interest rate and liquidity risk management capabilities. With the adoption of new risk-measuring models, factors stipulated by the BIS and the FSS including early termination, early repayment, other customer behaviors, and business plans, all of which affect the cash flow, are now reflected in calculations. Additionally, the ability to measure risks using various simulations increases KDB's capacity to cope with rapidly changing business environments, which in turn contributes to enhancing the Bank's asset quality and stability.

Improving Internal Credit Ratings System

In preparation for the New Basel Accord, KDB implemented New Credit Rating System in December 2004. KDB uses customer credit ratings determined by the new system to assess the degree of risks, which is reflected in formulating loan policies, setting loan loss provisions, measuring credit risks, and managing credit limits.

In 2006, KDB plans to establish Facility Risk Rating System that will ensure more systematic and sophisticated predictions for loss given default (LGD) of individual loans, thereby enhancing interest rate pricing based on expected loss. The Bank also plans to add qualitative and quantitative validation system to its Credit Rating System that will bring greater efficiency and discretion to the loan-making process and ultimately upgrade KDB's credit rating system as a whole.

Financial Management

KDB sets up short-term and long-term supply plans reflecting the capital market conditions and the Bank's demand. For efficient funding, it strives to match the maturities between deposits and credits, while reducing funding costs.

KDB sets up short-term and long-term supply plans reflecting the capital market conditions and the Bank's supply and demand. For efficient domestic funding, the Bank focused on matching the maturities between deposits and credits, while reducing funding costs. Furthermore, in 2005, KDB actively accessed international capital markets to raise funds from overseas, utilizing the Bank's globally diverse investor base and improving investor sentiment towards the Korean economy and the Bank's credit.

Pursuing Efficient Funding System

In 2005, the domestic economy showed signs of recovery along with renewed vigor in the global economy. Uncertainies remained, however, due to interest and exchange rate fluctuations, oil price hikes, and concerns over the North Korean nuclear issue. Despite these generally unfavorable market conditions, KDB successfully adjusted the timing and scale of funding through its advanced, comprehensive fund management system.

The derivative measures used for efficient short-term fund management include local currency interest swaps, short- and long-term KRW/USD swaps, and other currency swaps. By addressing the maturity mismatch between assets and liabilities and reducing funding costs, the Bank provided quality industrial financing.

Gap analyses by currency and maturity are another method the Bank adopted to effectively control funding supplies reflecting interest rate trends and remaining maturities. At the same time, continuous and careful market observation enabled the Bank to deal effectively with imbalances that could stem from uncertainties in the capital market. In accordance with its contingency plans, KDB regularly reviews liquidity levels, while ensuring stable funding through a preemptive F/X position strategy. Meanwhile, flexible internal funds transfer pricing schemes facilitate efficient funding management.

KDB also keeps short-term liquidity at a certain level so that it can promptly respond to abrupt changes in market conditions. By expanding the credit line in call money, the Bank utilized idle funds to ensure stable liquidity.

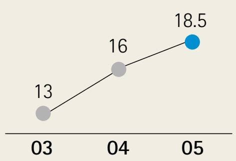
In 2006, KDB will seek to minimize risks associated with fund management through gap analyses, hedge risks via reinforced financing capabilities, use derivative products to diversify financing tools, and improve position management strategies. The Bank will further strengthen its Treasury Unit by improving funds transfer pricing system and maintaining short-term liquidity at an appropriate level.

Funding Flexibly through Industrial Finance Bonds (IFBs)

Domestic Funding

Annual Domestic IFB Issuance

(trillions of won)



Despite rising uncertainties in the bond market spurred by expectations of economic recovery and the overnight call rate hikes, KDB raised ₩18.5 trillion through the issuance of Industrial Finance Bonds, successfully meeting its sales target. This result is largely attributable to the Bank's ability to accurately analyze and forecast market conditions. Multiple types of bonds carrying different maturities were issued in a timely and flexible manner to ensure stable supply of capital.

In early 2005 and in the fourth quarter of the year when interest rates were on the rise, the Bank focused on the issuance of short-term bonds with maturities of less than one year. In the second quarter when interest rates stabilized and in the third quarter when demand for corporate bonds soared, KDB switched its emphasis to long-term bond issuance.

With interest rates at home and abroad expected to rise, conditions do not appear favorable for the issuance of Industrial Finance Bonds in 2006. To secure sufficient liquidity, the Bank will issue a certain amount of IFBs carrying different maturities after taking into consideration capital demand, maturity structures, macro-economic factors, and interest rate changes.

Amid heightened bond market volatility, KDB will cut funding costs through flexible sales of bonds with maturities of six months and one year. Bonds with maturities of more than two years will be issued according to demand for long-term capital. This will help the Bank manage interest rate risks and secure an optimal profit margin. Long-term bonds with maturities of over 10 years will be issued to meet the growing demand for long-term capital from pension funds and insurance companies. Floating rate short-term CD swap instruments will be issued to offset higher funding costs of long-term IFBs.

Overseas Funding

During the year, KDB's credit ratings were upgraded one notch by both S&P and Fitch Ratings. On the back of this credit improvement, KDB effectively raised U$3.7 billion of foreign funds at a significantly lower average cost compared to that of 2004.

KDB tapped major global capital markets on a regular basis through a series of successful foreign currency-denominated IFBs in the form of Global Bonds and Samurai Bonds. Moreover, the Bank concentrated on issuing through its Euro MTN Program and borrowing through term loans to reduce the overall funding cost. Euro MTN issuances, in particular, increased 151% from the previous year and helped the Bank to lower the average funding cost by more than 0.25%, improving KDB's capacity to provide cost-efficient financial support to its corporate clients.

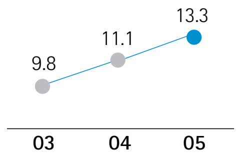
As the nation's most sophisticated and frequent overseas borrower, KDB continues to set major benchmarks for other Korean issuers. In 2005, the Bank successfully issued the U$ 7-year Global Floating Rate Notes for the very first time as a Korean issuer. The Bank continues to put its best efforts to cut borrowing costs and diversify the currency base through its innovative and sophisticated funding strategies. High recognition of KDB's funding activities by international investors reaffirms the Bank's status as Korea's prime representative borrower.

Expanding Deposit Base

The growing expectations for an economic upturn amid rising real estate and oil prices caused market interest rates to rebound, putting an end to the downward trend persisted since 2002. Although competition heated up among domestic commercial banks and foreign institutions to attract deposits, KDB utilized its proven advantage in credit business to attract short-term deposits. As a result, its deposit balance reached ₩13.3 trillion in 2005, exceeding the initial target of ₩12.5 trillion.

Annual Deposit Balance

(trillions of won)



In 2006, the overnight call rate is expected to increase as the economic turnaround takes shape and competition for market share among banks is likely to intensify. KDB will focus on attracting lower-cost short-term deposits (RP, CD, and MMDA) from institutional investors including pension funds. In case market competition for deposits becomes extreme, KDB will turn to direct financing instruments including CDs.
For individual clients, the Bank will not only provide attractive deposit options, but also roll out a broad range of Private Banking (PB) services aimed at making KDB a one-stop banking service provider. These will include free personal accident insurances, cultural marketing, comprehensive tax reporting, and bancassurance products, along with specialist PB staff offering free consultation on tax, legal and real estate matters.

Information Technology

KDB has formulated the tasks of its industry-acclaimed IT operations into mid- to long-term plans that will enable the Bank to offer the best value to customers based on the world's finest IT services.

Following up on the initiative of 2004 to expand knowledge-based management infrastructure, KDB's IT Division formulated in 2005 a mid- to long-term "IT Innovation Plan" in order to implement comprehensive information management. This entailed plans to boost the Bank's operational efficiency, adopt global standards to business systems, and expand IT infrastructure associated with management strategies. In 2006, the IT Division will be fully committed to establishing a world-class IT infrastructure that will enable KDB to cope effectively with the changing financial and IT environments.

Upgrading IT Services via Integrated Information Management System

KDB achieved its objective for 2005 of creating "Integrated Information Management System," completing over 3,300 IT-related projects and obtaining fruitful results in a number of key areas throughout the year.

The integration of KDB's overseas branches into a single IT system and the "Front Package" project both serve to improve efficiency and productivity. Specifically, the Bank's Integrated Accounting System, for which a Business Method patent is pending, is expected to enhance the value of KDB's business methods.

To facilitate dissemination of knowledge-based management concepts, an integrated knowledge search system was created within the intranet. The new system allows users to locate information not only on the Bank's intranet, but also on external websites. This has encouraged staff to share their knowledge and enhance cooperation, resulting in strengthened productivity and customer support.

IT Technology Innovation Committee and IT taskforce for branch network were established, along with various security guidelines drawn up to help consolidate IT management standards and strengthen regulatory foundations.

Laying Out Mid- to Long-term IT Innovation Plans

In March 2005, KDB began the four-month project of devising a new mid- to long-term IT innovation plan that will provide a vision to guide the Bank's IT activities during the next five years. The plan's mission to offer the best customer values based on the state-of-the-art IT service infrastructure can be summarized in three parts.

First, KDB will strengthen bank-wide IT support of its core competencies, particularly in conjunction with the Bank's aim to provide more diversified products and services. Second, it will establish an IT infrastructure that enables the Bank to make timely responses to changes in business environment and regulations. Third, KDB will continue to cultivate professional IT manpower, upgrade efficiency of IT operations, and achieve world-class standardization in IT system development and operation.

KDB expects that full-fledged implementation of its mid- to long-term IT innovation plan from 2006 will lead to effective use of its IT resources, which in turn will secure an efficient operational basis to boost competitiveness.

Winning Recognition for Excellent IT System

KDB's outsourcing of various operations since 1999 has drawn considerable attention and acclaim from outside the Bank. The Korea Society of Management Information Systems selected KDB as an outstanding outsourcing model in its IT Outsourcing Contest. The Bank was also included in *e-Business Case Studies* published jointly by the Ministry of Commerce, Industry & Energy and the Federation of Korean Industries.

Additionally, in *Safety Standards for the Financial Information Network*, an analysis of 19 banks and the Korea Financial Telecommunications & Clearings Institute, KDB was awarded high marks in all 189 categories. This achievement attests the Bank's robust internal IT-related control systems.

Constructing World-class IT Infrastructure

KDB will continue to reinforce its IT operations in 2006 to establish a world-class IT infrastructure. This also marks the first year of the Bank's mid- to long-term IT innovation plan to be finalized for full-scale implementation. To prevent occurrence of financial incidents via the Internet, the Bank will strengthen IT security and internal control systems.

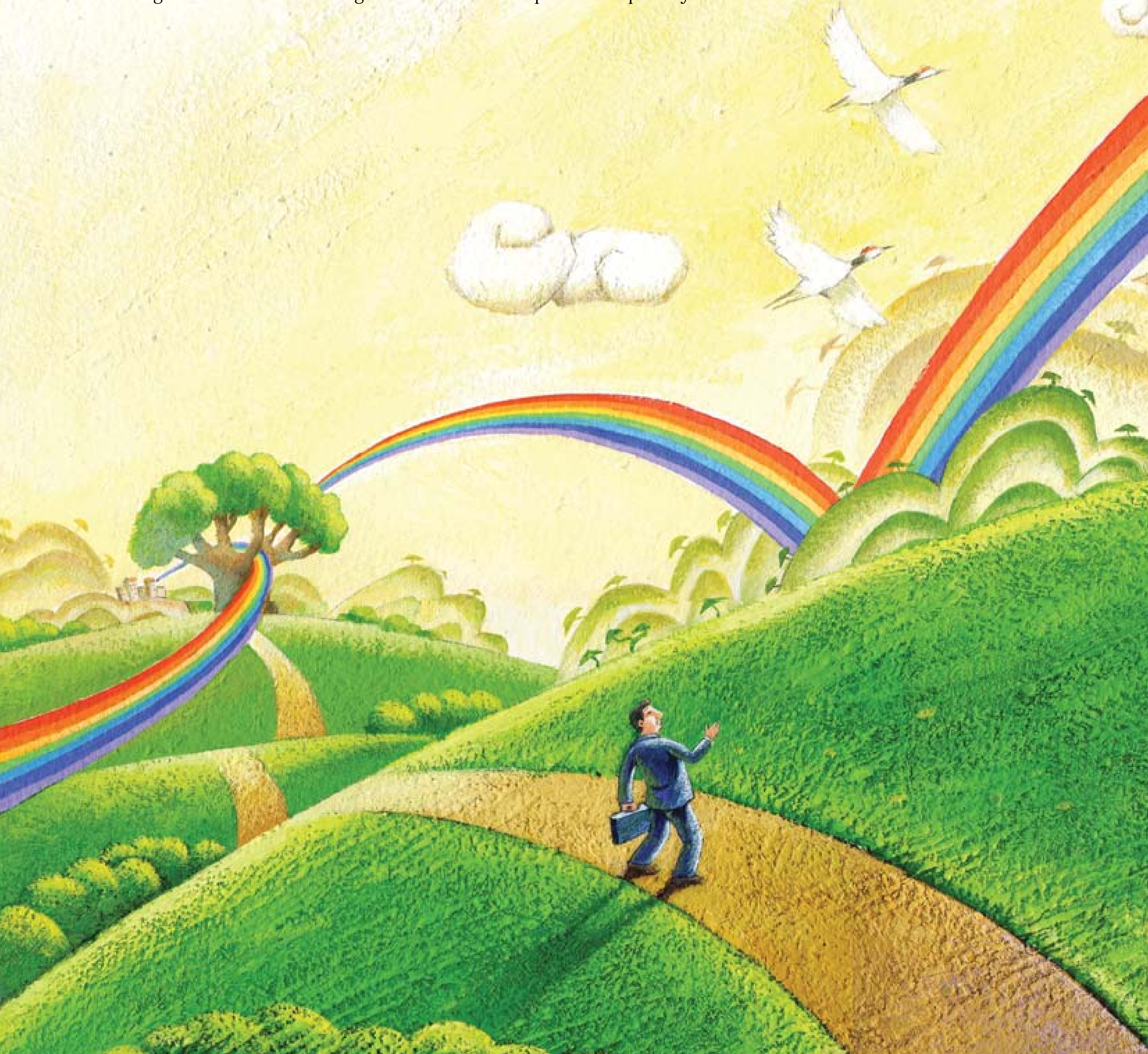
over

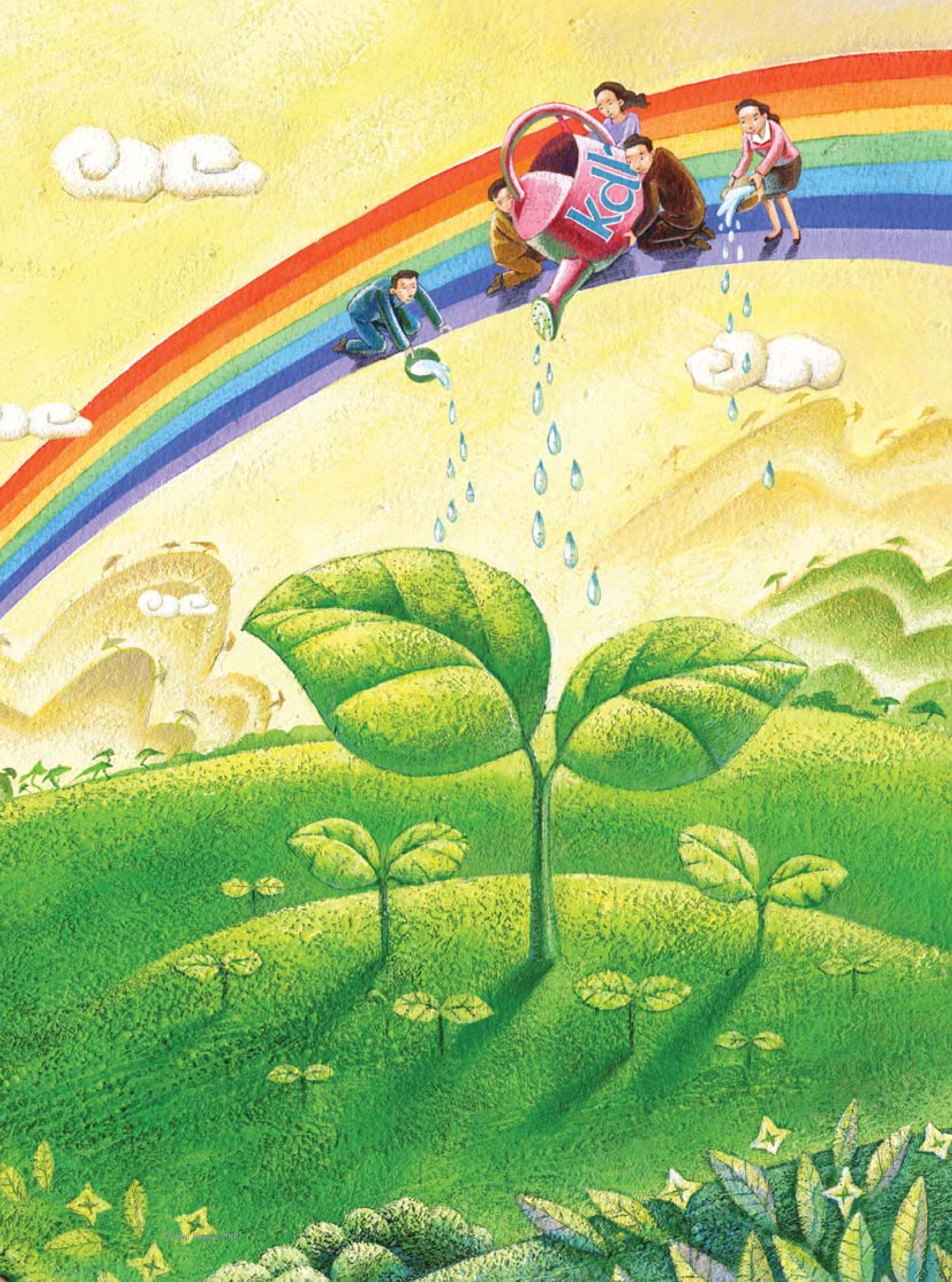
3,300

IT-related projects completed

Raising the Bar in
Social Responsibility

KDB is privileged to highlight its values in pursuit of sustainable development. As a state-run institution, the Bank carries higher social responsibility, playing a harmonious role of promoting profitability and public interest. At the same time, service to society that makes the world a better place has always been central to KDB's duties as a caring and sharing member of the community. Also of fundamental importance is the professional career development of the Bank employees, for whom training and educational programs are provided to nurture them into the leaders of tomorrow. At the core of the Bank's efforts to raise the bar in social responsibility is the emphasis on ethical management so as to meet the global standards of corporate transparency.

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Policy Role

The evolving needs of the national economy and industries dictate appropriate changes in the Bank's policy objectives and strategies. KDB utilizes its past experience to help clients and the nation prepare for future challenges and opportunities.

KDB has made a notable contribution to Korea's economic and industrial advancement. As a state-owned bank, KDB is not bound by the same profit constraints as commercial institutions. Given its unique status, the Bank has been dedicated to cultivating new growth engines, exploring new markets, and stabilizing the financial market. It also brings its long history of development finance expertise to such policy tasks as inter-Korean economic cooperation and balanced regional development. To better execute its public policy role and channel its profits back to the nation, the Bank revised *The Korea Development Bank Act* to pay dividends to the government.

Building Tomorrow's Growth Engines

KDB has earmarked ₩6.0 trillion in facility loans and ₩8.7 trillion in investment loans for 2006 with a view to promoting facility investment, the key to economic growth. These loans will mainly be extended to high value-added, high-growth, next-generation industries including Korea's so-called "6-T" (information technology, biotechnology, nanotechnology, environmental technology, cultural technology, and space technology) and knowledge-based services. Major contributors to the national economy, including core components and materials industries, will also be primary beneficiaries of the Bank's facility loans.

The Bank is firmly committed to spurring facility investments made by SMEs and bridging the gap between the investments made by large enterprises and SMEs. To this end, KDB is implementing a comprehensive package of special measures aimed at vitalizing and nurturing competitive SMEs.

Trailblazing New Markets

As a government-owned institution, KDB will continue to take the initiative in fulfilling its public policy function, which often means embracing higher risks, lower profitability, and longer-term investments than most commercial banks are willing to undertake. The Bank has long been a pioneering force in Korea's project finance and venture capital fields, and although growing competition is expected as latecomers enter the market, KDB will seek mutually complementary relationships with other players for the sake of domestic financial market development and stability.

At the same time, the Bank will lead the way into a new financial product and service territory that commercial banks are unprepared to explore due to their limited risk-taking capacity. Particular focus will be placed on creating markets for private equity funds, credit derivatives, commodity derivatives, and mezzanine financing.

Coping with Future Challenges

Although the nation has steadily recovered from the Asian financial crisis of the late 1990s, Korea's financial system is by no means immune to external shocks. Although overall corporate credit risks have decreased, uncertainties persist in the form of industry bipolarization and over-concentration of short-term loans among total SME credit.

During the financial crisis, KDB employed a variety of measures to stabilize financial markets. It issued foreign currency-denominated Industrial Finance Bonds to improve foreign exchange liquidity, supplying high-quality capital to the market. It also provided loans and investment capital for temporarily insolvent companies. In addition, the Bank spearheaded efforts for corporate restructuring through resolution of non-performing loans and workout programs in order to help companies turn around quickly. In 2004, KDB helped stave off a full-blown credit card crisis by acquiring troubled LG Card.

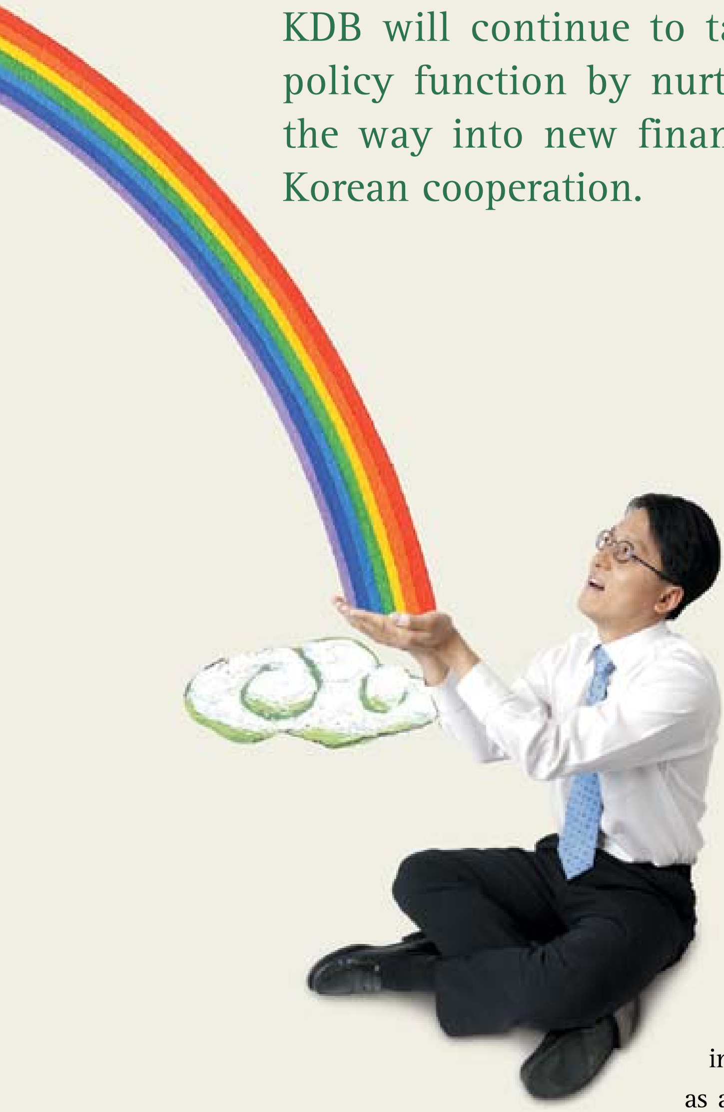
To cope effectively with future economic challenges, KDB will stand firm in its role as a market stabilizer, making optimal use of its vast experience to strengthen support for the real economy and promote stable development of Korea's financial system.

Gearing Up for Inter-Korean Cooperation & Reunification

Since 1992, KDB has devoted considerable resources to facilitate inter-Korean economic cooperation. To date, the Bank has extended loans totaling ₩10.6 billion to nine companies operating in the Gaesong Industrial Complex in North Korea. South Korean enterprises doing business in the North can utilize KDB's comprehensive financial and consulting services, including business feasibility assessment, and apply for facility loans through a special fund. Meanwhile, the Bank also conducted research on North Korea's industrial, economic and financial systems.

Post-reunification development of North Korea will incur tremendous costs in

KDB will continue to take the initiative in fulfilling its public policy function by nurturing growth engine industries, leading the way into new financial products and gearing up for inter-Korean cooperation.



improving infrastructures and industries, and require vast experience in development finance. As the case of Germany suggests, assistance from a development bank like KDB will be instrumental to Korea's post reunification economic growth.

Striving for Balanced Regional Development

Regional and SOC development projects will take up a large share in KDB's policy purview for 2006 as the Bank continues to function as a market maker in this field. KDB will offer consulting services to agencies in six regions selected as test models for "corporate city" development plans and increase its participation in the "Busan-Jinhae Free Economic Zone" project for which it has provided consulting services. The Bank will also take part in joint projects between private and public sectors, including Daedok Techno Valley and an industrial complex in Asan, South Chungcheong Province.

By carrying out these activities in cooperation with local governments and public organizations, KDB will strengthen its support for balanced regional development.

Channeling Profits Back to the Government

In June 2005, the Bank revised *The Korea Development Bank Act* to include provisions for payment of dividends. The payment is expected to be of great assistance to the government's budget management.

Community Service

KDB employees take part in various community service activities as volunteers to help create a better world by giving and sharing.

In fulfilling its duties as a state-run financial institution, KDB performs various social welfare activities that demonstrate its commitment to the community. KDB employees take part as volunteers to help create a better world by giving and sharing.

KDB's community service efforts began to take on their present shape since March 1996 with the establishment of KDB Family Volunteer Corps. Under the slogan, "Healthy Family, Healthy Workplace, Healthy Society," the Corps has carried out a wide range of donation and volunteer activities. It has also heightened awareness among KDB employees that small acts of love make a big difference. Along with the growth of the Bank, the Corps has broadened the scope of its activities over the past decade, which in turn has elevated employee pride and satisfaction, while highlighting KDB's image as a faithful and responsible member of the community.

Creating a Better World by Giving and Sharing

Approximately 10% of KDB employees are actively providing volunteer services on a biweekly or monthly basis. Members of KDB Family Volunteer Corps spend time with children with disabilities at the Jumong Rehabilitation Center, the Samsung Center for the Hearing Impaired, and the Sungrowon Home for Infants, a center for orphaned and abandoned children, in order to help them better adapt to society.

In addition, the Bank employees who are members of the Junior Achievement Program in Korea (JA-Korea), a non-profit organization seeking to educate and inspire young people, share their knowledge and career experiences with teenagers through lectures on the economy and related subjects. Earning a wide reputation for its practical and lively discussions on subjects not covered by regular school curricula, this group was chosen as the best volunteer team within JA-Korea.

Also notable is KDB's "Share the Love" campaign, which represents the centerpiece of the Bank's charitable activities. The roster of campaign donors keeps growing every year. Through the campaign, a majority of employees participate in annual blood donations for leukemia patients, make year-end monetary contributions to help the needy, and take part in assisting victims

Approximately 10% of KDB employees are actively providing volunteer services on a biweekly or monthly basis.

of natural disasters such as typhoons, floods, and blizzards with monetary aid and recovery efforts.

To provide students from low-income families with scholarship, KDB employees made regular donations throughout the year, with the Bank contributing matching amounts. Employees have recently agreed to the labor union's proposal to raise the amount of donation to greatly expand the scholarship fund, allowing more teenagers from low-income families to benefit from this charity program.

Aside from these charities, KDB has implemented wide-ranging exchange programs between rural and urban areas beginning with a partnership with Yangjiri, a rural village in Gangwon Province, in August 2005. In addition to its previous activities that included assistance in rice planting and environmental improvement, the Bank is now focusing on securing higher incomes and improving community facilities for the farming village.

Since the formation of the partnership, KDB employees have purchased high-quality rice from Yangjiri on a regular basis, providing the village with stable income source. The Bank also supports construction of facilities that provide urbanites with the opportunity to experience the farming life and hosts annual events that utilize the village's natural environment and accommodation facilities. Such events include an educational program where children from big cities learn about the rural life.

KDB is attentive to the financially troubled as well. In 2005, KDB joined hands with Social Solidarity Bank (SSB), a microcredit organization, to help credit delinquents start up their own companies. In addition to giving financial support, this program facilitates the Bank's active involvement in education and follow-up services for micro-business start-ups. KDB will continue making contributions to SSB by providing funds in proportion to a certain percentage of cash deposits to the program in 2006. The contributed funds will be used to assist the low-incomers, including those who have declared bankruptcy and female breadwinners, to start businesses and stand on their own feet.

These microcredit activities demonstrate KDB's determination to spearhead efforts to bridge the gap between the haves and have-nots, and to bring other banks' attention to this issue by raising public awareness of the plight of the financially distressed.

Furthermore, in an effort to foster closer ties with the public, KDB sponsors three to four large-scale operas and musicals every year. The goal is to upgrade the nation's cultural foundation to a global level by giving the general public more opportunities to enjoy quality performances. In 2005, the Bank sponsored performances of Verdi's opera *Nabucco*, the Korean film *Waikiki Brothers*, the musicals *Notre Dame de Paris* and *The Producers*, among many others. A notable trait is that music is central to each of these events, and they were sponsored in

the belief that music heals and sends a warm message of love, friendship, and unity.

Earning Wide Recognition as a Consequence

Through its ongoing and voluntary initiatives, KDB Family Volunteer Corps helps strengthen employees' commitment to community service. In addition, participation by the Bank employees and their families serves to enhance the pride and satisfaction of the entire KDB staff at both workplace and home.

Active community service has elevated the image and prestige of the Bank. For instance, KDB Family Volunteer Corps received "Community Service Award" jointly presented by KBS and *JoongAng Daily* in 1996, and "Corporate Community Service Award" by the Saemaul Movement Business Council in May 2005. Also, for its meaningful contribution to the society, Community Service Team, which guides the activities of the Corps, has earned official commendation from the Prime Minister.

The bank sponsors three to four large-scale operas and musicals annually in an effort to upgrade the nation's cultural foundation to a global level by giving more people opportunities to enjoy quality performances.

Human Resources Management

KDB seeks to cultivate a workforce of talented and capable personnel, along with the industry's most qualified experts in core areas of banking operations.

With rapid globalization of the nation's financial markets, the importance of talented human resources is growing. It takes more than a generalist's knowledge and expertise to handle today's increasingly complex and specialized financial tasks, and the need for professional talent will only continue to grow. Thus, KDB seeks to cultivate a workforce of talented and capable personnel, along with the industry's most qualified experts in core areas of bank operations.

Customizing Professional Career Development

KDB has dispensed with the inefficient, "one-size-fits-all" training courses and adopted carefully tailored programs designed to meet the Bank's present and future needs. The curricula of the Bank's advanced-level training focus on areas crucial to securing dominant market positions, including exploration of mid- to long-term profit sources.

In line with the recent paradigm shift in training and education towards self directed learning, KDB is expanding cyber training programs for the participant's convenience.

While creating standard training courses on key areas such as risk management and international and investment banking, the Bank also operates specialized training programs to nurture individual talents in each sector.

KDB runs an in-house academy covering the subjects of corporate, international and investment bankings during weekdays and on weekends. The Bank extends support for employees attending postgraduate study including MBA programs at Korea Development Institute and KAIST. KDB is also rearing next-generation leaders through its Leadership Program aimed at equipping promising staff with superior management capabilities.

The Bank's commitment to cultivating a globally competitive talent base is also demonstrated by programs that support employees' advanced-degree studies at renowned universities around the world including those in the U.S., U.K., and China. Moreover, KDB dispatches employees to specialized financial education institutions and runs an exchange program with China Development Bank and the Bank of China.

Implementing Self-directed Training Programs

In line with the recent paradigm shift in training and education towards self-directed learning, KDB is expanding cyber training programs for the participants' convenience. To this end, the Bank has established a superb e-learning system, utilizing it for on-the-job training.

The Bank provides financial support to staff preparing for professional license examinations related to the banking industry such as CFA, CPA (US AICPA), Credit Analyst, and Custodian. Employees are also encouraged to form study groups on their own to share information on subjects of mutual interest in a self-learning environment. Additionally, small group studies and department-based training programs are implemented to create a self-directed learning culture and expand knowledge management.

Ethical Management

Through an internal Code of Ethics, practical tools, and a compliance framework, KDB has established the infrastructure for effective implementation of ethical management objectives.

The WTO Government Procurement Agreement, the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, and other initiatives have put ethical management in the international spotlight and helped quantify a global standard for ethical management. In Korea, too, there are growing public expectations regarding ethical management in the corporate sector. In line with this trend and the evolving global standards, KDB conducts its own ethical management policies and practices to further consolidate its transparency as it heads toward the "Great Bank" status.

Maximizing Transparency

To earn the trust of clients and the public and to contribute to the advancement of the national economy and society, KDB always puts customers first and assists staff to reach their career and life goals, setting an example for corporate social responsibility in the financial industry.

KDB created its own Code of Ethics in an endeavor to maintain standards of equality and integrity among the employees. The Code encourages staff members and executives to provide the best services for customers and assume responsibility in a fair and transparent manner. The Code sets guidelines that every employee should follow as a financial professional. All employees sign "Commitment to Code of Ethics," pledging themselves to comply with the Bank's ethical principles. In addition, KDB encourages its subsidiaries and partners to join the ethical management movement.

Efficiency and adequacy of ethics management are ensured by means of practical tools and a framework that include Compliance Committee, Compliance Unit, and detailed guidelines. They create the infrastructure upon which the Bank can implement and execute ethical management objectives more thoroughly and systematically.

As a consequence of these efforts, the Bank was selected as a leading transparent organization (ranked 3rd overall and 1st among financial institutions), receiving 9.29 out of 10 points in Korea Independent Commission Against Corruption's "2005 Integrity Survey" of 325 domestic organizations including central government agencies, central and local offices of education, local governments, and other public agencies.

KDB conducts its own ethical management policies and practices to further consolidate its transparency as it heads toward the “Great Bank” status.

Promoting Ethics Management

Ethics Awareness Enhancement

KDB includes ethics lectures as part of its mandatory education program for all new staff in group training and also covers the subject through the online "KDB Innovation School" and via compliance officers. These educational activities are conducted on a monthly basis to strengthen the ethical values of the entire KDB staff.

Cyber Ethics Management

To create a culture of voluntary internal controls, the Bank's cyber ethics management system provides KDB employees with counseling and a means to report corrupt or questionable activities that may go against the Bank's Code of Ethics. This system will foster an ethical corporate culture, which in turn will help prevent the occurrence of illicit financial incidents.

"Clean Report Center"

In case an employee is offered or unavoidably receives money or gifts in connection with the Bank's operations, he/she can report the bribery or attempt thereof through a hotline or e-mail. This system guarantees the confidentiality of employees.

Whistleblower Reward System

KDB employees are encouraged to report to compliance officers activities that are in violation of related acts, bylaws, and Code of Ethics of the Bank. Under the system's guidelines, those who report the aforementioned infringements are given incentives, and their identities are kept strictly confidential.

Legal Monitoring & Investigation

Compliance Team performs a regular review of each employee's compliance with ethical codes and principles. If there are any problems or shortcomings, the Team requests corrective measures and improvements.

Preemptive Monitoring

With a view to minimizing KDB's legal risk, Compliance Team undertakes a prior review of the development and implementation of new business activities such as the establishment and revision of internal regulations, conclusion of contracts, and introduction of new products.

KDB's operational information is provided in compliance with related regulations on disclosure. Compliance Team strengthens transparency and reliability of business information before making financial disclosure.

Money Laundering Prevention

KDB management and employees are strictly forbidden to engage in money-laundering activities. Suspected cases associated with illegal funds or financial sources for terrorism must be reported to compliance officers, and further to the concerned government authorities. KDB's bylaws include "Report System for Large-scale Cash Transactions" and "Know-Your-Customer Policy" to ensure that KDB's capital is not used for money-laundering purposes. In the case of transactions with correspondent banks, KDB strictly observes international policies against money laundering.

KDB will continue to devote itself to realizing the highest standards of transparent and ethical management. The Bank's employees will fulfill their responsibilities in a fair and transparent manner and provide quality, attentive services to clients. In addition, the Bank will avoid any and all unfair financial transactions that could undermine sound financial practices and will strive to create ethical management standards that prevent questionable financial transactions.

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Management's Discussion and Analysis

The management's discussion and analysis mainly highlights key information and hence may not contain all of the information that may be deemed important by the readers of this Annual Report. The MD&A section may contain forward-looking statements, which are related to Korea Development Bank's business and results of operations and reflect its current views with respect to future events and financial performance. These statements are subject to certain risks and uncertainties, which could cause actual results to materially differ from those anticipated. The term "the Bank" used here without any other qualifying description will refer to "Korea Development Bank."

Financial Summary of 2005

(billions of won, %)

	2005	2004	Change
Income Statement Data			
Interest Income	3,029	2,847	6.4%
Net Interest Income	431	318	35.5%
Operating Income	227	261	-13.0%
Net Income	2,422	1,078	124.7%
Profitability			
ROA (%)	2.6%	1.2%	1.4%
ROE (%)	19.3%	11.8%	7.5%
NIM (%)	0.61%	0.47%	0.14%
Balance Sheet Data			
Total Assets	96,511	92,685	4.1%
Total Liabilities	81,766	81,964	-0.2%
Total Shareholder's Equity	14,745	10,721	37.5%
Asset Quality			
NPL Ratio (%)	1.0%	1.6%	-0.6%
Loan Loss Coverage Ratio (%)	117.6%	113.2%	4.4%
Capital Adequacy			
BIS Ratio (%)	18.4%	18.1%	0.3%
Tier 1 CAR (%)	14.9%	13.3%	1.6%
Tier 2 CAR (%)	3.5%	4.7%	-1.2%

Executive Summary

Net income surged 124.7% *yoy* to a record ₩2,422 billion in 2005. Net interest margin improved and provisions were set at a much lower level compared to the previous year due to normalizations of insolvent companies. Meanwhile, gain from disposal of investment securities soared as a result of a brisk stock market. Valuation gain on securities under the equity method also posted a significant *yoy* increase bolstered by sound earnings from the Bank's affiliates.

Management's Discussion and Analysis

The steep rise in net income strengthened profitability. ROA climbed 1.4%p *yoy* to 2.6% in 2005. ROE recorded 19.3%, up 7.5%p from the previous year. Net interest margin improved 0.14%p to 0.61% helped by lower funding costs resulting from the redemption of high-yield Industrial Finance Bonds (debentures, hereinafter "IFBs").

As of December 31, 2005, the Bank's total assets grew 4.1% *yoy* to ₩96.5 trillion, compared to a rise of 3.3% *yoy* in 2004. The moderate growth rate rise was primarily accounted for by an increase in both investment securities and loans resulting from the Bank's efforts to promote facility investments in the corporate sector. While total liabilities remained stable, total shareholder's equity rose by 37.5% *yoy* on the back of swelling net income and increased capital adjustments.

Efficient management of bad loans reduced NPL ratio to 1.0%, a 0.6%p decrease *yoy*. Loan loss coverage ratio was 117.6%, up 4.4%p from 2004. The bank extended the scope of allowance for possible guarantee losses to cope with possible bad loans more effectively and introduced allowance for unused loan commitments. The change in the accounting policy took effect this year, reducing net income by ₩69 billion from the net income measured under the previous policy.

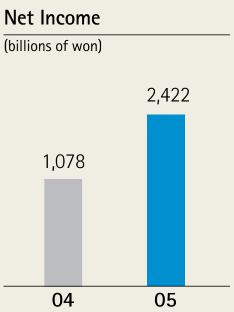
Higher retained earnings enhanced by the all-time high net income raised BIS ratio by 0.3%p to 18.4%. Tier 1 capital adequacy ratio (CAR) grew 1.6%p *yoy*, while Tier 2 CAR fell 1.2%p as a result of repayment of borrowings from the government.

Analysis of Operating Results

In 2005, net income more than doubled *yoy* to ₩2,422 billion. On the operating income side, net interest income surged 35.5% *yoy* to ₩431 billion, whereas net non-interest income declined by 42.7% to ₩153 billion from that of the previous year. General and administrative expenses recorded ₩357 billion, up 10.2% from a year earlier. As a result, operating income fell by 13.0% *yoy* to ₩227 billion.

On the other hand, net non-operating income shot up by 129.1% *yoy* to ₩2,202 billion. The escalation of net non-operating income stemmed mainly from the upsurge in gain on disposal of investment securities and valuation gain on securities under the equity method. In addition, income tax plummeted by 95.1% to ₩7 billion.

Management's Discussion and Analysis



Income Statements

(billions of won, %)

	2005	2004	Change
Net Interest Income	**431**	**318**	**35.5%**
Net Non-interest Income	**153**	**267**	**-42.7%**
General & Administrative Expenses (-)	357	324	10.2%
Operating Income	**227**	**261**	**-13.0%**
Net Non-operating Income	**2,202**	**961**	**129.1%**
Income Tax (-)	7	144	-95.1%
Net Income	**2,422**	**1,078**	**124.7%**

Net Interest Income

Net interest income soared 35.5% *yoy* to ₩431 billion in 2005, marking the largest growth within the operating income category. Interest income climbed 6.4% to ₩3,029 billion, of which interest income on securities showed the highest annual growth of 16.1% at ₩764 billion. Interest on loans also inched up 3.2% to ₩2,207 billion as a result of the increase in new loans accomplished through the Bank's vigorous marketing activities.

Interest expense recorded ₩2,598 billion, showing a moderate rise of 2.7% from the previous year. Interests on deposits and bonds payable both declined slightly. However, this was not enough to offset the 23.4% increase in interest on borrowings that totaled ₩617 billion amid the upward trend of interest rates. Interest on bonds payable fell 3.1% *yoy* to ₩1,631 billion following the redemption of high-yield IFBs.

(billions of won, %)

	2005	2004	Change
Interest Income	**3,029**	**2,847**	**6.4%**
Loans	2,207	2,139	3.2%
Securities	764	658	16.1%
Others	58	50	16.0%
Interest Expenses	**2,598**	**2,529**	**2.7%**
Deposits	324	333	-2.7%
Borrowings	617	500	23.4%
Bond Payable	1,631	1,683	-3.1%
Others	26	13	100.0%
Net Interest Income	**431**	**318**	**35.5%**

Net Non-interest Income

Net non-interest income contracted 42.7% *yoy* to ₩153 billion in 2005. By segment, net income from fees and commissions dropped 9.2% to ₩297 billion. In particular, a shrink of total guarantee amounts caused the guarantees-related fees to decline.

Net gain from securities plummeted by 62.4% *yoy*, resulting from bond devaluation caused by the rise in interest rates. Lower exchange rate volatility halved gain from derivative financial instruments as well. Despite the changes in the accounting policy, provisions in 2005 decreased sharply due to reduction in bad loans.

(billions of won, %)

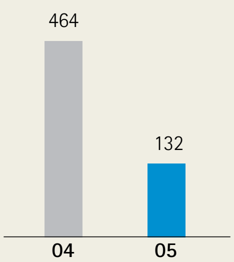
	2005	2004	Change
Net Income from Fees & Commissions	297	327	-9.2%
Net Gain from Securities	35	93	-62.4%
Net Gain from Derivative Financial Instruments	53	106	-50.0%
Total Provisioning (-)	143	322	-55.6%
Others	-89	63	-241.3%
Net Non-interest Income	**153**	**267**	**-42.7%**

Net Credit Expenses

Total provisioning in 2005 more than halved from a year earlier to ₩143 billion despite additional provisions set aside for losses from guarantees and acceptances combined with the introduction of provision for losses from unused loan/commitments in preparation for the implementation of BASEL II. Provision for loan losses reached ₩84 billion, down 73.3% *yoy* due to a reduction in bad loans. Provision for losses from guarantees and acceptances jumped 300.0% as its application was expanded to a large extent. Provision for losses from unused loan/commitments, taking into force this year, recorded ₩31 billion. Net gain from sale of loans turned around to ₩11 billion in 2005 from a loss of ₩142 billion in the previous year when the block sale of NPLs took place.

Net Credit Expenses

(billions of won)



(billions of won, %)

	2005	2004	Change
Total Provisioning	**143**	**322**	**-55.6%**
Provision for Loan Losses	84	315	-73.3%
Provision for Losses from Guarantees and Acceptances	28	7	300.0%
Provision for Losses from Unused Loan/Commitments	31	-	-
Net Gain from Sale of Loans (-)	**11**	**-142**	**107.7%**
Gain on Sale of Loans	13	15	-13.3%
Loss on Sale of Loans	2	157	-98.7%
Net Credit Expenses	**132**	**464**	**-71.6%**

Management's Discussion and Analysis

Net Non-operating Income

Net non-operating income shot up 129.1% *yoy* to ₩2,202 billion despite the moderate fall in operating income, making significant contribution to net income expansion. Net valuation gain on securities under the equity method, the largest segment in the non-operating income side, rose by 29.5% *yoy* to ₩1,380 billion as a result of the strong earnings from LG Card and KEPCO. Net valuation gains on securities under the equity method of LG Card and KEPCO grew by ₩271 billion and ₩113 billion, respectively, from a year earlier. Other net non-operating income leaped a staggering 2,091.9% *yoy* due to the sale of Doosan Infracore shares and reversal of securities impairment loss helped by the normalization of Hynix Semiconductor and Ssangyong Cement.

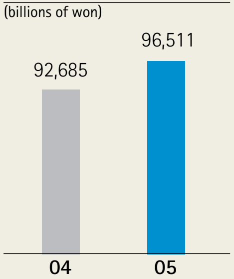
(billions of won, %)

	2005	2004	Change
Net Valuation Gain on Securities under the Equity Method	1,380	1,066	29.5%
Net Gain from Sale of Loans	11	-142	107.7%
Others	811	37	2,091.9%
Net Non-operating Income	**2,202**	**961**	**129.1%**

Total Assets

Total Assets

(billions of won)



As of December 31, 2005, total assets climbed 4.1% *yoy* to ₩96,511 billion. The primary contributing factors to asset growth were the expansions in securities and loans. On the other hand, both derivative financial instruments and other assets contracted. Securities as of the end of 2005 stood at ₩39,435 billion, up 16.0% from the previous year. The 4.2%p increase in the proportion of securities to total assets to 40.9% is attributable to the Bank's active investment banking operations and rising valuation gains from securities supported by the strong stock market.

Loans reached ₩49,830 billion, up 8.7% *yoy*. Its proportion to total assets also grew 2.1%p to 51.6%. The growth was caused by the increase in capital supply, loans for facilities, and loans for working capital. Meanwhile, other assets fell by 55.9% *yoy* due to the large reduction in other accounts receivable from the previous year.

(billions of won, %)

	2005	2004	Change
Cash & Due from Banks	1,866	1,192	56.5%
Securities	39,435	33,988	16.0%
Trading Securities	1,112	2,252	-50.6%
Investment Securities	38,323	31,736	20.8%
Loans	49,830	45,849	8.7%
Derivative Financial Instruments	1,969	3,913	-49.7%
Other Assets	3,411	7,743	-55.9%
Total Assets	**96,511**	**92,685**	**4.1%**

Loans

The sum of core loans outstanding remained almost unchanged from the year before. By currency, loans in local currency climbed 6.0% *yoy* to ₩18,149 billion, while loans in foreign currencies slid 7.3% to ₩12,521 billion due partly to appreciation of the Korean won. When converted into the US dollar, loans in foreign currency showed a 4.5% *yoy* decline.

By industry, loans extended to manufacturing and transportation & communications sectors grew, while those to public administration, electric, gas & water supply, and banking & insurance sectors shrunk.

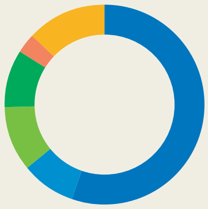
(billions of won, %)

	2005	2004	Change
By Currency			
Local Currency	18,149	17,126	6.0%
Foreign Currencies	12,521	13,504	-7.3%
By Industry			
Manufacturing	16,955	16,244	4.4%
Banking & Insurance	2,701	2,773	-2.6%
Transportation & Communications	3,221	3,155	2.1%
Public Administration & National Defense	2,864	3,284	-12.8%
Electricity, Gas & Water Supply	980	1,134	-13.6%
Others	3,949	4,040	-2.2%
Sum of Core Loans Outstanding	**30,670**	**30,630**	**0.1%**

Loans by Currency

59.2% Local Currency
40.8% Foreign Currencies

Loans by Industry



55.3% Manufacturing
8.8% Banking & Insurance
10.5% Transportation & Communications
9.3% Public Administration & National Defense
3.2% Electrcity, Gas & Water Supply
12.9% Others

Total Liabilities & Total Shareholder's Equity

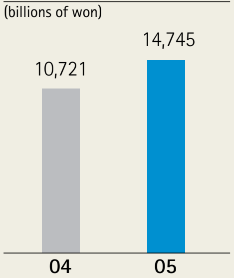
As of December 31, 2005, total liabilities dipped 0.2% *yoy* to ₩81,766 billion as increases in deposits and IFBs were offset by decreases in borrowings, derivative financial instruments, and other liabilities. The proportion of deposits to total liabilities stood at 13.8%, up 2.9%p *yoy*, and that of IFBs also climbed 3.9%p to 52.8%. Growth in deposits stemmed from large increases in time deposits in local and foreign currencies and CPs compared to the previous year.

Total shareholder's equity jumped 37.5% *yoy* to ₩14,745 billion on the back of a record-high net income and higher valuation gain from available-for-sale securities recognized as capital adjustments.

Management's Discussion and Analysis

Total Shareholder's Equity

(billions of won)



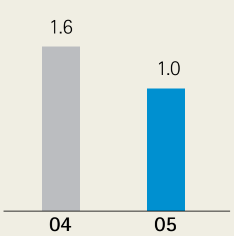
(billions of won, %)

	2005	2004	Change
Deposits	11,322	8,933	26.7%
Borrowings	20,818	21,546	-3.4%
Industrial Finance Bonds	43,164	40,104	7.6%
Derivative Financial Instruments	2,255	3,917	-42.4%
Other Liabilities	4,207	7,464	-43.6%
Total Liabilities	**81,766**	**81,964**	**-0.2%**
Total Shareholder's Equity	**14,745**	**10,721**	**37.5%**
Total	**96,511**	**92,685**	**4.1%**

Asset Quality

NPL Ratio

(%)

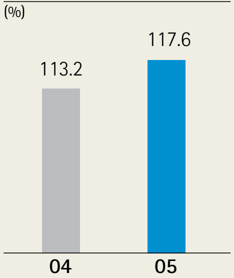


As of December 31, 2005, total credits stood at ₩53,878 billion, 0.2% lower than the previous year. Normal credits rose 2.6% to ₩52,337 billion, while credits classified as substandard or below plunged 36.7% to ₩544 billion, propelled by the normalization of Hynix Semiconductor and the sale of credits extended to Thrunet. As a result, NPL ratio improved by 0.6%p to 1.0%, reflecting stronger asset quality led by both an increase in normal credits and a decrease in loans classified as substandard or below.

Large-scale sale and write-off of bad loans caused loan loss reserve to fall 34.3% to ₩640 billion. Backed by lower NPL ratio, loan loss coverage ratio recorded a 4.4%p increase *yoy* to 117.6%.

Loan Loss Coverage Ratio

(%)



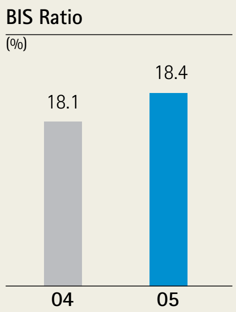
(billions of won, %)

	2005	2004	Change
Normal	52,337	50,994	2.6%
Precautionary	997	2,145	-53.5%
Substandard	431	574	-24.9%
Doubtful	5	183	-97.3%
Estimated Loss	108	103	4.9%
Total Credits	**53,878**	**53,999**	**-0.2%**
Substandard or Below	544	860	-36.7%
NPL Ratio	**1.0%**	**1.6%**	**-0.6%**
Loan Loss Reserve	640	974	-34.3%
Loan Loss Coverage Ratio	**117.6%**	**113.2%**	**4.4%**

** Total Credits are defined according to FSS standard.*

Capital Adequacy

The Bank was able to strengthen its capital position following a strong earnings performance in 2005. Consequently, in the same year, the Bank's Tier 1 CAR improved by 1.6%p to 14.9%, and BIS ratio rose to 18.4% from 18.1% in 2004 in spite of a 1.2%p reduction in Tier 2 CAR. Risk-weighted assets increased by 16.3% *yoy* in 2005 as the Bank realized a 16.0% growth in securities and an 8.7% growth in loan assets during the year.



With the New Basel Accord expected to be implemented in 2007, the Bank has been paying its utmost attention during the past several years to making necessary preparations.

For credit risks, the Advanced IRB Approach will be applied. Meanwhile, the Standard Measurement Approach will be initially employed for operational risks with the Advanced Measurement Approach to be utilized one to two years down the road. Targeting September 2006 as the completion date for all related preparations, the Bank is currently upgrading its IT systems.

(billions of won, %)

	2005	2004	Change
Total Risk-weighted Assets	87,488	75,223	16.3%
Total Risk-adjusted Capital	16,126	13,601	18.6%
BIS Ratio (%)	18.4%	18.1%	0.3%
Tier I CAR	14.9%	13.3%	1.6%
Tier II CAR	3.5%	4.7%	-1.2%

Report of Independent Auditors

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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, 2005 and 2004, and the related non-consolidated statements of income, appropriations of retained earnings, and cash flows for the years then ended, expressed in Korean won. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in 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 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, 2005 and 2004, and the results of its operations, the changes in its retained earnings and its cash flows for the years then ended in conformity with accounting principles generally accepted in the Republic of Korea.

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

As discussed in Note 2 to the non-consolidated financial statements, the Bank changed its accounting policy to increase provision for possible guarantee and acceptances losses and for unused loan commitments.

As discussed in Note 25 to the non-consolidated financial statements, the Bank changed its accounting method for unspecified private equity funds and reclassified securities accounted for under the equity method. Accordingly, the financial statements for the year ended December 31, 2004, presented herein for comparative purposes have been restated.

Report of Independent Auditors

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

January 24, 2006

This report is effective as of January 24, 2006, 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, 2005 and 2004

(in millions of Korean Won)

		2005		2004
Assets				
Cash and due from banks (Note 3)	₩	1,866,224	₩	1,192,300
Securities (Note 4)		39,434,849		33,987,777
Loans receivable, net of allowance for possible loan losses				
of ₩660,426 million (2004 : ₩1,029,095 million) (Note 5)		49,829,900		45,848,786
Property and equipment, net (Note 6)		654,331		658,375
Derivative financial instruments (Note 14)		1,969,070		3,913,344
Other assets, net (Note 7)		2,756,320		7,084,162
Total assets	₩	96,510,694	₩	92,684,744
Liabilities and Shareholder's Equity				
Deposits (Note 8)	₩	11,322,026	₩	8,932,958
Borrowings (Note 9)		20,818,120		21,545,932
Industrial finance bonds, gross of premium				
on bonds of ₩20,145 million (2004 : ₩34,535 million)				
and net of discount on bonds of ₩55,203 million				
(2004 : ₩41,973 million) (Note 10)		43,163,928		40,103,503
Allowance for possible guarantee losses (Note 12)		39,387		11,931
Allowance for unused loan commitment (Note 12)		31,316		-
Accrued severance benefits		48,357		29,855
Derivative financial instruments (Note 14)		2,254,851		3,916,698
Other liabilities (Note 11)		4,087,720		7,423,380
Total liabilities		81,765,705		81,964,257
Commitments and contingencies (Note 13)				
Shareholder's Equity				
Paid-in capital (Note 15)		8,241,861		8,241,861
Capital surplus		44,373		44,373
Retained earnings		4,027,676		1,611,228
Capital adjustments (Note 15)		2,431,079		823,025
Total shareholder's equity		14,744,989		10,720,487
Total liabilities and shareholder's equity	₩	96,510,694	₩	92,684,744

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

Non-Consolidated Statements of Income

Years Ended December 31, 2005 and 2004

(in millions of Korean Won)

	2005	2004
Interest income		
Interest on loans	₩ 2,207,537	₩ 2,138,604
Interest on due from banks	34,779	30,305
Interest on trading securities	54,141	54,522
Interest on available-for-sale securities	579,609	441,113
Interest on held-to-maturity securities	130,162	162,352
Other interest income	22,970	20,247
	3,029,198	2,847,143
Interest expense		
Interest on deposits	324,234	332,772
Interest on borrowings	616,790	500,244
Interest on bonds payable	1,631,319	1,683,038
Other interest expenses	25,866	12,839
	2,598,209	2,528,893
Net interest income	430,989	318,250
Provision for loan losses (Note 5)	83,769	315,137
Net interest income after provision for loan losses	347,220	3,113
Non-interest revenue		
Fees and commissions	316,609	348,325
Gain from trading securities	42,171	60,132
Gain from available-for-sale securities	50,353	65,464
Gain from derivative financial instruments	5,892,895	8,465,687
Others (Note 16)	1,399,223	1,594,060
	7,701,251	10,533,668
Non-interest expense		
Fees and commissions	19,917	21,672
Loss from trading securities	57,243	32,841
Loss from derivative financial instruments	6,175,242	8,448,780
General and administrative expenses (Note 17)	356,789	324,196
Others (Note 16)	1,212,551	1,448,660
	7,821,742	10,276,149
Operating income	226,729	260,632
Non-operating income, net (Note 18)	2,201,509	960,782
Income before income taxes	2,428,238	1,221,414
Income tax (Note 19)	6,517	143,234
Net income	₩ 2,421,721	₩ 1,078,180

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, 2005 and 2004

(Dates of Appropriation and Disposition : February 28, 2006 and February 28, 2005 for the years ended December 31, 2005 and 2004, respectively)

(in millions of Korean Won)

	2005	2004
Retained earnings before appropriations		
Unappropriated retained earnings carried over from prior year	₩ 320,454	₩ 105,559
Effects on valuations of investments under the equity method	(5,273)	134,214
Net income	2,421,721	1,078,180
	2,736,902	1,317,953
Appropriation of retained earnings		
(Disposition of accumulated deficit)		
Legal reserve	2,341,293	997,499
Dividends	395,609	-
	2,736,902	997,499
Unppropriated retained earnings carried forward to subsequent year	₩ -	₩ 320,454

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

Non-Consolidated Statements of Cash Flows

Years Ended December 31, 2005 and 2004

(in millions of Korean Won)

	2005	2004
Cash flows from operating activities		
Net income	₩ 2,421,721	₩ 1,078,180
Adjustments to reconcile net income to net cash provided by operating activities :		
Depreciation	20,728	19,027
Provision for loan losses	83,769	315,137
(Gain)Loss on disposal of loans, net	(11,186)	142,192
Loss(Gain) on trading securities, net	32,258	(26,990)
(Gain)Loss on available-for-sale securities, net	(204,451)	166,482
Gain on equity method securities	(1,958,195)	(1,249,673)
Loss on foreign currency translation	460,846	614,952
Loss(Gain) from derivative financial instruments, net	364,961	(6,068)
Gain on valuation of hedged items, net	(821,661)	(732,248)
Retirement allowance	21,835	20,867
Others, net	(14,988)	148,630
	(2,026,084)	(587,692)
Changes in operating assets and liabilities		
Decrease in accounts receivable	4,521,817	2,558,860
Decrease in accounts payable	(4,456,063)	(2,605,011)
Net decrease in derivative financial instruments	731,907	875,732
Payment of severance benefits	(3,766)	(4,737)
Receipt of dividends	259,996	178,439
Others, net	1,183,736	(1,353,814)
	2,237,627	(350,531)
Net cash provided by operating activities	2,633,264	139,957
Cash flows from investing activities		
(Acquisition)Disposal of loans receivable, net	(5,344,444)	1,038,140
Acquisition of available-for-sale securities, net	(3,980,582)	(2,196,882)
Disposal of held-to-maturity securities, net	1,537,087	808,116
Disposal(Acquisition) of equity method securities, net	343,791	(231,002)
Acquisition of property and equipment, net	(16,571)	(12,533)
Others, net	(680,669)	542,708
Net cash used in investing activities	(8,141,388)	(51,453)

Non-Consolidated Statements of Cash Flows

Years Ended December 31, 2005 and 2004

(in millions of Korean Won)

	2005	2004
Cash flows from financing activities		
Increase(decrease) in deposits, net	2,408,560	(1,783,372)
Decrease in borrowings, net	(1,893,016)	(2,967,811)
Increase in bonds issued, net	3,574,062	3,216,574
Others, net	1,432,042	1,411,742
Net cash provided by(used in) financing activities	5,521,648	(122,867)
Net increase(decrease) in cash and cash equivalents	13,524	(34,363)
Cash and cash equivalents		
Beginning of year	74,200	108,563
End of year	₩ 87,724	₩ 74,200

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

Notes to Non-Consolidated Financial Statements

December 31, 2005 and 2004

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 39 local branches, 6 overseas branches, 4 overseas subsidiaries and 2 overseas offices as of December 31, 2005. 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 Korean Financial Supervisory Commission. As SKFAS Nos. 10, 12 and 13 became applicable to the Bank on January 1, 2004, the Bank adopted these Standards in its financial statements covering periods beginning January 1, 2004.

Notes to Non-Consolidated Financial Statements

December 31, 2005 and 2004

And as SKFAS Nos. 15 through 17 became effective for the Bank on January 1, 2005, the Bank adopted these Standards in its financial statements for the year ended December 31, 2005.

Recognition of Interest Income

The Bank recognizes interest income on loans and debt securities on an accrual basis. However, interest income on delinquent and dishonored loans, other than those subject to security deposits and guaranteed by financial institutions, is recognized on a cash basis. Such unaccrued interest income for the year ended December 31, 2005, is ₩577,265 million (2004: ₩434,377 million).

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	0.5%
Precautionary	2%
Substandard	20%
Doubtful	50%
Estimated Loss	100%

Pursuant to the revised Regulation on the Supervision of the Banking Business which became effective December 1, 2002, the Bank changed the classification of credit line for importers from acceptances to domestic import usance bills.

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 a capital adjustment, 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 for the year ended December 31, 2005, amount to ₩20,630 million (2004: ₩106,214 million).

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% interest. 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 capital adjustments 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 ~ 40 years
Furniture and fixture	10 ~ 40 years
Computer equipment	4 years
Vehicles	4 years
Others	4 years

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.

Notes to Non-Consolidated Financial Statements

December 31, 2005 and 2004

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 up 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 (₩1,013.0 : US$1) 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. The provision for possible losses for the year ended December 31, 2005, is nil (2004: ₩36,776 million).

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 33.38% as of December 31, 2005, through a group severance trust in Woori Bank. The Bank accounts for the amounts funded under the group severance trust as a deduction from accrued severance benefits.

Actual payment of severance benefits for the year ended December 31, 2005, was ₩3,764 million (2004: ₩4,737 million).

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. Until 2004, the Bank provided a provision of 20% or more of determined guaranteed amounts for companies classified as "substandard," 50% or more for "doubtful" and 100% for "estimated loss". In 2005, the Bank changed its accounting policy to accumulate reserves for undetermined guarantees, endorsed notes and determined guarantees classified as "normal" or "precautionary" as well as for the undetermined guarantees classified as "substandard" or below. Additionally, in 2005, the Bank changed its accounting policy on allowance for loan commitments to accumulate reserves for unused loan commitments. The allowance is shown in the liability section.

The effect of this change was to increase allowance for possible guarantee losses and allowance for unused loan commitments by ₩37,427 million and ₩31,316 million, respectively in 2005 and decrease net income by ₩68,743 million in 2005. No allowance was made in 2004 as the amount could not be reasonably estimated.

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 comprises taxes payable for the period 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.

In accordance with SKFAS No. 16, *Deferred Income Tax*, which became effective on January 1, 2005, deferred tax effects applicable to items in 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.

Translation of Foreign Currency Financial Statements

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

Derivative Financial Instruments

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

Compensation to Trust Accounts

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

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

Notes to Non-Consolidated Financial Statements

December 31, 2005 and 2004

Statement of Cash Flows

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

3. Cash and Due from Banks

Cash and due from banks as of December 31, 2005 and 2004, are as follows:

(in millions of Korean Won)

	Annual interest rates (%) as of Dec. 31, 2005	2005	2004
Cash on hand in local currency	-	₩ 84,540	₩ 71,524
Cash on hand in foreign currency	-	3,184	2,676
Due from banks in local currency	0-4.38	1,240,690	402,940
Due from banks in foreign currency	0-5.11	537,810	715,160
		₩ 1,866,224	₩ 1,192,300

Due from banks in local currency as of December 31, 2005 and 2004, are as follows:

(in millions of Korean Won)

	Annual interest rates (%) as of Dec. 31, 2005	2005	2004
The Bank of Korea	-	₩ 268,452	₩ 226,778
Others	0-4.38	972,238	176,162
		₩ 1,240,690	₩ 402,940

Due from banks in foreign currencies as of December 31, 2005 and 2004, are as follows:

(in millions of Korean Won)

	Annual interest rates (%) as of Dec. 31, 2005	2005	2004
The Bank of Korea	-	₩ 25,177	₩ 29,159
Hana Bank	5.11	35,464	57,409
Shinhan Bank	5.11	30,408	15,657
Korea Exchange Bank	5.11	15,195	28,141
Chohung Bank	5.11	5,068	46,930
Woori Bank	5.11	32,428	69,831
KDB Asia (HK) Ltd.	5.11	8	113,774
KDB Ireland Ltd.	5.11	90,179	164,312
Others	5.11	303,883	189,947
		₩ 537,810	₩ 715,160

Restricted deposits included in due from banks as of December 31, 2005, are as follows:

(in millions of Korean Won)

Reserve deposits with the Bank of Korea	₩	293,629
Kookmin Bank		95,523
Shinhan Bank		16,180
Industrial & Commercial Bank of China (ICBC) – Shanghai, China		4,771
	₩	410,103

Deposits with Kookmin Bank and Shinhan Bank are pledged as collateral. 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 the amounts due from banks as of December 31, 2005, are as follows:

(in millions of Korean Won)

Maturing on or before		Due from banks in local currency		Due from banks in foreign currency		Total
Mar. 31, 2006	₩	1,144,762	₩	359,513	₩	1,504,275
Jun. 30, 2006		21,376		66,867		88,243
Dec. 31, 2006		33,675		60,780		94,455
Dec. 31, 2007		40,877		35,455		76,332
Dec. 31, 2008		-		15,195		15,195
	₩	1,240,690	₩	537,810	₩	1,778,500

4. Securities

Securities as of December 31, 2005 and 2004, are as follows:

(in millions of Korean Won)

		2005		2004
Trading securities	₩	1,111,531	₩	2,251,513
Available-for-sale securities		25,975,669		18,981,171
Held-to-maturity securities		568,246		2,093,474
Securities under the equity method		11,779,403		10,661,619
	₩	39,434,849	₩	33,987,777

Notes to Non-Consolidated Financial Statements

December 31, 2005 and 2004

Trading securities as of December 31, 2005 and 2004, are as follows:

(in millions of Korean Won)

	Annual interest rates (%) as of Dec. 31, 2005	2005	2004
Equity investments	-	₩ 48,947	₩ 25,329
Government and public bonds	4.18	263,419	654,714
Corporate bonds	4.09 – 5.28	153,647	347,351
Beneficiary certificates	-	-	318,113
Commercial papers	4.20	60,002	9,932
Securities in foreign currencies	3.04	585,516	896,074
		₩ 1,111,531	₩ 2,251,513

Par value, acquisition cost and fair value of trading debt securities as of December 31, 2005 and 2004, are as follows:

(in millions of Korean Won)

	Par value		Acquisition cost		Fair value	
	2005	2004	2005	2004	2005	2004
Government and public bonds	₩ 270,000	₩ 640,000	₩ 267,103	₩ 652,586	₩ 263,419	₩ 654,714
Corporate bonds	155,000	350,000	154,263	345,630	153,647	347,351
Commercial papers	60,000	10,000	60,000	9,932	60,002	9,932
Trading securities in foreign currencies	583,087	895,079	583,500	896,074	582,193	896,074
	₩ 1,068,087	₩ 1,895,079	₩ 1,064,866	₩ 1,904,222	₩ 1,059,261	₩ 1,908,071

Trading securities in foreign currencies as of December 31, 2005 and 2004, are as follows:

(in millions of Korean Won; thousands of US$, EUR, JPY, GBP, CHF, HK$ and SG$)

Foreign currency				Equivalent in Korean won	
2005		2004		2005	2004
US$	188,366	US$	426,443	₩ 190,815	₩ 445,121
EUR	179,749	EUR	287,269	215,580	408,773
JPY	301,855	JPY	561,460	2,596	5,682
GBP	100,223	GBP	9,008	175,067	18,096
CHF	1,002	CHF	5,978	772	5,510
HK$	-	HK$	70,000	-	9,396
SG$	1,127	SG$	5,484	686	3,496
				₩ 585,516	₩ 896,074

Available-for-sale securities as of December 31, 2005 and 2004, are as follows:

(in millions of Korean Won)

	Annual interest rates (%) as of Dec. 31, 2005	2005	2004
Equity investments	-	₩ 11,174,997	₩ 7,983,695
Government and public bonds	4.03	792,294	732,734
Corporate bonds	3.81 – 5.19	11,236,711	7,142,491
Beneficiary certificates [1]	-	203,169	823,250
Other securities in foreign currencies	0-5.09	2,568,498	2,299,001
		₩ 25,975,669	₩ 18,981,171

[1] As of December 31,2005, the Bank has investments of ₩181,189 million in private equity funds, and the details of their main assets and the operating profits are as follows:

(in millions of Korean Won)

	Name of fund	Main assets	Book value	Operating profits
Korea Investment & Securities Co., Ltd.	Q50	Government and public bonds and others	₩ 20,128	₩ 128
Daehan Investment & Securities Co., Ltd.	Changgee5 and others	Government and public bonds and others	10,066	66
Kyobo Securities Co., Ltd.	J5 and others	Corporate bonds and others	10,066	66
Others			140,929	929
			₩ 181,189	₩ 1,189

Notes to Non-Consolidated Financial Statements

December 31, 2005 and 2004

Available-for-sale equity securities, not using the equity method, as of December 31, 2005, are as follows:

(in millions of Korean Won; Shares in thousands)

	Number of shares	Percentage of ownership (%) as of Dec. 31, 2005	Acquisition cost	Book value	Fair value or Net book value
Korea Highway Corporation	143,010	8.42	₩ 1,430,100	₩ 1,430,184	₩ 1,350,478
Hynix Semiconductor Inc.	32,413	7.28	286,059	1,144,177	1,144,177
Industrial Bank of Korea	46,915		326,906	782,195	782,195
GM Daewoo Auto & Technology Company	108		261,375	321,351	321,351
Samsung Life Insurance Co., Ltd.	378	1.89	264,496	132,248	144,590
Hyundai Engineering & Construction Co., Ltd.	18,290	16.77	349,615	825,771	825,771
SK Networks	29,764	12.55	154,443	302,943	302,943
Korea National Housing Corp.		15.78	1,300,618	1,300,618	889,495
Korea Land Corp.		26.66	1,161,903	1,191,329	1,057,943
Korea Water Resources Corp.		10.57	976,307	976,307	931,602
Others		-	1,993,660	2,787,144	2,640,131
			₩ 8,505,482	₩ 11,194,267	₩ 10,390,676

Available-for-sale debt securities as of December 31, 2005 and 2004, are as follows:

(in millions of Korean Won)

	Par value		Acquisition cost		Book value	
	2005	2004	2005	2004	2005	2004
Government and public bonds	₩ 834,550	₩ 714,550	₩ 845,105	₩ 731,799	₩ 792,294	₩ 732,734
Corporate bonds	11,781,566	7,220,280	11,832,601	7,319,827	11,236,711	7,142,491
Beneficiary certificates	197,290	805,413	196,329	806,364	203,169	823,250
Investment debt securities in foreign currencies	2,519,405	2,282,805	2,558,857	2,308,597	2,549,228	2,289,341
	₩15,332,811	₩11,023,048	₩15,432,892	₩11,166,587	₩14,781,402	₩ 10,987,816

Held-to-maturity debt securities as of December 31, 2005 and 2004, are as follows:

(in millions of Korean Won)

	Par value		Acquisition cost		Carrying value	
	2005	2004	2005	2004	2005	2004
Government and public bonds	₩ 426,874	₩ 1,658,795	₩ 418,181	₩ 1,650,383	₩ 429,543	₩ 1,595,349
Corporate bonds	125,000	325,000	121,030	317,123	124,609	323,823
Investment debt securities in local currency	905	1,055	995	1,037	959	1,045
Investment debt securities in foreign currencies	13,169	173,263	13,134	173,174	13,135	173,257
	₩ 565,948	₩ 2,158,113	₩ 553,340	₩ 2,141,717	₩ 568,246	₩ 2,093,474

Securities under the equity method as of December 31, 2005 and 2004, are as follows:

(in millions of Korean Won; Shares in thousands)

	Number of shares	Percentage of ownership (%) as of Dec. 31, 2005	Acquisition cost		Book value		Fair value or net book value	
			2005	2004	2005	2004	2005	2004
Korea Electric Power Corporation	192,160	29.95	₩ 4,491,411	₩ 4,491,411	₩ 8,341,956	₩ 7,522,219	₩ 12,641,280	₩ 12,079,017
Daewoo Shipbuilding & Marine Engineering Co., Ltd.	59,826	31.26	288,383	288,383	455,742	573,734	455,126	552,684
Daewoo Securities Co., Ltd.	74,309	39.09	548,252	548,252	665,222	540,342	648,087	504,238
LG Card Co., Ltd.	28,743	22.93	421,331	326,943	791,317	338,077	414,177	(148,533)
The KDB Capital Corp.	62,125	99.92	761,593	754,052	342,721	247,329	324,339	221,312
GM Daewoo Auto & Technology Company	70,706	27.97	213,206	213,206	244,418	327,260	244,418	674,455
Korea Tourism Organization	2,824	43.58	35,529	35,529	138,779	138,357	138,779	138,357
STX Pan Ocean Co., Ltd.	319,998	18.65	31,907	31,907	138,048	86,510	145,587	94,607
KDB Bank (Hungary) Ltd.	883	100.00	58,191	58,191	70,267	78,972	72,596	82,572
KDB Asia (HK) Ltd.	90,000	100.00	89,592	69,572	104,833	73,566	104,833	73,566
Others			412,071	667,902	486,100	735,253	484,860	721,871
			₩ 7,351,466	₩ 7,485,348	₩ 11,779,403	₩ 10,661,619	₩ 15,674,082	₩ 14,994,146

The Bank has used the most recent provisional financial statements of the investee as the relevant audited financial statements were not readily available.

Notes to Non-Consolidated Financial Statements

December 31, 2005 and 2004

Details of valuation on securities using the equity method as of and for the year ended December 31, 2005, are as follows:

(in millions of Korean Won)

	Jan. 1, 2005 book value	Acquisition (disposal)	Dividends	Valuation gain(loss)	Retained earnings	Capital adjustment	Dec. 31, 2005 book value
Korea Electric Power Corporation	₩ 7,522,219	₩ (7,779)	₩ 220,984	₩ 995,621	₩ (1,248)	₩ 54,127	₩ 8,341,956
Daewoo Shipbuilding							
& Marine Engineering Co., Ltd.	573,734	-	20,939	(14,888)	-	(82,165)	455,742
Daewoo Securities Co., Ltd.	540,342	-	-	117,059	-	7,821	665,222
LG Card Co., Ltd.	338,077	244,440	-	204,754	-	4,046	791,317
The KDB Capital Corp.	247,329	7,541	-	50,047	-	37,804	342,721
GM Daewoo Auto & Technology Company	327,260	(1,104)	-	(75,837)	-	(5,901)	244,418
Korea Tourism Organization	138,357	-	212	634	-	-	138,779
STX Pan Ocean Co., Ltd.	86,510	5,961	6,400	53,304	(4,233)	2,906	138,048
KDB Bank (Hungary) Ltd.	78,972	-	-	(8,751)	-	46	70,267
KDB Asia (HK) Ltd.	73,566	20,020	-	9,015	-	2,232	104,833
Others	735,253	(277,711)	11,461	42,241	4	(2,226)	486,100
	₩10,661,619	₩ (8,632)	₩ 259,996	₩ 1,373,199	₩ (5,477)	₩ 18,690	₩ 11,779,403
Foreign currency translation loss				6,084			
Impairment losses				335			
Gain on valuation using equity method				₩ 1,379,618			

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, 2005 and 2004, are as follows:

(in millions of Korean Won)

	2005		2004	
	Equity method adjustment debit	Equity method adjustment credit	Equity method adjustment debit	Equity method adjustment credit
Beginning balance	₩ 590,531	₩ 4,923,058	₩ 159,357	₩ 3,123,049
Increase (decrease)	83,960	(347,316)	550,946	2,034,099
Amortization	(254,283)	(260,854)	(119,772)	(234,091)
Ending balance	₩ 420,208	₩ 4,314,888	₩ 590,531	₩ 4,923,057

Investees in which the Bank holds more than 15% of interest but are not valued using the equity method as of December 31, 2005, are as follows:

(in millions of Korean Won; shares in thousands)

	Number of shares	Percentage of ownership (%) as of Dec. 31, 2005	Acquisition cost	Book value	Fair value or Net book value
Korea Land Corp. [1]	-	26.66	₩ 1,161,903	₩ 1,191,329	₩ 1,057,943
Korea National Housing Corp. [1]	-	15.78	1,300,618	1,300,618	889,495
Hyundai Engineering & Construction Co., Ltd.	18,290	16.77	349,615	825,771	825,771
Donghae Pulp Co., Ltd.	4,900	51.36	24,500	11,686	11,686
Hyundai Corporation	5,032	22.53	47,385	92,383	92,383
Others			267,026	177,944	198,134
			₩ 3,151,047	₩ 3,599,731	₩ 3,075,412

[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 ownership in these companies.

Notes to Non-Consolidated Financial Statements

December 31, 2005 and 2004

The maturities of investments in available-for-sale and held-to-maturity debt securities as of December 31, 2005, are as follows:

(in millions of Korean Won)

Maturing on or before	Available-for-sale debt securities		Held-to-maturity debt securities	
Dec. 31, 2006	₩	4,168,200	₩	161,654
Dec. 31, 2010		9,662,739		286,812
Dec. 31, 2015		950,463		119,780
	₩	14,781,402	₩	568,246

Investment securities denominated in foreign currencies as of December 31, 2005 and 2004, are as follows:

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

Foreign currency				Equivalent in Korean won			
2005		2004		2005		2004	
Available-for-sale debt securities :							
US$	1,950,124	US$	1,825,747	₩	1,975,476	₩	1,905,715
JPY	18,350,521	JPY	21,538,332		157,796		217,983
GBP	36,230	GBP	29,536		63,285		59,338
EUR	287,809	EUR	72,062		345,181		102,542
CNY	59,676	CNY	29,837		7,490		3,763
				₩	2,549,228	₩	2,289,341
Held-to-maturity debt securities :							
US$	12,967	US$	165,986	₩	13,135	₩	173,256

As of December 31, 2005, investment securities amounting to ₩490,225 million are pledged as collateral to KDB First Securitization Specialty Co., Ltd.

With regard to futures trading, 7,290,060 shares of Korea Electric Power Corporation and other securities amounting to ₩12,960 million are pledged as a substitute for the deposit money to Cheil Futures Co., Ltd. and others as of December 31, 2005.

Impairment losses on securities for the year ended December 31, 2005, are as follows:

(in millions of Korean Won)

	Amortized cost	Impairment loss	Book value
Equity Securities			
Bank25 Co., Ltd.	₩ 8,139	₩ 8,139	₩ -
Donghae Pulp Co., Ltd.	12,250	564	11,686
Sunic System Co., Ltd.	1,520	1,520	-
Click Q Co., Ltd.	501	501	-
Excel Semiconductor Inc.	500	500	-
Biotoxtech Co., Ltd.	550	539	11
Medytox Inc.	1,000	1,000	-
Sungyong Hi-tech Co., Ltd.	1,000	1,000	-
Thrunet Co., Ltd.	2,406	1,148	1,258
Others	5,838	5,078	760
	₩ 33,704	₩ 19,989	₩ 13,715
Debt Securities			
Daewoo Electronics Corp.	₩ 2,124	₩ 641	₩ 1,483

Issuers of securities held by the Bank as of December 31, 2005 and 2004, are as follows:

(in millions of Korean Won)

By Country	2005	2004	Ratio (%) as of Dec. 31, 2005
Republic of Korea	₩ 37,888,397	₩ 32,445,422	96.08
USA	210,805	458,111	0.53
Thailand	211,488	2,648	0.54
Others	1,124,160	1,081,596	2.85
	₩ 39,434,850	₩ 33,987,777	100.00

(in millions of Korean Won)

By Issuer	2005	2004	Ratio (%) as of Dec. 31, 2005
Korea Electric Power Corporation	₩ 8,367,693	₩ 7,619,590	21.22
Korea National Housing Corp.	1,307,800	1,300,618	3.32
Korea Highway Corporation	1,435,193	1,439,421	3.64
Korea Deposit Insurance Corp.	-	1,273,662	0.00
Korea Land Corp.	1,191,329	1,164,059	3.02
Korea Asset Management Corp.	86,715	9,430,717	0.22
Others	27,046,120	11,759,710	68.58
	₩ 39,434,850	₩ 33,987,777	100.00

Notes to Non-Consolidated Financial Statements

December 31, 2005 and 2004

(in millions of Korean Won)

By Industry		2005		2004	Ratio (%) as of Dec. 31, 2005
Banking and insurance	₩	11,776,314	₩	9,908,867	29.86
Electric, gas and water supply		8,571,483		7,799,041	21.74
Manufacturing		8,568,358		5,770,408	21.73
Construction		5,251,948		4,542,447	13.32
Public administration		743,205		2,373,939	1.88
Others		4,523,542		3,593,075	11.47
	₩	39,434,850	₩	33,987,777	100.00

5. Loans Receivable

Loans receivable as of December 31, 2005 and 2004, are as follows:

(in millions of Korean Won)

		2005		2004
Loans receivable in local currency	₩	18,149,006	₩	17,125,418
Loans receivable in foreign currencies		12,521,211		13,504,107
Other loans		19,820,109		16,248,356
		50,490,326		46,877,881
Less: Allowance for possible loan losses		(660,426)		(1,029,095)
	₩	49,829,900	₩	45,848,786

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

Loans receivable in local and foreign currencies as of December 31, 2005 and 2004, are as follows:

(in millions of Korean Won)

Loans receivable in local currency	Annual interest rates (%) as of Dec. 31, 2005		2005		2004
Loans for working capital					
Industrial fund loans	5.84	₩	6,102,959	₩	5,427,615
Government fund loans	3.87		353,365		455,136
Overdraft	6.77		162,922		257,331
Others	5.18 - 5.76		829,757		993,195
			7,449,003		7,133,277
Loans for facilities					
Industrial fund loans	6.14		7,115,965		6,685,812
Government fund loans	4.09		887,278		911,956
Others	3.17 - 5.23		2,696,760		2,394,373
			10,700,003		9,992,141
		₩	18,149,006	₩	17,125,418

(in millions of Korean Won)

Loans receivable in foreign currencies	Annual interest rates (%) as of Dec. 31, 2005		2005		2004
Loans for working capital					
Local currency loans denominated in foreign currencies	3.93	₩	763,117	₩	1,051,400
Foreign currency loans	4.79		1,085,319		715,961
Others	3.19		141,920		523,684
			1,990,356		2,291,045
Loans for facilities					
Local currency loans denominated in foreign currencies	4.12		3,640,133		3,387,046
Foreign currency loans	4.94		3,553,998		2,719,306
Offshore loans in foreign currencies	3.45		815,638		1,132,703
Asian Development Bank loans	-		-		1,043,800
Loans to International Bank for Reconstruction and Development	4.23		2,521,086		2,930,206
			10,530,855		11,213,061
		₩	12,521,211	₩	13,504,106

Notes to Non-Consolidated Financial Statements

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(in millions of Korean Won)

Other loans receivable	2005	2004
Notes purchased	₩ 2,205	₩ 255
Bills purchased	1,814,127	1,877,044
Advances for customers	96,354	63,149
Bonds purchased under repurchase agreements	174,781	192,153
Domestic import usance bills	2,401,155	2,823,961
Call loans	2,959,811	634,452
Debentures accepted by private subscription	10,133,958	9,302,841
Inter-bank loans	2,062,314	1,039,309
Others	175,404	315,192
	₩ 19,820,109	₩ 16,248,356

The maturities of loans receivable in local currency and foreign currencies as of December 31, 2005, 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
Mar. 31, 2006	₩ 936,015	₩ 348,197	₩ 287,939	₩ 384,761	₩ 1,956,912
Jun. 30, 2006	1,076,619	314,303	343,237	391,518	2,125,677
Dec. 31, 2006	2,031,988	775,946	756,863	959,857	4,524,654
Dec. 31, 2007	1,698,269	1,884,606	266,914	1,779,146	5,628,935
Dec. 31, 2008	611,942	1,917,850	135,629	1,888,321	4,553,742
Dec. 31, 2009	621,246	1,629,004	22,004	1,432,135	3,704,389
Dec. 31, 2010	111,924	1,349,192	120,061	1,082,288	2,663,465
Thereafter	361,000	2,480,905	57,709	2,612,829	5,512,443
	₩ 7,449,003	₩ 10,700,003	₩ 1,990,356	₩ 10,530,855	₩ 30,670,217

Changes in the allowance for possible loan losses for the years ended December 31, 2005 and 2004, are as follows:

(in millions of Korean Won)

	2005			2004
	Loan	Other assets	Total	Total
Balance at the beginning of the year	₩ 961,578	₩ 3,900	₩ 965,478	₩ 1,101,849
Decrease in allowance for overseas branches due to foreign currency translation	(1,236)	-	(1,236)	(4,211)
Allowance carryover from loan acquisition	152,014	-	152,014	237,126
Decrease in allowance for possible losses	(279)	-	(279)	(965)
Decrease in allowance due to loan disposal	-	-	-	(48,680)
Increase in allowance due to loan restructuring	2,003	-	2,003	6,202
Current write-offs	(588,881)	-	(588,881)	(640,980)
Current provision	82,657	1,112	83,769	315,137
	₩ 607,856	₩ 5,012	₩ 612,868	₩ 965,478

As of December 31, 2005 and 2004, the allowances for possible loan losses and other assets are as follows:

(in millions of Korean Won)

	2005	2004
Loans receivable in local and foreign currencies and notes purchased	₩ 479,390	₩ 732,367
Bills purchased	34,749	36,583
Advances for customers	16,720	8,276
Domestic import usance bills	36,127	41,933
Debentures accepted by private subscription	39,092	139,410
Other loans receivable	1,778	3,009
	607,856	961,578
Other assets	5,012	3,900
	₩ 612,868	₩ 965,478

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December 31, 2005 and 2004

As of December 31, 2005, the classification of loans and allowances for possible loan losses are as follows:

(in millions of Korean Won)

Classification	Loans [1]	Allowances for possible loan losses [3]	Ratio (%) as of Dec. 31, 2005
Normal	₩ 38,488,631	₩ 238,986	0.62
Precautionary	870,279	144,621	16.62
Substandard	425,380	115,412	27.13
Doubtful	5,034	2,538	50.42
Estimated Loss	106,299	106,299	100.0
Others [2]	10,542,132	-	-
	₩ 50,437,755	₩ 607,856	1.21

[1] *Net of present value discounts.*

[2] *Loans to or loans guaranteed by the Korean government.*

[3] *Excluding present value discounts.*

The ratio of allowance to total loans and the ratio of allowance to non-performing loans as of December 31, 2005, 2004 and 2003, are as follows:

(in millions of Korean Won)

	2005	2004	2003
Total loans	₩ 50,437,755	₩ 46,810,364	₩ 48,550,631
Allowances for possible losses	607,856	961,578	1,097,039
Ratio of allowance to total loans (%)	1.21	2.05	2.26
Non-performing loans	₩ 536,713	₩ 819,038	₩ 1,626,381
Allowances for possible losses	224,249	378,221	584,104
Ratio of allowance to total non-performing loans (%)	41.78	46.18	35.91

Restructured loans receivable as of December 31, 2005 and 2004, due to court receivership, court mediation or other financial restructuring process are as follows:

(in millions of Korean Won)

	2005	2004
Conversion to equity investment	₩ 245,126	₩ 701,736

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, 2005 and 2004, are as follows:

(in millions of Korean Won)

	2005	2004
Beginning		
Original amount before restructuring	₩ 534,694	₩ 964,673
Present value	(467,177)	(862,370)
Present value discount	₩ 67,517	₩ 102,303
Present value discount		
Increase	₩ 2,881	₩ 3,598
Decrease(amortization)	(17,828)	(38,384)
	₩ (14,947)	₩ (34,786)
Ending		
Original amount before restructuring	₩ 353,883	₩ 534,694
Present value	(301,313)	(467,177)
Present value discount	₩ 52,570	₩ 67,517

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

The Bank's local and foreign currency loan portfolios by country, major customers and industry as of December 31, 2005 and 2004, are as follows:

(in millions of Korean Won)

By Country	2005	2004	Ratio (%) as of Dec. 31, 2005
Republic of Korea	₩ 29,018,867	₩ 29,098,337	94.62
USA	127,379	182,750	0.42
Indonesia	106,549	114,773	0.35
Others	1,417,422	1,233,664	4.61
	₩ 30,670,217	₩ 30,629,524	100.00

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(in millions of Korean Won)

By Customer	2005	2004	Ratio (%) as of Dec. 31, 2005
Small Business Corp.	₩ 2,557,906	₩ 2,768,488	8.34
GM Daewoo Auto & Technology Company	943,500	817,700	3.08
Korea Deposit Insurance Corp.	810,400	939,420	2.64
Korean Airline Co., Ltd.	740,212	694,123	2.41
DongbuAnam Semiconductor Inc.	590,000	544,500	1.92
Tong Yang Cement Corporation	455,089	514,842	1.48
Others	24,573,110	24,350,451	80.13
	₩ 30,670,217	₩ 30,629,524	100.00

(in millions of Korean Won)

By Industry	2005	2004	Ratio (%) as of Dec. 31, 2005
Manufacturing	₩ 16,954,463	₩ 16,243,589	55.28
Banking and insurance	2,701,179	2,773,301	8.81
Transportation and communications	3,220,842	3,155,291	10.50
Public administration	2,864,002	3,283,814	9.34
Electric, gas and water supply	979,514	1,133,682	3.19
Others	3,950,217	4,039,847	12.88
	₩ 30,670,217	₩ 30,629,524	100.00

6. Property and Equipment

Property and equipment as of December 31, 2005 and 2004, are as follows:

(in millions of Korean Won)

	Acquisition cost or revaluation		Accumulated depreciation		Net book value	
	2005	2004	2005	2004	2005	2004
Land	₩ 314,752	₩ 314,687	₩ -	₩ -	₩ 314,752	₩ 314,687
Buildings	367,133	363,475	54,672	45,649	312,461	317,826
Furniture and fixtures	11,954	11,538	2,528	2,035	9,426	9,503
Computer equipment	54,240	52,350	43,724	42,816	10,516	9,534
Vehicles	1,052	1,298	706	913	346	385
Construction-in-progress	-	-	-	-	-	-
Others	33,349	31,180	26,519	24,740	6,830	6,440
	₩ 782,480	₩ 774,528	₩ 128,149	₩ 116,153	₩ 654,331	₩ 658,375

The government-valued price of the Bank's land for the year ended December 31, 2005, is ₩307,694 million (2004: ₩277,816 million).

As of December 31, 2005, the Bank's premises, equipment and other assets are insured against fire and other casualty losses up to approximately ₩304,353 million.

7. Other Assets

Other assets as of December 31, 2005 and 2004, are as follows:

(in millions of Korean Won)

	2005	2004
Intangible assets	₩ 34,754	₩ 38,255
Other accounts receivables	1,444,526	6,000,878
Accrued income	394,548	311,572
Prepaid expense	226,812	188,769
Deferred income tax assets	602	-
Others	660,091	548,588
	2,761,333	7,088,062
Less: Allowance for possible losses	(5,013)	(3,900)
	₩ 2,756,320	₩ 7,084,162

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8. Deposits

Deposits as of December 31, 2005 and 2004, are as follows:

(in millions of Korean Won)

	Annual interest rates (%) as of Dec. 31, 2005	2005	2004
Local currency deposits			
Demand deposits			
Checking accounts	-	₩ 5,498	₩ 2,473
Temporary deposits	0.01	276,422	90,448
Passbook deposits	0.24	16,162	16,171
Others	0.25	102	283
		298,184	109,375
Time and savings deposits			
Time deposits	3.47	3,541,327	2,492,840
Installment savings deposits	3.54	113,617	123,378
Corporate savings deposits	2.78	2,207,211	2,514,240
Savings deposits	2.04	167,598	156,820
Long-term savings for households	0.54	184	409
Others	8.70	94,314	157,465
		6,124,251	5,445,152
Total local currency deposits		6,422,435	5,554,527
Foreign currency deposits			
Demand deposits			
Checking accounts	-	51,045	35,723
Temporary deposits	1.43	250,357	172,465
Passbook deposits	-	160	262
Others	0.04	15,162	4
		316,724	208,454
Savings deposits			
Time deposits	3.17	605,487	537,257
		922,211	745,711
Negotiable certificates of deposits	3.28	3,977,380	2,632,720
		₩ 11,322,026	₩ 8,932,958

The maturities of time and savings deposits in local and foreign currencies as of December 31, 2005, are as follows:

(in millions of Korean Won)

Maturing on or before		Time deposits		Installment savings deposits		Time deposits in foreign currencies		Total
Mar. 31, 2006	₩	877,364	₩	-	₩	419,338	₩	1,296,702
Jun. 30, 2006		465,318		352		60,778		526,448
Dec. 31, 2006		1,985,323		30,384		103,449		2,119,156
Dec. 31, 2007		73,815		27,864		31		101,710
Dec. 31, 2008		38,994		55,017		21,891		115,902
Dec. 31, 2009		-		-		-		-
Dec. 31, 2010		100,513		-		-		100,513
	₩	3,541,327	₩	113,617	₩	605,487	₩	4,260,431

Notes to Non-Consolidated Financial Statements

December 31, 2005 and 2004

9. Borrowings

Borrowings as of December 31, 2005 and 2004, are as follows:

(in millions of Korean Won)

	Annual interest rate (%) as of Dec. 31, 2005	2005	2004
Local currency borrowings			
Ministry of Finance and Economy	3.45	₩ 1,456,087	₩ 1,739,149
Industrial Bank of Korea	3.07	334,668	406,255
Small Business Corp.	3.66	457,025	359,379
Ministry of Culture and Tourism	2.26	874,414	737,056
Korea Energy Management Corporation	2.22	687,995	564,072
Local governments	3.34	95,664	72,908
Others	2.27-2.30	1,073,442	855,832
		4,979,295	4,734,651
Foreign currency borrowings			
KFW Group of Germany	4.24	11,626	17,978
Asian Development Bank	-	-	1,043,800
International Bank for Reconstruction and Development	3.89	2,906,170	3,411,124
Others	1.48-3.28	5,635,949	6,486,850
		8,553,745	10,959,752
Other borrowings			
Bonds sold under repurchase agreements	-	5,747,865	3,555,260
Notes sold	-	375	1,109
Call money	-	1,536,840	2,295,160
		7,285,080	5,851,529
		₩ 20,818,120	₩ 21,545,932

As of December 31, 2005, the Bank has local loans receivable denominated in foreign currencies of ₩45,119 million and foreign currency loans of ₩8,192 million, which were both sourced from the Bank's borrowings from Japan Bank for International Cooperation amounting to ₩53,311 million.

The maturities of borrowings in local and foreign currencies as of December 31, 2005, are as follows:

(in millions of Korean Won)

Maturing on or before	Borrowings in local currency	Borrowings in foreign currency	Total
Mar. 31, 2006	₩ 497,416	₩ 2,492,522	₩ 2,989,938
Jun. 30, 2006	156,119	1,407,550	1,563,669
Dec. 31, 2006	297,681	869,501	1,167,182
Dec. 31, 2007	551,814	844,943	1,396,757
Dec. 31, 2008	795,438	877,848	1,673,286
Dec. 31, 2009	714,149	585,517	1,299,666
Dec. 31, 2010	460,547	428,873	889,420
Thereafter	1,506,131	1,046,991	2,553,122
	₩ 4,979,295	₩ 8,553,745	₩ 13,533,040

The subordinated debt included in borrowings as of December 31, 2005 and 2004 are as follows:

(in millions of Korean Won)

	Annual interest rate (%) as of Dec. 31, 2005	2005	2004	Payment terms
Government funds	3.45	₩ 1,455,985	₩ 1,738,980	Installment reimbursement
Agency for International Development re-lending facilities	2.00	101	169	Installment reimbursement
Asian Development Bank re-lending facilities	-	-	1,043,800	Lump-sum reimbursement
International Bank for Reconstruction and Development re-lending facilities	3.89	2,906,171	3,411,124	Installment reimbursement
		₩ 4,362,257	₩ 6,194,073	

Notes to Non-Consolidated Financial Statements

December 31, 2005 and 2004

10. Industrial Finance Bonds

Industrial finance bonds ("IFB") as of December 31, 2005 and 2004, are as follows:

(in millions of Korean Won)

	Annual interest rate (%) as of Dec. 31, 2005	2005	2004
IFB in local currency	4.39	₩ 30,694, 954	₩ 28,741,478
IFB in foreign currencies	2.77	10,684,326	10,170,197
Offshore IFB in foreign currencies	2.97	1,819,705	1,199,266
		43,198,985	40,110,941
Premiums on IFB		20,146	34,535
Discounts on IFB		(55,203)	(41,973)
		₩ 43,163,928	₩ 40,103,503

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. The amount of issued bonds guaranteed by the Korean government for the year ended December 31, 2005 is nil. (2004: ₩784 million).

The Bank acquired IFB during the year ended December 31, 2005, whose book value amounted to ₩99,627 million (2004: ₩177,841 million). The treasury bonds are deducted from industrial finance bonds.

The maturities of IFB as of December 31, 2005, are as follows:

(in millions of Korean Won)

Maturing on or before	IFB in local currency	IFB in foreign currency	Offshore IFB in foreign currencies	Total
Mar. 31, 2006	₩ 5,491,618	₩ 423,217	₩ 568,250	₩ 6,483,085
Jun. 30, 2006	5,314,795	757,673	-	6,072,468
Dec. 31, 2006	6,039,156	797,306	484,557	7,321,019
Dec. 31, 2007	6,596,328	1,796,485	414,081	8,806,894
Dec. 31, 2008	4,266,177	1,214,206	87,383	5,567,766
Dec. 31, 2009	858,299	2,949,981	128,943	3,937,223
Dec. 31, 2010	1,745,362	1,636,580	-	3,381,942
Thereafter	371,954	1,085,835	135,742	1,593,531
	₩ 30,683,689	₩ 10,661,283	₩ 1,818,956	₩ 43,163,928

11. Other Liabilities

Other liabilities as of December 31, 2005 and 2004, are as follows:

(in millions of Korean Won)

	2005		2004	
Trust account debit	₩	316,969	₩	328,334
Other accounts payables		1,398,403	-	5,907,381
Accrued expenses		627,614	-	627,818
Advanced income		68,909		69,290
Guarantee deposits		38,616		41,143
Advances received on IFB		16,159		4,607
Allowances for other possible losses		95		79,064
Others		1,620,955		365,743
	₩	4,087,720	₩	7,423,380

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, 2005 and 2004, are as follows:

(in millions of Korean Won)

	Guarantees				Allowance for possible losses			
	2005		2004		2005		2004	
Settled guarantees and commitments	₩	8,688,881	₩	8,945,935	₩	30,591	₩	11,931
Unsettled guarantees and commitments		5,566,439		3,262,514		8,779		-
Endorsed notes		3,498		4,493		17		-
	₩	14,258,818	₩	12,212,942	₩	39,387	₩	11,931

Unused loan commitments and the related allowances for possible losses as of December 31, 2005, are as follows:

(in millions of Korean Won)

	Unused loan commitments		Allowance for possible losses	
Loans receivable	₩	2,469,691	₩	6,247
Guarantees and acceptances		8,190,384		11,930
Loan commitment		5,907,758		13,139
	₩	16,567,833	₩	31,316

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The unsettled commitments provided by the Bank as of December 31, 2005 and 2004, are as follows:

(in millions of Korean Won)

	2005		2004	
Commitments				
For loans in local currency	₩	5,455,535	₩	6,991,481
For loans in foreign currency		452,223		747,704
	₩	5,907,758	₩	7,739,185
Bonds sold under repurchase agreements	₩	750,570	₩	1,021,952

13. Commitments and Contingencies

The Bank has entered into agreements to provide certain syndicated loans with foreign banks. The total amount available under such loans are US$208 million, EUR4 million, JPY1,900 million and CNY160 million (equivalent to ₩252,095 million) and ₩181,648 million, of which US$100 million, EUR1 million, JPY1,205 million and CNY125 million (equivalent to ₩129,029 million) and ₩106,776 million have not been withdrawn by borrowers as of December 31, 2005.

In 1998, the Bank sold with recourse ₩3,084,141 million of non-performing loans classified as substandard or below to the Korea Asset Management Corporation ("KAMCO") for proceeds amounting to ₩1,339,629 million. The resulting loss of ₩1,744,512 million was recorded as a loss on disposal of loans in 1998. As of December 31, 2005, there are no unsettled amounts for such loans. The Bank does not expect KAMCO to exercise its repurchase rights.

Loans sold to KDB First Securitization Specialty Co., Ltd. and others in accordance with the Asset Securitization Plan as of December 31, 2005, 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	₩	123,699
KDB Second SPC	November 8, 2000		914,764		423,600		143,600		79,920
KDB Third SPC	September 20, 2001		1,793,546		949,900		349,900		186,611
KDB Fifth SPC	December 13, 2001		765,358		528,400		238,400		99,995
		₩	4,424,295	₩	2,501,900	₩	933,700	₩	490,225

[1] *Investment securities are pledged as collateral (Note 4).*

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

The Bank has provided credit lines to several securitization specialty companies amounting to ₩5,907,758 million, of which ₩13,724 million was withdrawn as of December 31, 2005.

The Bank still has the valid legal right to seek indemnity for ₩1,677,034 million as part of the loan receivables written off as of December 31, 2005.

The Bank has outstanding loans receivable amounting to ₩2,377,792 million, and securities amounting to ₩1,236,144 million as of December 31, 2005, from companies under workout, court receivership, court mediation or other restructuring process. The Bank recorded ₩604,754 million as allowances for possible loan losses, and ₩10,878 million for present value discount with regard to these loans receivable and securities. Actual losses from these loans may differ from the allowances recorded.

As of December 31, 2005, the Bank faces 13 legal cases involving an aggregate amount of ₩10,596 million, and has filed seven lawsuits, with an aggregate amount of ₩279,487 million. Morever, KDB Ireland Ltd., a consolidated subsidiary, is involved in a case against Hanvit LSP and Woori Bank in relation to an asset management contract. The final outcome of these cases cannot yet be determined as of the report date, although management believes they will not materially affect the Bank's financial position.

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 won.

Notes to Non-Consolidated Financial Statements

December 31, 2005 and 2004

The unsettled contract amounts of the Bank's derivatives and the related valuation gain/loss as of and for the year ended December 31, 2005, are as follows:

(in millions of Korean Won)

	Unsettled contract amount			Valuation gain/loss (P/L)			Valuation
	Trading purpose	Hedging purpose	Total	Trading purpose	Hedging purpose	Total	Asset/Liability (B/S)
Interest rate							
Forward	₩ 1,381,700	₩ -	₩ 1,381,700	₩ 10	₩ -	₩ 10	₩ 10
Futures	6,891,121	-	6,891,121	(1,505)	-	(1,505)	-
Swap	62,728,826	3,920,554	66,649,380	(57,144)	(115,753)	(172,897)	(37,811)
Option							
Buy	728,725	-	728,725	1,326	-	1,326	16,352
Sell	646,371	-	646,371	9,080	-	9,080	(7,775)
	72,376,743	3,920,554	76,297,297	(48,233)	(115,753)	(163,986)	(29,224)
Currency							
Forward	41,270,716	-	41,270,716	(153,395)	-	(153,395)	(222,119)
Swap	24,118,932	2,307,682	26,426,614	144,057	(178,020)	(33,963)	(22,747)
Option							
Buy	3,030,258	-	3,030,258	6,404	-	6,404	32,422
Sell	3,532,929	-	3,532,929	(14,783)	-	(14,783)	(44,649)
	71,952,835	2,307,682	74,260,517	(17,717)	(178,020)	(195,737)	(257,093)
Stock price index							
Futures	2,394	-	2,394	-	-	-	-
Option							
Buy	483,212	-	483,212	1,790	-	1,790	37,571
Sell	469,403	-	469,403	(6,905)	-	(6,905)	(36,911)
	955,009	-	955,009	(5,115)	-	(5,115)	660
Credit							
Swap	8,104	-	8,104	(123)	-	(123)	(123)
	8,104	-	8,104	(123)	-	(123)	(123)
	₩145,292,691	₩ 6,228,236	₩151,520,927	₩ (71,188)	₩ (293,773)	₩ (364,961)	₩ (285,780)

15. Shareholder's 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, 2005. The total paid-in capital of the Bank outstanding as of December 31, 2005 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.

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.

Dividends

The Korea Development Bank Act was amended on July 29, 2005, to authorize the Bank to pay dividends starting 2006. Total expected dividends amount to ₩395,609 million with the dividend payout ratio (total dividend/ net income) of 16.34%.

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.

The changes in valuation gain and loss from investment securities recorded as capital adjustments for the years ended December 31, 2005 and 2004, are presented as follows:

(in millions of Korean Won)

	2005			2004
	Available-for-sale securities	Securities under the equity method	Total	Total
Beginning balance	₩ 630,730	₩ 192,294	₩ 823,024	₩ (176,620)
Increase (decrease) due to disposals and others	(844,061)	(49,752)	(893,813)	5,666
Valuation gain (loss) during the year	2,483,180	18,688	2,501,868	993,979
Ending balance	₩ 2,269,849	₩ 161,230	₩ 2,431,079	₩ 823,025

Notes to Non-Consolidated Financial Statements

December 31, 2005 and 2004

16. Other Non-Interest Revenue and Expenses

Other non-interest revenue and expenses for the years ended December 31, 2005 and 2004, are as follows:

(in millions of Korean Won)

	2005		2004	
Other non-interest revenue				
Gain on foreign currency transactions	₩	457,003	₩	589,306
Gain on valuation of hedged items		908,711		849,676
Others		33,509		155,078
	₩	1,399,223	₩	1,594,060
Other non-interest expense				
Loss on foreign currency transactions	₩	943,015	₩	1,232,134
Provision for losses from guarantees and acceptances		27,460		7,173
Provision for losses from unused loan commitments		31,313		-
Loss on valuation of hedged items		87,048		117,428
Others		123,715		91,925
	₩	1,212,551	₩	1,448,660

17. General and Administrative Expenses

General and administrative expenses for the years ended December 31, 2005 and 2004, are as follows:

(in millions of Korean Won)

	2005		2004	
Salaries	₩	195,288	₩	172,297
Retirement allowance		21,835		20,867
Employee benefits		14,859		14,036
Rent		7,955		7,709
Depreciation		20,728		19,027
Taxes and dues		13,343		13,100
Printing		4,083		4,082
Travel		3,361		3,171
Commission		10,454		9,577
Others		64,883		60,330
	₩	356,789	₩	324,196

18. Non-Operating Income and Expenses

Non-operating income and expenses for the years ended December 31, 2005 and 2004, are as follows:

(in millions of Korean Won)

	2005	2004
Non-operating income		
Gain on disposal of premises and equipment	₩ 131	₩ 173
Rental income	1,514	1,317
Gain on sale of loans receivable	13,675	14,587
Valuation gain on securities under the equity method	1,480,345	1,065,799
Others	868,293	383,164
	2,363,958	1,465,040
Non-operating expenses		
Loss on disposal of premises and equipment	18	4,319
Loss on sale of loans receivable	2,488	156,779
Valuation loss on securities under the equity method	100,728	-
Others	59,215	343,160
	162,449	504,258
	₩ 2,201,509	₩ 960,782

Notes to Non-Consolidated Financial Statements

December 31, 2005 and 2004

19. Income Tax Expense

Income tax expense for the years ended December 31, 2005 and 2004, consists of:

(in millions of Korean Won)

	2005		2004	
Change in deferred income tax [1]	₩	-	₩	139,465
Income taxes for overseas branches		6,517		3,769
	₩	6,517	₩	143,234

[1] All local deferred income taxes for the year ended December 31, 2005, are estimated to have no future benefits.

The changes in deferred income tax asset and liability for the years ended December 31, 2005 and 2004, are as follows:

(in millions of Korean Won)

	2005		2004	
Beginning balance	₩	(132)	₩	139,039
Impairment of deferred income tax asset		-		(139,465)
Change in deferred income tax accounted for as capital adjustment [1]		(905,752)		-
Change in deferred income tax of foreign branches		735		294
Ending balance	₩	(905,149)	₩	(132)

[1] Deferred income taxes related to the sale of the KDB Capital Corp. are estimated to have no future benefits.

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, 2005 and 2004, are as follows:

(in millions of Korean Won)

	2005		2004	
	Average amount	Interest income or expense	Average amount	Interest income or expense
Asset				
Due from banks	₩ 1,068,565	₩ 34,779	₩ 1,553,614	₩ 30,305
Securities	16,970,119	763,913	13,954,406	657,987
Loans receivable	47,118,729	2,207,537	47,130,736	2,138,604
Others		22,969		20,246
		₩ 3,029,198		₩ 2,847,142
Liabilities				
Deposits	₩ 10,094,460	₩ 324,234	₩ 10,067,279	₩ 332,772
Borrowings	20,900,372	616,790	21,707,719	500,244
Bonds	41,534,103	1,631,319	39,313,612	1,683,038
Others		25,866		12,839
		₩ 2,598,209		₩ 2,528,893

Notes to Non-Consolidated Financial Statements

December 31, 2005 and 2004

21. Assets and Liabilities Denominated in Foreign Currencies

Significant assets and liabilities denominated in foreign currencies as of December 31, 2005 and 2004, are as follows:

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

	Foreign currency [1]				Equivalent in Korean won			
	2005		2004		2005		2004	
Asset								
Cash	US$	3,143	US$	2,563	₩	3,184	₩	2,676
Due from banks		530,908		685,151		537,810		715,160
Trading securities		578,002		858,473		585,516		896,074
Investment securities (available-for-sale)		2,535,535		2,202,531		2,568,497		2,299,001
Investment securities (held-to-maturity)		12,966		165,986		13,135		173,256
Investment securities using the equity method		236,475		175,277		239,549		182,954
Bills bought		1,790,846		1,798,280		1,814,127		1,877,044
Call loans		455,244		532,600		461,162		555,928
Loans receivable		12,360,524		12,937,447		12,521,211		13,504,106
Domestic import usance bills		2,370,341		2,705,462		2,401,155		2,823,961
Receivables		2,388		16,105		2,419		16,811
Other assets		3,758,084		5,241,385		3,806,939		5,470,957
	US$	24,634,456	US$	27,321,260	₩	24,954,704	₩	28,517,928
Liabilities								
Deposits	US$	1,732,838	US$	1,588,031	₩	1,755,365	₩	1,657,586
Borrowings		8,443,973		10,499,858		8,553,745		10,959,752
Bonds sold under repurchase agreements		385,796		382,390		390,811		399,139
Call money		589,181		251,148		596,840		262,148
Bonds		12,320,078		10,865,595		12,480,239		11,341,508
Other liabilities		1,516,016		3,948,314		1,535,724		4,121,250
	US$	24,987,882	US$	27,535,336	₩	25,312,724	₩	28,741,383

[1] *Assets or liabilities denominated in foreign currencies other than in US dollars have been converted into US dollars by using the exchange rate in effect on December 31, 2005.*

22. Related Party Transactions

There is no difference in the loan policy that the Bank applies between related and third parties. The following table presents the balances of major loans to related parties, including payment guarantees, as of December 31, 2005 and 2004, subject to consolidation:

(in millions of Korean Won)

	2005		2004	
KDB Capital Corp.	₩	875,438	₩	460,208
KDB Asia (HK) Ltd.		81,040		183,210
Daewoo Shipbuilding & Marine Engineering Co., Ltd.		1,579,903		1,302,117
Daewoo Securities Co., Ltd.		-		400,000
STX Pan Ocean Co., Ltd.[1]		-		65,238
KDB Ireland Ltd.		147,899		88,723
KDB Bank (Hungary) Ltd.		40,520		41,752
	₩	2,724,800	₩	2,541,248

[1] *The related party is no longer subject to consolidation but is subject to equity-method accounting.*

Notes to Non-Consolidated Financial Statements

December 31, 2005 and 2004

23. Operation Results of Trust Accounts

The income statement of the trust accounts for the years ended December 31, 2005 and 2004, are as follows:

(in millions of Korean Won)

	2005		2004	
Revenue				
Interest income	₩	146,729	₩	176,916
Gain from securities		34,030		32,704
Others		11,896		30,245
	₩	192,655	₩	239,865
Expenses				
Dividends of trust profits to beneficiaries	₩	94,583	₩	151,924
Commissions paid		7,191		9,160
Loss from securities		35,740		10,087
Trust fee to the Bank		23,653		26,249
Provisions for possible loan losses		107		30,912
Others		31,381		11,533
	₩	192,655	₩	239,865

24. Supplemental Cash Flow Information

Transactions not involving any inflow or outflow of cash for the years ended December 31, 2005 and 2004, are as follows:

(in millions of Korean Won)

	2005		2004	
Loans converted to equity securities	₩	245,126	₩	701,736
Investment in kind		-		1,000,000

25. Restatement of Prior Year Financial Statements

In relation to private equity funds prior to January 1, 2005, the Bank classified private equity funds in the balance sheet according to the Bank's investment purpose and recognized valuation gains and losses in the income statement. In 2005, the Bank changed its method of accounting for private equity funds to conform with the new authoritative interpretation announced by the Financial Supervisory Service. Accordingly, valuation gains and losses on unspecified private equity funds are accounted for as a capital adjustment. The financial statement as of and for the year ended December 31, 2004, have been restated to reflect the change, resulting in an increase in capital adjustments of ₩23,391 million and a decrease in net income of ₩23,391 million. Retained earnings as of December 31, 2004 was adjusted for the effect of retroactive application of the new method. The effects on the December 31, 2005 financial statements are a decrease in capital adjustments of ₩22,202 million and an increase in net income of ₩22,202 million.

Prior to January 1, 2005, the Bank, where possible, used either the most recent audited annual financial statements or the reviewed interim financial statements of the investee in accounting for securities under the equity method. In 2005, the Bank changed its policy to conform with SKFAS No. 15, *Equity Method*. The Standard which became effective in 2005 requires the use of investee's latest audited or provisional financial statements in accounting for equity-method investments. The effect of this change as of and for the year ended December 31, 2005 was an increase in securities under the equity method of ₩132,091 million, an increase in capital adjustment of ₩85,382 million, an increase in retained earnings of ₩101,822 million and a decrease in valuation loss of securities under the equity method of ₩55,113 million. The financial statements as of and for the year ended December 31, 2004, have been restated to reflect the change, resulting in an increase in securities under the equity method of ₩354,709 million, an increase in capital adjustment of ₩113,688 million, an increase in retained earnings of ₩137,346 million and an increase in valuation gain of securities under the equity method of ₩103,675 million.

In 2005, the Bank changed the classification of its shares in Korea Tourism Organization from available-for-sale securities to securities under the equity method to conform with the new requirements of SKFAS No. 15, *Equity Method*. The effect of this change as of December 31, 2005, was an increase in securities under the equity method of ₩138,779 million, an increase in capital adjustment of ₩3 million, an increase in retained earnings of ₩102,825 million and a decrease in available-for-sale securities of ₩35,529 million. The effect of this change for the year then ended is an increase in valuation gain of ₩634 million and a decrease in dividend income of ₩212 million. The financial statement as of and for the year ended December 31, 2004, have been restated to reflect the change, resulting in an increase in securities under the equity method of ₩138,357 million, an increase in capital adjustment of ₩3 million, an increase in retained earnings of ₩102,427 million and a decrease in available-for-sale securities of ₩35,529 million. The effect of this change for the year then ended is an increase in valuation gain of ₩680 million and a decrease in dividend income of ₩282 million.

26. Approval of Financial Statements

The December 31, 2005 audited financial statements will be approved by the Ministry of Finance and Economy of the Republic of Korea on February 28, 2006.

Report of Independent Auditors

December 31, 2005 and 2004

SAMIL PRICEWATERHOUSECOOPERS

Samil PricewaterhouseCoopers
Kukje Center Building
191 Hangangro 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 balance sheets of The Korea Development Bank Trust Accounts ("the Trust Accounts"), which The Korea Development Bank ("the Bank") operates, as of December 31, 2005 and 2004, 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, 2005 and 2004, and the results of its operations for the years then ended in conformity with trust accounting principles generally accepted in the Republic of Korea.

Without qualifying our opinion, we draw your attention to Note 2 of the financial statements, which states that the major assets of the Trust Accounts as of December 31, 2005 and 2004 are as follows:

(in millions of Korean won)

	Amount		Ratio (%)	
	2005	2004	2005	2004
Securities	₩ 5,572,727	₩ 5,699,445	31	35
Loans	44,667	60,624	-	-
Monetary claims for collection	11,025,026	10,236,033	62	62
Other assets	1,281,401	457,377	7	3
Allowance for possible loan losses	(11,536)	(22,281)	-	-
	₩ 17,912,285	₩ 16,431,198	100	100

Report of Independent Auditors

Accounting principles and auditing standards and their application in practice vary among countries. The accompanying financial statements are not intended to present the financial position, results of operations in conformity with trust 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 for trust funds or auditing standards for trust funds and their application in practice.

Samil PricewaterhouseCoopers

Seoul, Korea
January 10, 2006

This report is effective as of January 10, 2006, 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.

Balance Sheets (Trust Accounts)

December 31, 2005 and 2004

(in millions of Korean Won)

	2005		2004	
Assets				
Cash deposits (Note 5)	₩	43,422	₩	15,640
Securities (Note 6)		5,572,727		5,699,445
Loans receivable (Note 7)		44,667		60,624
Monetary claims for collection (Note 8)		11,025,026		10,236,033
Real estate in trust (Note 9)		944,802		97,021
Accrued income		17,048		25,627
Due from banking accounts (Note 15)		272,466		317,254
Other assets (Note 13)		3,663		1,835
Allowance for possible loan losses		(11,536)		(22,281)
Total assets	₩	17,912,285	₩	16,431,198
Liabilities				
Money trusts	₩	2,247,271	₩	2,737,736
Monetary claims in trust		11,037,927		10,342,387
Securities in trust (Note 10)		3,329,631		2,867,649
Real estate collateral trusts		889,802		42,021
Mortgage bond trusts		55,000		55,000
Accrued trust dividends		315,707		343,203
Other liabilities (Note 13)		28,329		35,792
Reserve for future trust losses (Note 3)		8,618		7,410
Total liabilities	₩	17,912,285	₩	16,431,198

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

Statesments of Income (Trust Accounts)

Years Ended December 31, 2005 and 2004

(in millions of Korean Won)

	2005	2004
Revenue		
Interest on securities	₩ 112,168	₩ 160,025
Interest on loans	3,447	5,601
Interest on due from banking accounts (Note 15)	21,085	11,080
Other interest income	10,028	210
	146,728	176,916
Gains on derivatives transactions	4,949	5,030
Gains on securities	34,030	32,704
Other income (Note 14)	6,094	19,075
Reversal of provision for possible loan losses	853	6,140
	192,654	239,865
Expenses		
Commission expenses	7,191	9,160
Losses on derivatives transactions	25,040	6,946
Losses on securities	35,740	10,087
Trust fees to the Bank (Note 15)	23,653	26,249
Other expenses (Note 14)	6,340	4,587
Reserve for possible loan losses	107	30,912
	98,071	87,941
Dividends of trust profit to beneficiaries	₩ 94,583	₩ 151,924

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

Notes to Financial Statements (Trust Accounts)

December 31, 2005 and 2004

1. The Trust

The Korea Development Bank (the "Bank") was established in 1954 by the Korea Development Bank Act for the purpose of supplying and managing major industrial capital to develop the Korean manufacturing industry and others. The Bank is engaged in the banking business under the Korea Development Bank Act and in the trust business according to the Trust Business Act and other related regulation in the Republic of Korea.

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

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

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

The financial position of the Bank and the Trust Accounts, as of December 31, 2005 and 2004, are as follows:

(in millions of Korean Won)

	Bank Accounts	
	2005	2004
Cash and due form banks	₩ 1,866,224	₩ 1,192,300
Securities	39,434,849	33,987,777
Loans receivable	49,829,900	45,848,786
Other assets	5,379,721	11,655,881
Assets	₩ 96,510,694	₩ 92,684,744
Deposits	11,322,026	8,932,958
Borrowings	20,818,120	21,545,932
Other liabilities	49,625,558	51,485,367
Liabilities	₩ 81,765,704	₩ 81,964,257
Shareholder's equity	₩ 14,744,990	₩ 10,720,487

(in millions of Korean Won)

	Trust Accounts			
	2005		2004	
Securities	₩	5,572,727	₩	5,699,445
Loans receivable		44,667		60,624
Due form banking accounts		272,466		317,254
Monetary claims for collection		11,025,026		10,236,033
Other assets		1,008,935		140,123
Allowance for possible loan losses		(11,536)		(22,281)
Assets	₩	17,912,285	₩	16,431,198
Money trusts		2,247,271		2,737,736
Monetary claims in trust		11,037,927		10,342,387
Securities in trust		3,329,630		2,867,649
Real estate collateral trusts		889,802		42,021
Other liabilities		407,655		441,405
Liabilities	₩	17,912,285	₩	16,431,198

2. Summary of the Trust Accounts

Major assets of the Trust Accounts, as of December 31, 2005 and 2004, are as follows:

(in millions of Korean won)

	Amount				Ratio (%)	
	2005		2004		2005	2004
Securities	₩	5,572,727	₩	5,699,445	31	35
Loans receivable		44,667		60,624	-	-
Monetary claims for collection		11,025,026		10,236,033	62	62
Other assets		1,281,401		457,377	7	3
Allowance for possible loan losses		(11,536)		(22,281)	-	-
	₩	17,912,285	₩	16,431,198	100	100

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.

Notes to Financial Statements (Trust Accounts)

December 31, 2005 and 2004

Basis of Financial Statement Presentation

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

Revenues and Expenses 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.

Interest Income Recognition

The Trust Accounts recognize interest income on loans and debt securities on an accrual basis. While, interest income on overdue and dishonored loans and securities, except for those guaranteed by financial institutions or collateralized, is recognized on a cash basis.

Securities

Listed stocks and beneficiary certificates are valued at market value. Non-marketable equity securities are valued at cost unless the net book value of the issuer declined significantly, and remote possibility of recovery exists.
Bonds held by unspecified money trust accounts organized before November 15, 1998, are valued at cost, net of possible losses in accordance with the transitional allowance of Trust Business Act and related regulations.

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

Details of valuation method for bonds are as follows:

Cost Method	Fair Value Method
General unspecified money trusts	Retirement money trusts
Installment money trusts	Additional money trusts
Development trusts	Unit type 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	
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:

	Allowance Percentages	
Loan Classifications	Loans to Enterprise	Loans to Households
Normal[1]	0.5%	0.75%
Precautionary	2% or more	8% or more
Substandard	20% or more	20% or more
Doubtful	50% or more	55% or more
Estimated 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.

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, 2005, reserve for future trust losses amounts to ₩8,618 million (2004: ₩7,410 million).

Notes to Financial Statements (Trust Accounts)

December 31, 2005 and 2004

Revenue and Expense of Trust Accounts

The revenues of the Trust Accounts mainly consist of interest income, and expenses mainly consist of trust operating expenses and trust fees to 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 truster'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, 2005 and 2004, are as follows:

(in millions of Korean Won)

Trusts	Trust terms of maturity (Years)	2005	2004
General unspecified money trusts	over 1.5[1]	₩ 11	₩ 11
Installment money trusts	over 1.5[3]	81	80
Corporation money trusts	1.5[3]	1	1
Household money trusts	1.5[3]	525	838
Old-age living pension trusts	over 5[2]	7,039	15,010
Specified money trusts	over 0.25	1,198,294	1,542,522
Individual pension trusts	over 10[2]	162,026	141,999
Household long-term trusts	3~5	1,775	8,448
Labor preferential trusts	3~5	557	4,203
New installment trusts	over 1.5	691	9,259
Unit-type money trusts	1	7,944	10,890
Retirement trusts	-[2]	755,347	725,650
Additional money trusts	1	6,046	31,210
New individual pension trusts	over 10[2]	17,759	15,477
New old-age living pension trusts	over 5[2]	15,068	103,058
Pension trusts	over 11[2]	41,751	29,610
Real estate investment trusts	1, 1.5	16,754	89,563
Long-term trusts for housing	7~10	15,603	9,906

[1] *Fixed rate of return is guaranteed by the Bank.*

[2] *Repayment of principal is guaranteed by the Bank.*

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

5. Cash Deposits

Cash deposits as of December 31, 2005 and 2004 are as follows:

(in millions of Korean Won)

	Annual interest rate (%) as of Dec. 31, 2005	2005	2004
Cash deposits			
Citibank	3.5	₩ 12,005	₩ 15,036
JP Morgan Chase	3.0	21,997	-
Korea Development Bank	0.5~3.0	7,789	-
		41,791	15,036
Deposits for derivatives			
Hanwha Securities and others		1,631	604
		₩ 43,422	₩ 15,640

Notes to Financial Statements (Trust Accounts)

December 31, 2005 and 2004

6. Securities

Securities as of December 31, 2005 and 2004, are as follows:

(in millions of Korean Won)

	Annual interest rate (%) as of Dec. 31, 2005	2005	2004
Equity securities	-	₩ 3,471,707	₩ 3,413,831
Government bonds	3.0~5.0	102,773	259,127
Monetary stabilization bonds	3.4~4.3	19,845	76,877
Other financial bonds	3.6~5.4	168,929	113,721
Corporate bonds	0~13.0	1,501,998	1,362,047
Foreign currency securities	5.0~10.2	31,522	-
Commercial paper	0~7.1	231,541	376,779
Certified deposit	-	-	63,882
Beneficiary certificates	4.0~9.5	14,812	3,581
Other securities	4.6	29,600	29,600
		₩ 5,572,727	₩ 5,699,445

Investments in bonds classified by valuation methods as of December 31, 2005, are as follows:

(in millions of Korean Won)

	Trusts by cost methods	Trusts by fair value methods	Total
Government bonds	₩ 33,071	₩ 69,702	₩ 102,773
Monetary stabilization bonds	4,999	14,846	19,845
Other financial bonds	168,929	-	168,929
Corporate bonds	874,666	627,332	1,501,998
Others	237,282	70,193	307,475
	₩ 1,318,947	₩ 782,073	₩ 2,101,020

The information on securities according to country, type and customer as of December 31, 2005, follows:

(in millions of Korean Won)

	Amount	Ratio (%)
By Country		
Korea	₩ 5,469,592	98.1%
Foreign countries	103,135	1.9%
	₩ 5,572,727	100.0%
By Type		
Fixed rate bonds	₩ 1,416,007	25.4%
Floating rate bonds	85,991	1.5%
Equity securities	3,471,707	62.3%
Beneficiary certificates	14,812	0.3%
Commercial papers	231,541	4.2%
Others	352,669	6.3%
	₩ 5,572,727	100.0%
By Customer		
Government investment organization	₩ 179,702	3.2%
Financial institution	12,825	0.2%
Manufacturing and service industries	3,491,015	62.6%
Others	1,889,185	34.0%
	₩ 5,572,727	100.0%

The aggregate maturities of debt securities outstanding at December 31, 2005, are as follows:

(in millions of Korean Won)

	Government bonds	Financial bonds	Corporate bonds	Foreign currency securities	Commercial paper	Other securities	Total
Within 3 months	₩ -	₩ 28,930	₩ 140,179	₩ -	₩ 177,245	₩ 14,812	₩ 361,166
Within 6 months	201	-	71,521	-	19,296	-	91,018
Within 1 years	1,790	9,927	153,125	-	35,000	-	199,842
Within 2 years	1,273	49,917	318,898	-	-	-	370,088
Within 3 years	41,378	100,000	613,277	29,324	-	10,000	793,979
Within 4 years	20,579	-	102,930	-	-	10,000	133,509
Within 5 years	37,552	-	150	-	-	9,600	47,302
More than 5 years	-	-	101,918	2,198	-		104,116
	₩ 102,773	₩ 188,774	₩ 1,501,998	₩ 31,522	₩ 231,541	₩ 44,412	₩ 2,101,020

As of December 31, 2005, 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	₩ 102,774	₩ -	₩ -	₩ -	₩ -	₩ 102,774
Allowance for possible loan losses	-	-	-	-	-	-
Allowance ratio	-	-	-	-	-	-
Financial bonds						
Book value	188,773	-	-	-	-	188,773
Allowance for possible loan losses	-	-	-	-	-	-
Allowance ratio	-	-	-	-	-	-
Corporate bonds						
Book value	1,491,522	-	-	-	10,476	1,501,998
Allowance for possible loan losses	20	-	-	-	10,401	10,421
Allowance ratio	-	-	-	-	99.3%	0.7%
Foreign currency securities						
Book value	31,522	-	-	-	-	31,522
Allowance for possible loan losses	-	-	-	-	-	-
Allowance ratio	-	-	-	-	-	-
Commercial papers						
Book value	231,541	-	-	-	-	231,541
Allowance for possible loan losses	-	-	-	-	-	-
Allowance ratio	-	-	-	-	-	-
Equity securities						
Book value	3,471,707	-	-	-	-	3,471,707
Allowance for possible loan losses	1,042	-	-	-	-	1,042
Allowance ratio	-	-	-	-	-	-
Other securities						
Book value	44,412	-	-	-	-	44,412
Allowance for possible loan losses	-	-	-	-	-	-
Allowance ratio	-	-	-	-	-	-
Total						
Book value	₩ 5,562,251	₩ -	₩ -	₩ -	₩ 10,476	₩ 5,572,727
Allowance for possible loan losses	₩ 1,062	₩ -	₩ -	₩ -	₩ 10,401	₩ 11,463
Allowance ratio	-	-	-	-	99.3%	0.2%

Notes to Financial Statements (Trust Accounts)

December 31, 2005 and 2004

7. Loans Receivable

Loans receivable as of December 31, 2005 and 2004 are as follows:

(in millions of Korean Won)

	Annual interest rate (%) as of Dec. 31, 2005	2005	2004
Loans collateralized by:			
Marketable securities	0~10.0	₩ 4,580	₩ 6,470
Real estates	0~12.5	179	278
Bonds	0~12.5	13,693	12,434
Beneficiary certificates	0~16.4	20,910	17,127
Other loans	0~9.9	5,305	24,315
		₩ 44,667	₩ 60,624

As of December 31, 2005, 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	₩ 4,580	₩ -	₩ -	₩ -	₩ -	₩ 4,580
Allowance for possible loan losses	-	-	-	-	-	-
Allowance ratio	-	-	-	-	-	-
Real estates loans						
Book value	44	1	84	-	50	179
Allowance for possible loan losses	-	-	17	-	50	67
Allowance ratio	-	-	20%	-	100%	37%
Bonds loans						
Book value	13,693	-	-	-	-	13,693
Allowance for possible loan losses	-	-	-	-	-	-
Allowance ratio	-	-	-	-	-	-
Beneficiary certificates loans						
Book value	20,910	-	-	-	-	20,910
Allowance for possible loan losses	-	-	-	-	-	-
Allowance ratio	-	-	-	-	-	-
Other loans						
Book value	5,300	-	-	-	5	5,305
Allowance for possible loan losses	-	-	-	-	5	5
Allowance ratio	-	-	-	-	100%	-
Total						
Book value	₩ 44,527	₩ 1	₩ 84	₩ -	₩ 55	₩ 44,667
Allowance for possible loan losses	₩ -	₩ -	₩ 17	₩ -	₩ 55	₩ 72
Allowance ratio	-	-	20%	-	100%	0.2%

8. Monetary Claims for Collection

Monetary claims for collection, as of December 31, 2005 and 2004, are as follows:

(in millions of Korean Won)

	2005	2004
Receivables trusted by:		
Doosan Construction & Engineering (7th)	₩ 89,400	₩ 108,300
Asiana Airlines (1st)	679,418	988,167
Asiana Airlines (2nd)	65,586	187,057
Dongbu Corporation	18,071	75,383
2001 Outlet	82,092	292,350
UBASE	103,436	164,525
Dongbu-Anam Semiconductor	228,006	345,241
Dream Line	491,690	608,814
LG Card	4,625,958	3,267,195
Asiana Airlines	8,235	10,310
Hyundai Merchant Marine (3rd)	244,745	493,986
Special Asset Investment Trust (Real estate)	35,000	96,000
Doosan Industrial Development (9th)	77,459	139,072
Doosan Industrial Development (10th)	125,607	202,864
Doosan Industrial Development (11th)	71,146	136,791
Asiana Airlines (5th)	1,080,620	1,080,620
Dongbu Corporation (express bus)	34,720	50,832
Lotte Card	98,981	88,726
Korea Kumho Petrochemical	183,967	337,183
Erae Electronics	106,823	138,039
Choongwae Pharma	64,675	48,418
Dongyang Major	571,042	-
Choongwae Pharma (3th)	55,858	-
Save Zone	268,087	-
Save Zone Libera	112,262	-
Doosan Industrial Development	145,796	-
Special Real Estate Investment Trust	30,000	-
Special Real Estate Investment Trust (KDB plus 3)	60,000	-
LG Card (foreign bond 2)	607,422	-
LG Card (foreign bond 3)	470,820	-
Special Real Estate Investment Trust (KDB plus 4)	73,000	-
Specified Money Trust Combination	115,104	-
Doosan Construction & Engineering (We've)	-	8,646
Doosan Construction & Engineering (6th)	-	20,643
Asiana Airlines (3rd)	-	343,391
Dongkuk Industries	-	92,334
Dongbu	-	110,410
Dongbu Steel	-	197,967
Dongbu Corporation (3rd)	-	47,724
Hansol Chemience	-	18,215
Doosan (5th)	-	65,470
TriGem Computer	-	263,462
Hankook Core	-	135,277
Wooyoung	-	72,621
	₩ 11,025,026	₩ 10,236,033

Notes to Financial Statements (Trust Accounts)

December 31, 2005 and 2004

9. Real Estate in Trust

Real estates in trust as of December 31, 2005 and 2004 are as follows:

(in millions of Korean Won)

	2005	2004
Trusted by:		
Hanwha Living & Creative	₩ 25,000	₩ 25,000
SKC	30,000	30,000
P&D Valley	18,912	18,912
Slgisol Construction	9,199	9,199
Dongil Highvill	-	13,910
Chung Hae Ik and 7 other individuals	6,829	-
The First	31,332	-
Dong Il Construction	49,530	-
Saehan	256,000	-
Value Development	17,500	-
DSC&C	403,000	-
Mahanaim Developing & Consulting	97,500	-
	₩ 944,802	₩ 97,021

10. Securities in Trust

Securities in trust as of December 31, 2005 and 2004, are as follows:

(in millions of Korean Won)

	2005				
Trusted Securities	Stocks	Commercial papers	Financial bonds	Corporate bonds	Total
GM Daewoo	₩ 1,488,700	₩ -	₩ -	₩ -	₩ 1,488,700
Daewoo Incheon Motors	1,396,239			-	1,396,239
Daewoo Bus	-	29,600	-	-	29,600
Provalue	-	-	-	38,500	38,500
Provalue (B series)	-	-	-	187,000	187,000
Provalue (C series)	-	-	-	100,000	100,000
Hanwha Securities	-	-	100,000	-	100,000
Seoul Securities (KDB First)	-	-	40,000	-	40,000
	₩ 2,884,939	₩ 29,600	₩ 140,000	₩ 325,500	₩ 3,380,039

(in millions of Korean Won)

	2004				
Trusted Securities	Stocks	Commercial papers	Financial bonds	Corporate bonds	Total
GM Daewoo	₩ 1,488,700	₩ -	₩ -	₩ -	₩ 1,488,700
Daewoo Incheon Motors	1,396,239	-	-	-	1,396,239
Daewoo Bus	-	29,600	-	-	29,600
	₩ 2,884,939	₩ 29,600	₩ -	₩ -	₩ 2,914,539

11. Derivatives

The notional amounts outstanding for derivatives contracts as of December 31, 2005 and 2004, are as follows:

(in millions of Korean Won)

	2005				
	Amount outstanding	Gain	Loss	Assets	Liabilities
Currency forward (selling)	₩ 32,512	₩ 604	₩ -	₩ 604	₩ -
Interest futures (selling)	52,758	-	-	-	-
KOSPI futures (selling)	43,894	-	-	-	-
	₩ 129,164	₩ 604	₩ -	₩ 604	₩ -

(in millions of Korean Won)

	2004				
	Amount outstanding	Gain	Loss	Assets	Liabilities
Currency forward (selling)	₩ -	₩ -	₩ -	₩ -	₩ -
Interest futures (selling)	-	-	-	-	-
KOSPI futures (selling)	47,635	-	-	-	-
	₩ 47,635	₩ -	₩ -	₩ -	₩ -

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

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

12. Collateral of Securities

The securities pledged as collaterals for consignment guarantee money of futures as of December 31, 2005, are as follows:

(in millions of Korean Won)

	Book value	Substitute price	Mortgagee
Corporate bond			
SKC107	₩ 13,250,000	₩ 11,448,000	Dongyang Futures and others
Himart 1	3,000,000	2,565,000	Woori Futures and others
Dong Kook Steel Mill (65-1th) Unguaranteed Bond	400,000	334,000	Dongyang Futures and others
Daesang 112	300,000	254,400	NongHyup Futures and others
Samsung Card 994	50,000	55,250	Dongyang Futures and others
	17,000,000	14,656,650	
Stock			
Samsung Electronics	51,175	5,483,108	Hankook Securities and others
Industrial Bank of Korea	145,000	406,000	Hanuri Securities
Hyundai Motor	44,500	685,776	Hankook Securities and others
KT	10,000	65,760	Hanuri Securities
Hynix Semiconductor Inc.	9,800	58,565	Daewoo Securities
Hyundai Mobis	5,500	76,824	Daewoo Securities
	265,975	6,776,033	
	₩ 17,265,975	₩ 21,432,683	

Notes to Financial Statements (Trust Accounts)

December 31, 2005 and 2004

13. Other Asset and Liabilities

As of December 31, 2005 and 2004, details of other assets and other liabilities are as follows:

(in millions of Korean Won)

Other assets	2005	2004
Accounts receivables	₩ 1,277	₩ 1,380
Accrued expenses	1,750	423
Assets from derivatives	604	-
Sundry asset	32	32
	₩ 3,663	₩ 1,835

(in millions of Korean Won)

Other liabilities	2005	2004
Other accounts payables	₩ 11,356	₩ 12,632
Accrued payable trust fees	16,348	22,253
Accrued expenses	329	363
Discounted present value	295	537
Deposits payable from Credit Guarantee Fund	1	6
Income in advance	-	1
	₩ 28,329	₩ 35,792

14. Other Income and Other Expenses

For the years ended December 31, 2005 and 2004, details of other income and other expenses are as follows:

(in millions of Korean Won)

Other income	2005	2004
Commission received	₩ 55	₩ 125
Transfer form special provision	1,177	966
Other sundry gains	4,862	17,984
	₩ 6,094	₩ 19,075

(in millions of Korean Won)

Other expenses	2005	2004
Provision for special provision	₩ 2,385	₩ 2,581
Insurance fees on deposits	902	924
Contribution to Credit Guarantee Fund	38	92
Other sundry expenses	3,015	990
	₩ 6,340	₩ 4,587

15. Related Party Transactions

Significant transactions with the Bank's banking accounts for the years ended December 31, 2005 and 2004, are as follows:

(in millions of Korean Won)

	2005	2004
Assets or Liabilities		
Due from banking accounts	₩ 272,466	₩ 317,254
Revenues or Expenses		
Interest on due from banking accounts	21,085	11,080
Trust fee	₩ 23,653	₩ 26,249

Financial bonds issued by KDB Capital amounted to ₩11,827 million as of December 31, 2004, and related interest income and gain on disposal of securities amounted to ₩1,500 million and ₩350 million, respectively, for the year ended December 31, 2004.

As of December 31, 2005, The Trust currently possesses no bonds of KDB Capital. The interest income and gain on disposal of securities recognized for the year ended December 31, 2005, amount to ₩993 million and ₩58 million, respectively. As of December 31, 2005, the amount deposited into the Money Trust (Pension Trust) is ₩1,032 million (2004 : ₩429 million). The related dividends of trust profit amounted to ₩30 million for the year ended December 31, 2005 (2004 : ₩29 million).

The deposits in pension trust of Daewoo Shipbuilding and Marine Engineering, a subsidiary of The Bank, amounted to ₩ 48,337 million as of December 31, 2005 (2004: ₩65,656 million) and related dividends of trust profit amounted to ₩489 million for the year ended December 31, 2005 (2004: ₩3,469 million).

Transactions and transfers among trust accounts for the year ended December 31, 2005, amounted to ₩71,876 million (2004: ₩214,713 million).

16. Detail of the Trust Accounts

The condensed balance sheets as of December 31, 2005 and 2004, and statements of operations for the years then ended of the Trust Accounts by category are as follows:

(in millions of Korean Won)

Condensed Balance Sheets	Guaranteed principal or rate of return trusts	Non-guaranteed trusts[1]	Property trusts	Total
Cash deposits	₩ 545	₩ 1,085	₩ 41,792	₩ 43,422
Securities	900,818	1,291,870	3,380,039	5,572,727
Loans receivable	39,367	5,300	-	44,667
Money receivables for collection	-	115,104	10,909,922	11,025,026
Real estate trusted	-	-	944,802	944,802
Due from banking accounts	92,155	101,926	78,385	272,466
Other assets	8,801	7,155	4,755	20,711
Allowance for possible loan losses	(11,536)	-	-	(11,536)
Total in 2005	₩ 1,030,150	₩ 1,522,440	₩ 15,359,695	₩ 17,912,285
Total in 2004	₩ 1,082,915	₩ 1,986,934	₩ 13,361,349	₩ 16,431,198
Money and other trusts	₩ 999,001	₩ 1,248,270	₩ 15,312,359	₩ 17,559,630
Accrued trust dividends	7,443	261,749	46,515	315,707
Reserve for future trust losses	8,604	14	-	8,618
Others	15,102	12,407	821	28,330
Total in 2005	₩ 1,030,150	₩ 1,522,440	₩ 15,359,695	₩ 17,912,285
Total in 2004	₩ 1,082,915	₩ 1,986,934	₩ 13,361,349	₩ 16,431,198

[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.

Notes to Financial Statements (Trust Accounts)

December 31, 2005 and 2004

(in millions of Korean Won)

Condensed Statements of Income	Guaranteed principal or rate of return trusts	Non-guaranteed trusts[1]	Property trusts	Total
Revenue				
Interest on securities	₩ 44,919	₩ 58,828	₩ 8,421	₩ 112,168
Interest on loans	2,145	1,302	-	3,447
Gains on securities	12,326	21,704	-	34,030
Interest on due from banking Accounts	1,849	3,519	15,717	21,085
Reversal of provision for possible loan losses	807	46	-	853
Other revenues	5,641	1,176	14,254	21,071
	67,687	86,575	38,392	192,654
Expenses				
Loss on securities	26,736	9,004	-	35,740
Trust fees to the Bank	13,160	2,861	7,632	23,653
Reserve for future trust losses	2,385	-	-	2,385
Reserve for possible loan losses	107	-	-	107
Other expenses	10,460	16,607	9,119	36,186
	52,848	28,472	16,751	98,071
Dividends of trust profit to beneficiaries				
2005	₩ 14,839	₩ 58,103	₩ 21,641	₩ 94,583
2004	₩ 54,425	₩ 104,774	₩ (7,275)	₩ 151,924

[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.*

17. Reclassification of prior financial statement presentation

Certain amounts in the financial statements as of and for the year ended December 31, 2004, have been reclassified to conform to the December 31, 2005 financial statement presentation. These reclassification have no effect on previously reported net income or shareholders' equity.

Report of Independent Auditors

SAMIL PRICEWATERHOUSECOOPERS

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

To the Board of Directors of
The Korea Development Bank

We have audited the accompanying consolidated balance sheets of the Korea Development Bank (the "Bank") and its subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of income, changes in equity and cash flows for the years then ended, expressed in Korean won. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Daewoo Shipbuilding & Marine Engineering Co., Ltd. and seven other consolidated subsidiaries, whose financial statements reflect total assets of ₩7,118,967 million as of December 31, 2005, and total revenues of ₩5,281,195 million for the year then ended. 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 seven 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, 2005 and 2004, and the results of their operations, the changes in their equity and their cash flows for the years then ended in conformity with accounting principles generally accepted in the Republic of Korea.

Report of Independent Auditors

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

As discussed in Note 1 to the consolidated financial statements, as Banco KDB Brasil S.A. and KDB Value Private Equity Fund 1 were established during the year ended December 31, 2005, these subsidiaries are newly included in the consolidated financial statements for the year then ended. Also in 2005, Daewoo Shipbuilding & Marine Engineering Co., Ltd. ("Daewoo Shipbuilding"), a Bank's subsidiary, acquired Welliv Corporation and DSME Construction Co., Ltd. These subsidiaries were consolidated into the financial statements of Daewoo Shipbuilding for 2005. However, the financial statements of Pacific Portfolio Investment Ltd. and Siberian Tiger Investment Ltd. were excluded from consolidation of Daewoo Securities Co., Ltd., a Bank's subsidiary, as these subsidiaries' total assets did not exceed W7 billion as of the prior year end.

As discussed in Note 2 to the consolidated financial statements, the Bank changed its accounting method for unspecified private equity funds and reclassified securities accounted for under the equity method. Accordingly, the consolidated financial statements for the year ended December 31, 2004, presented herein for comparative purposes have been restated.

As discussed in Note 2 to the consolidated financial statements, the Bank changed its accounting policy to increase provision for possible guarantee and acceptances losses and for unused loan commitments.

Accounting principles and auditing standards and their application in practice vary among countries. The accompanying consolidated financial statements are not intended to present the financial position, results of operations and cash flows in conformity with accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of Korea. In addition, the procedures and practices used in the Republic of Korea to audit such 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
February 21, 2006

This report is effective as of February 21, 2006, 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, 2005 and 2004

(in millions of Korean Won)

		2005		2004
Assets				
Cash and due from banks (Note 3)	₩	6,363,959	₩	3,128,860
Securities (Note 4)		43,275,716		36,486,239
Loans receivable, net (Note 5)		51,772,046		46,354,206
Property and equipment, net (Note 6)		2,900,355		2,770,790
Intangible assets, net		93,676		117,982
Guarantee deposits		212,856		199,167
Derivative financial instruments		2,154,360		4,329,028
Trade accounts receivable, net		1,377,670		1,021,332
Prepaid expenses		264,063		228,661
Other assets (Note 7)		3,768,708		8,021,035
Total assets	₩	112,183,409	₩	102,657,300
Liabilities and Shareholder's Equity				
Deposits (Note 8)	₩	15,132,237	₩	10,689,596
Borrowings (Note 9)		25,557,990		23,780,728
Debentures (Note 10)		43,022,046		40,438,496
Allowance for possible guarantee losses (Note 12)		39,387		23,760
Allowance for unused loan commitments (Note 12)		31,316		-
Accrued severance benefits		226,014		177,945
Other accounts payable		1,824,882		6,190,339
Accrued expenses		737,059		720,697
Derivative financial instruments		2,249,024		3,835,584
Unearned income		87,491		86,283
Trade accounts payable		431,057		396,994
Other liabilities (Note 11)		6,084,524		3,684,998
Total liabilities		95,423,027		90,025,420
Commitments and contingencies (Note 13)				
Shareholder's equity (Note 15)				
Capital stock		8,241,861		8,241,861
Capital surplus		-		-
Retained earnings		3,891,348		1,439,347
Capital adjustments		2,499,044		871,849
Minority interest in consolidated subsidiaries		2,128,129		2,078,823
Total shareholder's equity		16,760,382		12,631,880
Total liabilities and shareholder's equity	₩	112,183,409	₩	102,657,300

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

Consolidated Statements of Income

Years Ended December 31, 2005 and 2004

(in millions of Korean Won)

	2005	2004
Interest income		
Interest on loans receivable	₩ 2,257,890	₩ 2,195,686
Interest on due from banks	137,405	136,273
Interest on trading securities	181,447	165,244
Interest on available-for-sale securities	594,156	449,193
Interest on held-to-maturity securities	141,910	170,426
Other interest income	46,666	33,974
	3,359,474	3,150,796
Interest expenses		
Interest on deposits	347,914	386,640
Interest on borrowings	696,121	575,097
Interest on bonds payable	1,671,934	1,726,232
Other interest expenses	31,835	16,638
	2,747,804	2,704,607
Net interest income	611,670	446,189
Provision for loan losses	114,168	307,664
Net interest income after provision for loan losses	497,502	138,525
Non-interest revenue		
Fees and commissions	893,416	630,053
Gain from trading securities	307,202	258,418
Gain from available-for-sale securities	53,753	66,709
Gain from derivative financial instruments	7,445,336	9,610,332
Gain on foreign currency transactions	545,570	748,790
Sales from manufacturing activities	4,958,321	4,918,832
Others (Note 16)	173,697	320,995
	14,377,295	16,554,129
Non-interest expenses		
Fees and commissions	70,426	49,141
Loss from trading securities	192,419	119,909
Loss from derivative financial instruments	6,920,941	8,721,092
Loss on foreign currency transactions	1,004,196	1,238,992
General and administrative expenses (Note 17)	1,021,179	910,597
Cost of sales from manufacturing activities	4,874,941	4,685,174
Others (Note 16)	249,258	201,626
	14,333,360	15,926,531
Operating income	541,437	766,123

Consolidated Statements of Income

Years Ended December 31, 2005 and 2004

(in millions of Korean Won)

	2005	2004
Non-operating income, net	2,121,550	740,444
Extraordinary loss, net	(37)	(3,147)
Income before income taxes	2,662,950	1,503,420
Income tax expense(benefit) (Note 18)	(3,979)	249,385
Net income before minority interest in earnings of consolidated subsidiaries, net	2,666,929	1,254,035
Minority interest in earnings of consolidated subsidiaries, net	(219,515)	(156,711)
Net income	₩ 2,447,414	₩ 1,097,324

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

Consolidated Statements of Changes in Equity

Years Ended December 31, 2005 and 2004

(in millions of Korean Won)

	2005	2004
Capital stock		
Balance, beginning of the year	₩ 8,241,861	₩ 7,241,861
Increase in paid-in capital	-	-
Issuance of capital stock for non-cash assets	-	1,000,000
Balance, end of the year	8,241,861	8,241,861
Capital surplus		
Balance, beginning of the year	-	21,266
Changes in capital surplus of equity method investees	13,120	1,287
Changes in equity ownership ratio	(13,120)	(22,553)
Balance, end of the year	-	-
Retained earnings		
Balance, beginning of the year	1,439,347	62,007
Net income	2,447,414	1,097,324
Changes in retained earnings of subsidiaries	(10,088)	244,077
Changes in equity ownership ratio	13,467	32,418
Changes in subsidiaries	-	1,903
Others	1,208	1,618
Balance, end of the year	3,891,348	1,439,347
Capital adjustments		
Balance, beginning of the year	871,849	(111,836)
Changes in subsidiaries	-	(384)
Changes in capital surplus of equity method investees	1,125	(1,287)
Changes during the year	1,626,070	985,356
Balance, end of the year	2,499,044	871,849
Minority interest in consolidated subsidiaries		
Balance, beginning of the year	2,078,823	2,097,107
Changes in subsidiaries	-	(378,687)
Changes during the year	49,306	360,403
Balance, end of the year	2,128,129	2,078,823
Total equity	₩ 16,760,382	₩ 12,631,880

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

Consolidated Statements of Cash Flows

Years Ended December 31, 2005 and 2004

(in millions of Korean Won)

	2005	2004
Cash flows from operating activities		
Net income	₩ 2,447,414	₩ 1,097,324
Adjustments to reconcile net income to net cash provided by operating activities		
(Gain) Loss on disposal of loans receivable, net	(11,135)	142,192
Gain on trading securities, net	(105,486)	(134,073)
(Gain) Loss on available-for-sale securities, net	(275,136)	385,784
Gain on equity method securities	(1,797,698)	(989,519)
Provision for loan losses	114,168	307,664
Depreciation on property and equipment	85,558	91,954
Loss on foreign currency translation, net	1,354,814	614,952
Gain from derivative financial instruments, net	(524,395)	(889,239)
Others, net	244,632	184,731
	(914,678)	(285,554)
Changes in operating assets and liabilities		
Decrease in other accounts receivable	4,458,901	2,677,319
Decrease in other accounts payable	(5,739,853)	(2,549,189)
Net decrease in derivative financial instruments	1,112,503	634,687
Increase in prepaid expenses	(35,402)	(23,239)
Increase (Decrease) in accrued expenses	16,362	(180,410)
Others, net	1,707,527	861,920
	1,520,038	1,421,088
Net cash provided by operating activities	3,052,774	2,232,858
Cash flows from investing activities		
Disposal (Acquisition) of trading securities, net	103,741	(1,652,368)
Acquisition in available-for-sale securities, net	(5,374,893)	(2,323,983)
Disposal in held-to-maturity securities, net	1,524,047	815,642
(Acquisition) Disposal in due from banks, net	(3,235,780)	144,930
Disposal (Acquisition) in equity method securities, net	359,743	(222,242)
(Acquisition) Disposal in loans receivable, net	(6,862,559)	810,245
Acquisition in property and equipment, net	(215,244)	(95,556)
Others, net	(102,448)	(317,618)
Net cash used in investing activities	(13,803,393)	(2,840,950)

Consolidated Statements of Cash Flows

Years Ended December 31, 2005 and 2004

(in millions of Korean Won)

	2005	2004
Cash flows from financing activities		
Receipt(Repayment) of deposits, net	4,442,641	(2,101,460)
Repayment of borrowings, net	(77,197)	(2,359,705)
Issuance of bonds, net	2,586,549	2,926,193
Others, net	3,796,905	2,112,839
Net cash provided by financing activities	10,748,898	577,867
Increase(Decrease) in cash due to change in consolidation scope	1,040	(4)
Net decrease in cash and cash equivalents	(681)	(30,229)
Cash and cash equivalents		
Beginning of year	104,556	134,785
End of year	₩ 103,875	₩ 104,556

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

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

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 Bank has 39 local branches, six overseas branches, four overseas subsidiaries and two overseas offices as of December 31, 2005. 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.

Consolidated Subsidiaries

Summarized information regarding consolidated subsidiaries as of December 31, 2005 and 2004, follows:

(in millions of Korean Won)

Subsidiaries	Invested amount 2005	Invested amount 2004	Percentage of ownership (%) as of Dec. 31, 2005
Domestic			
KDB Capital Corporation	₩ 761,593	₩ 754,052	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	42,095	42,403	68.71
KDB Asset Management Co., Ltd.[1]	47,378	47,378	93.52
KDB Value Private Equity Fund 1	86,100	-	66.59
Samwon Industrial Co., Ltd.[1]	575	575	42.31
DSEC Co., Ltd.	10,671	6,224	100.00
Welliv Corp.	23,617	-	100.00
DSME Construction Co., Ltd.[1]	30,797	-	97.44
	₩ 1,844,461	₩ 1,687,267	

[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.

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

(in thousands)

Subsidiaries	Invested amount 2005		Invested amount 2004		Percentage of ownership (%) as of Dec. 31, 2005
Overseas					
KDB Asia (HK) Ltd.	US$	90,000	US$	70,000	100.00
KDB Ireland Ltd.	US$	20,000	US$	20,000	100.00
KDB Bank (Hungary) Ltd.	US$	49,074	US$	49,074	100.00
Banco KDB Brasil S.A.	BRL	67,530		-	100.00
Metropolitan Industrial Leasing Co., Ltd.	THB	50,000	THB	50,000	49.00
Vietnam International Leasing Co., Ltd.	US$	1,886	US$	1,886	37.65
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
UZ Daewoo Bank	US$	5,500	US$	5,500	61.11
Daewoo Mangalia Heavy Industries	Lei	156,138,000	Lei	156,138,000	51.00
DSME-Shandong Co., Ltd.	USD	20,000		-	100.00

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

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

Subsidiaries	Incorporation date	Outstanding capital 2005		Outstanding capital 2004		Major business
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	₩	68,539	₩	63,019	Investing and financing for companies operating social infrastructure.
KDB Asia (HK) Ltd.	January 1986	US$	90,000	US$	70,000	Providing financing services to Korean companies. Investing in securities. 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	8,826,800	HUF	8,826,800	Providing commercial banking service.
KDB Asset Management Co., Ltd.	May 1996	₩	38,895	₩	38,895	Security investment management operation and investment consulting service.
KDB Value Private Equity Fund 1	March 2005	₩	129,300		-	Investing in securities.
Banco KDB Brasil S.A.	October 2005	BRL	67,530		-	Providing financing services to Korean companies. Investing in securities.
Samwon Industrial Co., Ltd.	January 1971	₩	1,250	₩	1,250	Manufacturing dye and interface activator

As the Banco KDB Brasil S.A. and KDB Value Private Equity Fund 1 were established during the year ended December 31, 2005, these subsidiaries are newly included in the consolidated financial statements for the year then ended. Also in 2005, Daewoo Shipbuilding & Marine Engineering Co., Ltd. ("Daewoo Shipbuilding"), a Bank's subsidiary, acquired DSME-Shangdong Co., Ltd., Welliv Corporation and DSME Construction Co., Ltd. These subsidiaries were consolidated into the financial statements of Daewoo Shipbuilding for 2005. However, the financial statements of Pacific Portfolio Investment Ltd., Siberian Tiger Investment Ltd., Optimal Access Investment Ltd., Hanmi Atlantic Investment Ltd., and Atlantic Jade Investment Ltd. were excluded from the consolidation of Daewoo Securities Co., Ltd., as these subsidiaries' total assets did not exceed W7 billion as of the prior year end.

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

Equity-Method Investments

The equity method investments included in the consolidated financial statements as of December 31, 2005, are as follows:

(in millions of Korean Won)

Subsidiaries	Investor	Invested amount	Percentage of ownership (%) as of Dec. 31, 2005	Major business
Korea Electric Power Corporation	KDB	₩ 4,491,411	29.95	Generation of electricity
LG Card Co., Ltd.	KDB	421,331	22.93	Providing card and financing service
GM Daewoo Auto & Technology Company	KDB	213,206	27.97	Manufacture of automobiles
STX Pan Ocean Co., Ltd. (formerly Pan Ocean Shipping Co., Ltd.)	KDB	31,907	18.65	Providing sea transportation service
Korea Asset Management Corporation	KDB	70,000	26.92	Management of public funds
Daedeok Techno Valley Co., Ltd.	KDB	7,500	15.00	Construction of non-residential buildings
Korea Tourism Organization	KDB	35,529	43.58	Promotion of tourism
Mediana Electronics Co., Ltd.	KDB	7,931	15.21	Manufacture of semiconductors
Sewon Industry Co., Ltd.	KDB	4,220	16.62	Manufacture of automobile parts
KDB & Partners Corporate Restructuring Co.	KDB	3,500	50.00	Investing and financing for the restructuring of companies
Tongmyung Heavy Industries	KDB	3,000	25.61	Manufacture of engines and motors
Air Code Co., Ltd.	KDB	3,000	19.35	Software Consultancy and supply
Korea Marine Fund Corp.	Daewoo Shipbuilding & Marine Engineering Co., Ltd.	2,000	23.50	Marine transport business
Hanmi Fine Chemical Co., Ltd.	KDB Capital Corporation	1,500	25.00	Manufacture of medicines
Hang Sung Food Co., Ltd.	KDB Capital Corporation	125	25.00	Processing of fish meat
Seoulceramics Co., Ltd.	KDB Capital Corporation	248	22.50	Manufacture of tiles

Use of the Report of Other Auditors

The audited December 31, 2005 financial statements of Daewoo Shipbuilding & Marine Engineering Co., Ltd., KDB Asia (HK) Ltd., KDB Asset Management Co., Ltd., Korea Infrastructure Fund, KDB Ireland Ltd., KDB Bank(Hungary) Ltd., Banco KDB Brasil S.A. and KDB Value Private Equity Fund 1 issued by other auditors were used in the preparation of the December 31, 2005 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, or cash flows is 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 Bank and its subsidiaries have adopted Statements of Korean Financial Accounting Standards ("SKFAS") Nos. 1~10, 12 and 13 (SKFAS Nos.10, 12 and 13 have been effective as of January 1, 2004) in the preparation of these consolidated financial statements.

And as SKFAS Nos. 15 through 17 became effective for the Bank and its subsidiaries on January 1, 2005, the Bank and its subsidiaries adopted these Standards in its financial statements for the year ended December 31, 2005. Except for the adoption of these SKFAS, the same accounting policies are applied for the consolidated financial statements as of and for the year ended December 31, 2005 and as of and for the year ended December 31, 2004.

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.

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

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

Recognition of Interest Income

The Bank and its subsidiaries recognize interest income on loans 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. Such unaccrued interest income of the Bank for the year ended December 31, 2005, is ₩577,265 million (2004: ₩434,377 million).

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 the financial and non-financial factors of the borrowers and classifies the borrowers' credit risk.

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

Loan Classifications	Minimum Provision Percentages
Normal	0.5%
Precautionary	2%
Substandard	20%
Doubtful	50%
Estimated Loss	100%

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

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

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 a capital adjustment, 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, 2005, amount to ₩22,505 million (2004: ₩351,364 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 interest, respectively. However, the Bank does not apply the equity method on the following investments:

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

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

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

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

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

Under the capital lease method, aggregate lease rentals are recorded as capital lease receivables, net of unearned interest, based on the excess of the gross rental revenue over the cost of the leased assets. Unearned interest is recognized as interest income over the lease term using the effective interest rate method.

Assets related to operating leases are reported as premises and equipment, stated at cost, and depreciated using the straight-line method over the lease term. The related lease rental income is recognized as revenue on an accrual basis over the lease term.

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	5~ 50 years	Straight-line method
Machinery	4 ~ 12 years	Straight-Line, Declining-balance method[1]
Ships	15 years	Straight-line method
Vehicles	4 ~ 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., and KDB Asset Management Co., Ltd., KDB Ireland Ltd. and Banco KDB Brasil S.A. 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.

Bonds Sold under Repurchase Agreements

The Bank provides a provision for possible losses from the bonds sold under repurchase agreements as determined based on possible loss estimates when the bonds are repurchased. The provision for possible losses of the Bank for the year ended December 31, 2005, is nil (2004: ₩36,776 million).

Foreign Currency Translation

Assets and liabilities denominated in foreign currencies are translated into Korean won at the foreign exchange rates 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.

Notes to Consolidated Financial Statements

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Actual payment of severance benefits of the Bank for the year ended December 31, 2005, is ₩3,764 million (2004: ₩4,737 million).

Domestic subsidiaries have fully accrued estimated severance benefits in accordance with the relevant severance benefit laws and regulations in Korea. Overseas subsidiaries accrue employees' retirement benefits 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. Until 2004, the Bank provided a provision of 20% or more of determined guaranteed amounts for companies classified as "substandard", 50% or more for "doubtful" and 100% for "expected loss". In 2005, the Bank changed its accounting policy to accumulate reserves for undetermined guarantees, endorsed notes and determined guarantees classified as "normal" or "precautionary" as well as for the undetermined guarantees classified as "substandard" or below. Additionally, in 2005, the Bank changed its accounting policy on allowance for loan commitments to accumulate reserves for unused loan commitments. The allowance is shown in the liability section.

The effect of this change was to increase allowance for possible guarantee losses and allowance for unused loan commitments by ₩37,427 million and ₩31,316 million, respectively, in 2005 and to decrease net income by ₩68,743 million in 2005. No allowance was made in 2004 as the amount could not be reasonably estimated.

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 changes 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.

In accordance with SKFAS No. 16, Deferred Income Tax, which became effective on January 1, 2005, deferred tax effects applicable to items in 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 custodian services. Certain trust funds held by the Bank are guaranteed a certain rate of return by the Bank. If the income from trust operations is insufficient to generate the required rate of return, the deficiency may be either recovered from previously established special allowances or compensated by the Bank's banking accounts. Such compensation is accounted for as other operating expenses of the banking accounts and other income of the trust accounts, in accordance with the relevant laws and regulations applicable to trust operations.

Provision for Future Trust Losses

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

Statement of Cash Flows

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

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

3. Cash and Due from Banks

Cash and due from banks as of December 31, 2005 and 2004, are as follows:

(in millions of Korean Won)

	Annual interest rates (%) as of Dec. 31, 2005	2005		2004	
Cash on hand in local currency	-	₩	88,191	₩	74,447
Cash on hand in foreign currency	-		15,684		30,109
Due from banks in local currency	0.00 – 4.80		5,698,554		2,402,805
Due from banks in foreign currency	0.00 – 18		561,530		621,499
		₩	6,363,959	₩	3,128,860

Due from banks in local currency as of December 31, 2005 and 2004, are as follows:

(in millions of Korean Won)

Bank	Annual interest rates (%) as of Dec. 31, 2005	2005		2004	
The Bank of Korea	-	₩	268,452	₩	226,778
Others	0.00 – 4.80		5,430,102		2,176,027
		₩	5,698,554	₩	2,402,805

Due from banks in foreign currency as of December 31, 2005 and 2004, are as follows:

(in millions of Korean Won)

Bank	Annual interest rates (%) as of Dec. 31, 2005	2005		2004	
The Bank of Korea	-	₩	25,177	₩	29,159
Shinhan Bank	5.11		30,408		15,657
Hana Bank	0.00 – 5.11		48,582		57,409
Korea Exchange Bank	0.00 – 5.11		17,575		56,615
Chohung Bank	2.00 – 5.11		24,800		57,447
Woori Bank	5.11		32,427		69,831
Others	0.00 – 18		382,561		335,381
		₩	561,530	₩	621,499

Restricted deposits included in due from banks as of December 31, 2005, are as follows:

(in millions of Korean Won)

Reserve deposits with the Bank of Korea	₩	293,629
Kookmin Bank		95,523
Shinhan Bank		46,180
Industrial & Commercial Bank of China (ICBC) – Shanghai, China		4,771
Others		3,191,996
	₩	3,632,099

Deposits with Kookmin Bank and Shinhan Bank are pledged as collateral. Reserve deposits with the Bank of Korea represent amounts required under the Banking Act for the payment of deposits. Reserve deposits with ICBC Shanghai represents amounts required under the related banking regulations of the People's Republic of China. Deposits with other banks are restricted for use in futures transactions and others.

The maturities of the amounts due from banks as of December 31, 2005, 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
Mar. 31, 2006	₩	5,512,769	₩	378,921	₩	5,891,690
Jun. 30, 2006		32,376		71,140		103,516
Dec. 31, 2006		102,492		60,780		163,272
Dec. 31, 2007		50,917		35,494		86,411
Dec. 31, 2008		-		15,195		15,195
	₩	5,698,554	₩	561,530	₩	6,260,084

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

4. Securities

Trading securities as of December 31, 2005 and 2004, are as follows:

(in millions of Korean Won)

	The Bank		Subsidiaries		Total	
	2005	2004	2005	2004	2005	2004
Equity investments	₩ 48,947	₩ 25,329	₩ 205,128	₩ 54,956	₩ 254,075	₩ 80,285
Government and public bonds	263,419	654,714	393,190	1,337,820	656,609	1,992,534
Corporate bonds	153,647	347,351	2,702,866	973,988	2,856,513	1,321,339
Beneficiary certificates	-	318,113	146,478	408,200	146,478	726,313
Securities in foreign currencies	585,516	896,074	58,082	14,828	643,598	910,902
Others	60,002	9,932	761,406	335,631	821,408	345,563
	₩ 1,111,531	₩ 2,251,513	₩ 4,267,150	₩ 3,125,423	₩ 5,378,681	₩ 5,376,936

Par value, acquisition cost and fair value of trading debt securities as of December 31, 2005 and 2004, are as follows:

(in millions of Korean Won)

	Par value		Acquisition cost		Fair value	
	2005	2004	2005	2004	2005	2004
Government and public bonds	₩ 694,479	₩ 1,982,144	₩ 660,892	₩ 1,989,250	₩ 656,609	₩ 1,992,534
Corporate bonds	2,220,508	1,341,109	2,173,190	1,338,466	2,856,513	1,321,339
Securities in foreign currencies	593,986	904,035	598,962	909,463	643,598	910,902
	₩ 3,508,973	₩ 4,227,288	₩ 3,433,044	₩ 4,237,179	₩ 4,156,720	₩ 4,224,775

Trading securities in foreign currencies as of December 31, 2005 and 2004, are as follows:

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

Foreign currencies				Equivalent in Korean won	
2005		2004		2005	2004
US$	245,453	US$	433,132	₩ 248,644	₩ 452,090
EUR	179,749	EUR	287,269	215,580	408,773
AUD	-	AUD	990	-	812
JPY	301,855	JPY	561,460	2,596	5,682
HUF	53,219	HUF	74,817	252	16,443
GBP	100,223	GBP	10,008	175,067	18,096
CHF	1,002	CHF	5,978	772	5,510
SGD	1,127	SGD	5,484	687	3,496
				₩ 643,598	₩ 910,902

Available-for-sale securities as of December 31, 2005 and 2004, are as follows:

(in millions of Korean Won)

	The Bank		Subsidiaries		Total	
	2005	2004	2005	2004	2005	2004
Equity investments	₩11,174,997	₩ 7,983,695	₩ 557,103	₩ 293,090	₩11,732,100	₩ 8,276,785
Government and public bonds	792,294	732,734	-	-	792,294	732,734
Corporate bonds	11,236,711	7,142,491	125,389	35,420	11,362,100	7,177,911
Beneficiary certificates	203,169	823,250	479	681	203,648	823,931
Other securities in local currency	-	-	471	2,049	471	2,049
Other securities in foreign currencies	2,568,498	2,299,001	218,824	193,104	2,787,322	2,492,105
	₩25,975,669	₩ 18,981,171	₩ 902,266	₩ 524,344	₩26,877,935	₩19,505,515

Available-for-sale equity securities not using the equity method as of December 31, 2005, are as follows:

(in millions of Korean Won, shares in thousands)

	Number of shares	Percentage of ownership (%) as of Dec. 31, 2005	Acquisition cost	Book value	Fair value or Net book value
Korea Highway Corporation	143,010	8.42	₩ 1,430,100	₩ 1,430,184	₩ 1,350,478
Hynix Semiconductor Inc.	32,413	7.28	286,059	1,144,177	1,144,177
Industrial Bank of Korea	46,915		326,906	782,195	782,195
GM Daewoo Auto & Technology Company	108		261,375	321,351	321,351
Samsung Life Insurance Co., Ltd.	378	1.89	264,496	132,248	144,590
Hyundai Engineering & Construction Co., Ltd.	18,290	16.77	349,615	825,771	825,771
SK Networks	29,764	12.55	154,443	302,943	302,943
Doosan Heavy Industries and Construction Co., Ltd.	13,129	12.60	222,616	498,264	498,264
Korea National Housing Corp.		15.78	1,300,618	1,300,618	889,495
Korea Land Corp.		26.66	1,161,903	1,191,329	1,057,943
Korea Water Resources Corp.		10.57	976,307	976,307	931,602
Others			2,460,941	2,846,572	2,147,635
			₩ 9,195,379	₩11,751,959	₩10,396,444

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

Available-for-sale debt securities as of December 31, 2005 and 2004, are as follows:

(in millions of Korean Won)

	Par value		Acquisition cost		Book value	
	2005	2004	2005	2004	2005	2004
Government and public bonds	₩ 834,550	₩ 714,550	₩ 845,105	₩ 731,799	₩ 792,294	₩ 732,734
Corporate bonds	11,908,511	7,256,516	11,959,289	7,355,907	11,362,100	7,177,911
Beneficiary certificates	197,769	197,211	196,808	808,162	203,648	823,931
Investment securities in local currency	471	2,569	471	2,569	471	2,049
Investment securities in foreign currencies	2,738,454	2,499,324	2,776,724	2,497,006	2,767,463	2,478,098
	₩15,679,755	₩10,670,170	₩15,778,397	₩11,395,443	₩15,125,976	₩11,214,723

Held-to-maturity debt securities as of December 31, 2005 and 2004, are as follows:

(in millions of Korean Won)

	Par value		Acquisition cost		Carrying value	
	2005	2004	2005	2004	2005	2004
Government and public bonds	₩ 434,385	₩ 1,660,991	₩ 425,692	₩ 1,596,660	₩ 437,054	₩ 1,597,339
Corporate bonds	225,744	443,489	221,774	435,612	225,353	395,843
Investment debt securities in local currency	905	1,055	995	1,037	959	1,045
Investment debt securities in foreign currencies	209,800	403,733	209,171	402,875	209,172	402,216
	₩ 870,834	₩ 2,509,268	₩ 857,632	₩ 2,436,184	₩ 872,538	₩ 2,396,443

Securities under the equity method as of December 31, 2005 and 2004, are as follows:

(in millions of Korean Won ; shares in thousands)

	Number of shares	Percentage of ownership (%) as of Dec. 31, 2005	Acquisition cost		Book value		Fair value or net book value	
			2005	2004	2005	2004	2005	2004
Korea Electric Power Corporation	192,160	29.95	₩ 4,491,411	₩ 4,491,411	₩ 8,341,956	₩ 7,522,219	₩12,641,280	₩ 12,079,017
LG Card Co., Ltd.	28,734	22.93	421,331	326,943	791,317	338,077	414,177	(148,533)
GM Daewoo Auto & Technology Company	70,706	27.97	213,206	213,206	244,418	327,260	244,418	674,455
STX Pan Ocean Co., Ltd.	319,998	18.65	31,907	31,907	138,048	86,510	145,587	94,607
Korea Tourism Organization	2,824	43.58	35,529	35,529	138,779	138,357	138,779	138,357
Korea Asset Management Corporation	14,000	26.92	70,000	40,000	86,715	59,609	85,751	59,609
Pri Kosdak Securitization Investment Association		40.00	20,000	20,000	22,085	19,858	22,085	20,059
Others			479,571	942,251	383,243	715,455	429,389	678,992
			₩ 5,762,955	₩ 6,101,247	₩10,146,561	₩ 9,207,345	₩14,121,466	₩ 13,596,563

Details of valuation on the securities using the equity method as of and for the year ended December 31, 2005, are as follows:

(in millions of Korean Won)

	Beginning book value	Acquisition (disposal)	Dividends	Valuation gain(loss)	Retained earnings	Capital adjustment	Ending book value
Korea Electric Power Corporation	₩ 7,522,219	₩ (7,779)	₩ 220,984	₩ 995,621	₩ (1,248)	₩ 54,127	₩ 8,341,956
LG Card Co., Ltd.	338,077	244,440	-	204,754	-	4,046	791,317
GM Daewoo Auto & Technology Company	327,260	(1,104)	-	(75,837)	-	(5,901)	244,418
STX Pan Ocean Co., Ltd.	86,510	5,961	6,400	53,304	(4,233)	2,906	138,048
Korea Tourism Organization	138,357	-	212	634	-	-	138,779
Korea Asset Management Corporation	59,609	30,000	160	1,906	-	(4,640)	86,715
Pri Kosdak Securitization Investment Association	19,858	-	5,800	6,632	-	1,395	22,085
Others	715,455	(378,693)	5,990	33,841	17,519	1,111	383,243
	₩ 9,207,345	₩ (107,175)	₩ 239,546	₩ 1,220,855	₩ 12,038	₩ 53,044	₩ 10,146,561

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 assets of investees using the straight-line method.

Investees in which the Bank holds more than 15% of interest but are not valued using the equity method as of December 31, 2005, are as follows:

(in millions of Korean Won ; shares in thousands)

	Number of shares	Percentage of ownership (%) as of Dec. 31, 2005	Acquisition cost	Book value	Fair value or Net book value
Korea Land Corp.[1]	-	26.66	₩ 1,161,903	₩ 1,191,329	₩ 1,057,943
Korea National Housing Corp.[1]	-	15.78	1,300,618	1,300,618	889,495
Hyundai Engineering & Construction Co., Ltd.	18,290	16.77	349,615	825,771	825,771
Donghae Pulp Co., Ltd.	4,900	51.36	24,500	11,686	11,686
Hyundai Corporation	5,032	22.53	47,385	92,383	92,383
Others			267,026	177,944	198,134
			₩ 3,151,047	₩ 3,599,731	₩ 3,075,412

[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 ownership in these companies.*

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

Investment securities denominated in foreign currencies as of December 31, 2005 and 2004, are as follows:

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

Foreign currencies				Equivalent in Korean won	
2005		2004		2005	2004
Available-for-sale debt securities					
US$	2,145,460	US$	1,992,929	₩ 2,173,352	₩ 2,080,222
JPY	18,350,521	JPY	21,538,332	157,796	217,983
GBP	26,230	GBP	29,536	63,285	59,338
EUR	288,957	EUR	72,062	346,344	102,542
CNY	59,676	CNY	29,837	7,490	3,763
HUF	18,950	HUF	13,652	19,196	14,250
				₩ 2,767,463	₩ 2,478,098
Held-to-maturity debt securities					
US$	184,441	US$	400,901	₩ 186,838	₩ 373,918
HUF	22,047	HUF	27,110	22,334	28,298
				₩ 209,172	₩ 402,216

As of December 31, 2005, investment securities amounting to ₩490,225 million are pledged as collateral to KDB First Securitization Specialty Co., Ltd.

With regard to futures trading, 7,290,060 shares of Korea Electric Power Corporation and other securities amounting to ₩12,960 million are pledged as a substitute for the deposit money to Cheil Futures Co., Ltd. and others as of December 31, 2005.

5. Loans Receivable

Loans receivable as of December 31, 2005 and 2004, are as follows:

(in millions of Korean Won)

	2005	2004
Loans receivable in local currency	₩ 20,130,946	₩ 17,884,789
Loans receivable in foreign currencies	12,867,013	13,423,674
Notes purchased	2,205	255
Bills purchased	1,818,038	1,912,123
Advances for customers	198,493	180,081
Bonds purchased under repurchase agreements	116,722	131,167
Others	17,526,914	14,075,419
	52,660,331	47,607,508
Less: Allowance for possible loan losses	(888,285)	(1,253,302)
	₩ 51,772,046	₩ 46,354,206

Loans receivable in local and foreign currencies as of December 31, 2005 and 2004, are as follows:

(in millions of Korean Won)

	The Bank		Subsidiaries		Total	
	2005	2004	2005	2004	2005	2004
Loans receivable in local currency						
Loans for working capital	₩ 7,449,003	₩ 7,133,277	₩ 1,153,500	₩ 204,739	₩ 8,602,503	₩ 7,338,016
Loans for facilities	10,700,003	9,992,141	951,738	584,362	11,651,741	10,576,503
Inter-company loans	(123,298)	(29,730)	-	-	(123,298)	(29,730)
	₩18,025,708	₩ 17,095,688	₩ 2,105,238	₩ 789,101	₩20,130,946	₩17,884,789
Loans receivable in foreign currencies						
Loans for working capital	₩ 1,990,356	₩ 2,291,045	₩ 446,668	₩ 457,677	₩ 2,437,024	₩ 2,748,722
Loans for facilities	10,530,855	11,213,061	93,646	175,623	10,624,501	11,388,684
Inter-company loans	(194,512)	(713,732)	-	-	(194,512)	(713,732)
	₩12,326,699	₩ 12,790,374	₩ 540,314	₩ 633,300	₩ 12,867,013	₩13,423,674

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

The maturity of loans receivable in local and foreign currencies as of December 31, 2005, 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
Mar. 31, 2006	₩ 1,940,823	₩ 471,219	₩ 349,507	₩ 437,077	₩ 3,198,626
Jun. 30, 2006	1,098,028	410,174	405,565	395,255	2,309,022
Dec. 31, 2006	2,062,778	1,016,572	793,844	971,177	4,844,371
Dec. 31, 2007	1,733,152	2,116,391	350,781	1,790,605	5,990,929
Dec. 31, 2008	634,769	2,014,544	186,882	1,896,524	4,732,719
Dec. 31, 2009	637,684	1,655,845	49,380	1,434,477	3,777,386
Dec. 31, 2010	122,013	1,375,053	149,755	1,085,946	2,732,767
Thereafter	373,256	2,591,943	151,310	2,613,440	5,729,949
	₩ 8,602,503	₩ 11,651,741	₩ 2,437,024	₩ 10,624,501	33,315,769
Inter-company loans receivable					(317, 810)
					₩ 32,997,959

The Bank's restructured loans receivable as of December 31, 2005 and 2004, due to court receivership, court mediation or other financial restructuring process are as follows:

(in millions of Korean Won)

	2005	2004
Conversion to equity investment	₩ 245,126	₩ 701,736

When the contractual terms such as principal, interest rate, and 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, 2005 and 2004, are as follows:

(in millions of Korean Won)

	Acquisition cost or revaluation amount		Accumulated depreciation		Net book value	
	2005	2004	2005	2004	2005	2004
Land	₩ 1,007,065	₩ 989,491	₩ -	₩ -	₩ 1,007,065	₩ 989,491
Buildings	1,052,470	1,029,920	190,941	164,056	861,529	865,864
Structures	452,489	438,151	104,673	92,775	347,816	345,376
Machinery	518,506	479,794	284,761	253,205	233,745	226,589
Vehicles	99,507	95,073	65,719	54,000	33,788	41,073
Ships	63,488	43,538	23,503	19,517	39,985	24,021
Construction-in-progress	258,274	155,131	1,122	-	257,152	155,131
Other property and equipment	441,047	412,622	321,772	289,377	119,275	123,245
	₩ 3,892,846	₩ 3,643,720	₩ 992,491	₩ 872,930	₩ 2,900,355	₩ 2,770,790

The government-valued price of the Bank and its subsidiaries' land for the year ended December 31, 2005, is ₩623,860 million (2004: ₩811,202 million).

As of December 31, 2005, inventories, property and equipment, and other assets are insured against fire and other casualty losses up to approximately ₩2,573,532 million (2004: ₩2,365,266 million).

7. Other Assets

Other assets as of December 31, 2005 and 2004, are as follows:

(in millions of Korean Won)

	2005	2004
Other accounts receivable	₩ 1,694,687	₩ 6,153,588
Accrued income	479,542	384,738
Deferred income tax assets	31,217	36,893
Inventory	564,671	545,460
Others	1,093,074	1,005,633
	3,863,191	8,126,312
Loss: Allowance for possible losses	(94,483)	(105,277)
	₩ 3,768,708	₩ 8,021,035

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

8. Deposits

Deposits as of December 31, 2005 and 2004, are as follows:

(in millions of Korean Won)

	Annual average interest rates (%) as of Dec. 31, 2005	2005	2004
Local currency deposits			
Demand deposits	0.01 - 2.25	₩ 3,355,907	₩ 2,060,691
Time and savings deposits	0.54 - 8.70	6,768,199	5,136,350
		10,124,106	7,197,041
Foreign currency deposits			
Checking deposits	-	51,045	35,723
Passbook deposits	0.00 - 2.10	182,263	152,829
Time deposits	0.00 - 14.0	780,404	670,965
Temporary deposits	-	160	262
Others	0.05	15,162	56
		1,029,034	859,835
Negotiable certificates of deposits	3.28 - 13.30	3,979,097	2,632,720
		₩ 15,132,237	₩ 10,689,596

9. Borrowings

Borrowings as of December 31, 2005 and 2004, are as follows:

(in millions of Korean Won)

	Annual average interest rates (%) as of Dec. 31, 2005	2005	2004
Borrowings in local currency			
Borrowings from the Korean government	2.65 - 3.45	₩ 2,330,501	₩ 2,476,205
Others	1.50 - 6.11	5,419,234	2,866,343
		7,749,735	5,342,548
Borrowings in foreign currencies			
Borrowings from the Korean government	3.12 - 4.24	3,385,226	4,454,924
Off-shore borrowings	3.28	645,026	1,742,823
Others	0.00 - 9.00	4,759,674	5,076,563
		8,789,926	11,274,310
Other borrowings			
Bonds sold under repurchase agreements	-	7,186,885	4,521,796
Notes sold	-	375	1,109
Call money	-	1,823,740	2,635,660
Others	-	7,329	5,305
		9,018,329	7,163,870
		₩ 25,557,990	₩ 23,780,728

The subordinated debt included in borrowings from the Korean government as of December 31, 2005 and 2004, are as follows:

(in millions of Korean Won)

Type	Annual average interest rates (%) as of Dec. 31, 2005	2005	2004	Condition of Borrowings
Government fund	3.45	₩ 1,455,985	₩ 1,738,980	Installment reimbursement
Agency for International Development relending facilities	2.00	101	169	Installment reimbursement
Asian Development Bank relending facilities	-	-	1,043,800	Lump-sum reimbursement
International Bank for Reconstruction and Development relending facilities	3.89	2,906,171	3,411,124	Installment reimbursement
		₩ 4,362,257	₩ 6,194,073	

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

The maturities of borrowings in local and foreign currencies as of December 31, 2005, are as follows:

(in millions of Korean Won)

Maturing on or before		Borrowings in local currency		Borrowings in foreign currency		Total
Mar. 31, 2006	₩	2,570,005	₩	2,098,965	₩	4,668,970
Jun. 30, 2006		413,773		1,540,071		1,953,844
Dec. 31, 2006		389,234		961,196		1,350,430
Dec. 31, 2007		581,448		984,628		1,566,076
Dec. 31, 2008		836,640		1,018,867		1,855,507
Dec. 31, 2009		756,099		643,477		1,399,576
Dec. 31, 2010		515,479		468,980		984,459
Thereafter		1,687,057		1,073,742		2,760,799
	₩	7,749,735	₩	8,789,926	₩	16,539,661

10. Debentures

Debentures as of December 31, 2005 and 2004, are as follows:

(in millions of Korean Won)

	Annual interest rates (%) as of Dec. 31, 2005		2005		2004
Industrial finance bonds ("IFB") in local currency	4.39 - 6.10	₩	30,489,373	₩	28,621,821
IFB in foreign currencies	2.77		10,646,119		10,110,114
Offshore IFB in foreign currencies	2.97		1,819,705		1,199,266
Others	0.00 – 5.72		102,000		514,895
			43,057,197		40,446,096
Premiums on IFB			20,146		34,534
Discounts on IFB			(55,297)		(42,134)
		₩	43,022,046	₩	40,438,496

Under the Korea Development Bank Act, the Bank has the 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. The amount of issued bonds guaranteed by the Korean government for the year ended December 31, 2005, is nil (2004: ₩784 million).

The Bank acquired IFB during the year ended December 31, 2005, whose book value amounted to ₩99,627 million (2004: ₩177,841 million). The treasury bonds are deducted from industrial finance bonds.

The maturities of debentures as of December 31, 2005, are as follows:

(in millions of Korean Won)

Maturing on or before	Debentures in local currency	Debentures in foreign currencies	Total
Mar. 31, 2006	₩ 4,875,279	₩ 953,261	₩ 5,828,540
Jun. 30, 2006	5,314,795	757,673	6,072,468
Dec. 31, 2006	6,189,122	1,281,863	7,470,985
Dec. 31, 2007	6,799,555	2,210,566	9,010,121
Dec. 31, 2008	4,418,143	1,301,589	5,719,732
Dec. 31, 2009	858,299	3,078,924	3,937,223
Dec. 31, 2010	1,752,867	1,636,580	3,389,447
Thereafter	371,954	1,221,576	1,593,530
	₩ 30,580,014	₩ 12,442,032	₩ 43,022,046

11. Other Liabilities

Other liabilities as of December 31, 2005 and 2004, are as follows:

(in millions of Korean Won)

	2005	2004
Advances received	₩ 2,439,924	₩ 1,928,374
Withholding taxes	15,101	1,974
Deferred gain from foreign exchange transactions	631,464	231,215
Allowances for possible other losses	95	79,064
Advances received on IFB	16,159	4,607
Others	2,981,781	1,439,764
	₩ 6,084,524	₩ 3,684,998

Notes to Consolidated Financial Statements

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12. Outstanding Guarantees and Commitments

The Bank and its subsidiaries provide guarantees for their customers. Outstanding guarantees and the related allowance for possible losses as of December 31, 2005 and 2004, are as follows:

(in millions of Korean Won)

	Guarantees				Allowance for possible losses			
	2005		2004		2005		2004	
Settled guarantees and commitments	₩	8,981,050	₩	9,267,985	₩	30,591	₩	23,760
Unsettled guarantees and commitments		5,566,439		3,262,514		8,779		-
Endorsed notes		3,498		4,493		17		-
	₩	14,550,987	₩	12,534,992	₩	39,387	₩	23,760

Unused loan commitments and the related allowances for possible losses as of December 31, 2005, are as follows:

(in millions of Korean Won)

	Unused loan commitment		Allowance for possible losses	
Loans receivable	₩	2,469,691	₩	6,247
Guarantees and acceptances		8,190,384		11,930
Loan commitment		5,907,758		13,139
	₩	16,567,833	₩	31,316

The unsettled commitments provided by the Bank as of December 31, 2005 and 2004, are as follows:

(in millions of Korean Won)

	2005		2004	
Commitments				
For loans in local currency	₩	5,455,535	₩	6,991,481
For loans in foreign currencies		452,223		747,704
	₩	5,907,758	₩	7,739,185
Bonds sold under repurchase agreements	₩	750,570	₩	1,021,952

13. Commitments and Contingencies

The Bank has entered into agreements to provide certain syndicated loans with foreign banks. The total amount available under such loans are US$208 million, EUR4 million, JPY1,900 million and CNY160 million (equivalent to ₩252,095 million) and ₩181,648 million, of which US$100 million, EUR1 million, JPY1,205 million and CNY125 million (equivalent to ₩129,029 million) and ₩106,776 million have not been withdrawn by borrowers as of December 31, 2005.

In 1998, the Bank sold with recourse ₩3,084,141 million of non-performing loans, classified as substandard or below, to the Korea Asset Management Corporation ("KAMCO") for proceeds amounting to ₩1,339,629 million. The resulting loss of ₩1,744,512 million was recorded as a loss on disposal of loans in 1998. As of December 31, 2005, there are no unsettled amounts for such loans. The Bank does not expect KAMCO to exercise its repurchase rights.

Loans sold to KDB First Securitization Specialty Co., Ltd. and others in accordance with the Asset Securitization Plan as of December 31, 2005, 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	₩ 123,699
KDB Second SPC	November 8, 2000	914,764	423,600	143,600	79,920
KDB Third SPC	September 20, 2001	1,793,546	949,900	349,900	186,611
KDB Fifth SPC	December 13, 2001	765,358	528,400	238,400	99,995
		₩ 4,424,295	₩ 2,501,900	₩ 933,700	₩ 490,225

[1] *Investment securities are pledged as collateral (Note 4).*

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

The Bank has provided credit lines to several securitization specialty companies amounting to ₩5,907,758 million, of which ₩13,724 million was withdrawn as of December 31, 2005.

The Bank still has the valid legal right to seek indemnity for ₩1,677,034 million which was a part of the loan receivables written off as of December 31, 2005.

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As of December 31, 2005, the Bank faces 13 legal cases involving an aggregate amount of ₩10,596 million, and has filed 7 lawsuits, with an aggregate amount of ₩279,487 million. Moreover, KDB Ireland Ltd., a consolidated subsidiary, is involved in a case against Hanvit LSP and Woori Bank in relation to an asset management contract. The final outcome of these cases cannot yet be determined as of the report date, although management believes they will not materially affect the Bank's financial position.

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/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 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, 2005, are as follows:

(in millions of Korean Won)

	Unsettled Contract Amount			Valuation Gain/Loss (P/L)			Valuation
	Trading purpose	Hedging purpose	Total	Trading purpose	Hedging purpose	Total	Asset (Liability) (B/S)
Interest rate							
Forward	₩ 1,381,700	₩ -	₩ 1,381,700	₩ 10	₩ -	₩ 10	₩ 10
Futures	6,891,121	-	6,891,121	(1,505)	-	(1,505)	-
Swap	62,728,826	3,920,554	66,649,380	(57,144)	(115,753)	(172,897)	(37,811)
Option							
Buy	728,725	-	728,725	1,326	-	1,326	16,352
Sell	646,371	-	646,371	9,080	-	9,080	(7,775)
	72,376,743	3,920,554	76,297,297	(48,233)	(115,753)	(163,986)	(29,224)
Currency							
Forward	41,270,716	-	41,270,716	(153,395)	-	(153,395)	(222,119)
Swap	24,118,932	2,307,682	26,426,614	144,057	(178,020)	(33,963)	(22,747)
Option							
Buy	3,030,258	-	3,030,258	6,404	-	6,404	32,422
Sell	3,532,929	-	3,532,929	(14,783)	-	(14,783)	(44,649)
	71,952,835	2,307,682	74,260,517	(17,717)	(178,020)	(195,737)	(257,093)
Stock price index							
Futures	2,394	-	2,394	-	-	-	-
Option							
Buy	483,212	-	483,212	1,790	-	1,790	37,571
Sell	469,403	-	469,403	(6,905)	-	(6,905)	(36,911)
	955,009	-	955,009	(5,115)	-	(5,115)	660
Credit							
Swap	8,104	-	8,104	(123)	-	(123)	(123)
	8,104	-	8,104	(123)	-	(123)	(123)
	₩ 145,292,691	₩ 6,228,236	₩ 151,520,927	₩ (71,188)	₩ (293,773)	₩ (364,961)	₩ (285,780)

Notes to Consolidated Financial Statements

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15. Shareholder's 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, 2005. The total paid-in capital of the Bank outstanding as of December 31, 2005, 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

Any deficiency in capital surplus is offset against retained earnings.

Retained Earnings

Retained earnings as of December 31, 2005 and 2004, are as follows:

(in millions of Korean Won)

	2005	2004
Legal reserve	₩ 1,312,511	₩ 623,531
Retained earnings before appropriations	2,578,837	815,816
	₩ 3,891,348	₩ 1,439,347

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. Accumulated deficit offset since 2001 with the approval of the Korean government is as follows:

(in millions of Korean Won)

Approval date	Accounts		Amount
February 28, 2001	Legal reserve	₩	456,997
	Capital reserve		950,181
		₩	1,407,178

Capital Adjustments

Capital adjustments as of December 31, 2005 and 2004, are as follows:

(in millions of Korean Won)

		2005		2004
The Bank's gain on valuation of available-for-sale securities and securities under the equity method	₩	2,364,671	₩	720,932
Bank's share of the capital adjustments of subsidiaries		134,373		150,917
	₩	2,499,044	₩	871,849

16. Other Non-Interest Revenues and Expenses

Other non-interest revenues and expenses for the years ended December 31, 2005 and 2004, are as follows:

(in millions of Korean Won)

		2005		2004
Other non-interest revenue				
Revenue from operating leases	₩	83,315	₩	49,458
Others		90,382		271,537
	₩	173,697	₩	320,995
Other non-interest expenses				
Expenses from operating leases	₩	28,549	₩	15,184
Others		220,709		186,442
	₩	249,258	₩	201,626

Notes to Consolidated Financial Statements

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17. General and Administrative Expenses

General and administrative expenses for the years ended December 31, 2005 and 2004, are as follows:

(in millions of Korean Won)

	2005	2004
Salaries	₩ 363,011	₩ 328,974
Retirement allowance	46,004	41,445
Welfare expenses	159,890	87,661
Rent	34,987	35,936
Depreciation and amortization	85,558	91,954
Taxes and dues	37,612	24,134
Advertising expenses	18,251	22,386
Commission	16,772	47,249
Others	259,094	230,858
	₩ 1,021,179	₩ 910,597

18. Income Taxes

The statutory income tax rate applicable to the Bank and its domestic subsidiaries including resident tax surcharges, is approximately 27.5%. However, there was no income tax payable during the years ended December 31, 2005 and 2004, due to an operating loss carried forward, except for the Bank's overseas branches.

Income tax expense(benefit) of the Bank and its subsidiaries for the years ended December 31, 2005 and 2004, are as follows:

(in millions of Korean Won)

	2005	2004
Income tax expense of the Bank		
Income tax payable	₩ -	₩ -
Changes in deferred income taxes	-	139,465
Income taxes for overseas branches	6,517	3,769
	6,517	143,234
Income tax expense(benefit) of subsidiaries	(10,496)	106,151
	₩ (3,979)	₩ 249,385

19. Assets and Liabilities Denominated in Foreign Currencies

Significant assets and liabilities denominated in foreign currencies as of December 31, 2005, are as follows:

(in millions of Korean Won, US$ in thousands)

	Foreign currency [1]		Equivalent in Korean won	
Assets				
Cash	US$	15,483	₩	15,684
Due from banks		554,324		561,530
Trading securities		635,339		643,598
Investment securities (available-for-sale)		2,751,552		2,787,322
Investment securities (held-to-maturity)		206,488		209,172
Investment securities using the equity method		233,440		236,475
Bills purchased		1,794,707		1,818,038
Call loans		567,869		575,251
Loans receivable		12,701,888		12,867,013
Domestic import usance bills		2,370,341		2,401,155
Receivables		3,946		3,997
Other assets		3,778,650		3,827,772
	US$	25,614,027	₩	25,947,007
Liabilities				
Deposits	US$	1,015,828	₩	1,029,034
Borrowings		8,677,123		8,789,926
Bonds sold under repurchase agreements		347,665		352,185
Call money		589,181		596,840
Bonds in foreign currencies		10,486,748		10,623,076
Offshore IFB in foreign currencies		1,795,613		1,818,956
Others		1,543,520		1,563,586
	US$	24,455,678	₩	24,773,603

[1] *Assets or liabilities denominated in foreign currencies other than in U.S. dollars have been converted into U.S. dollars by using the exchange rate in effect on December 31, 2005.*

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20. Related Party Transactions

Significant transactions made in the ordinary course of business for the years ended December 31, 2005 and 2004, among the Bank and its subsidiaries, and the related account balances as of December 31, 2005 and 2004, which have been eliminated in the accompanying consolidated financial statements, are summarized as follows:

(in millions of Korean Won)

	2005		2004	
Inter-company interest income / expense	₩	99,935	₩	78,066
Inter-company loans receivable / borrowings		317,810		743,461
Inter-company deposits / due from banks		900,713		671,939
Others		1,132,108		1,167,827

21. Industry Segment Reporting

The consolidated balance sheets summarized by industry segment as of December 31, 2005 and 2004, are as follows:

(in millions of Korean Won)

	Finance & insurance				Non-finance & insurance [1]			
	2005		2004		2005		2004	
Assets								
Cash and due from banks	₩	5,944,330	₩	2,405,683	₩	879,021	₩	977,085
Securities		43,600,277		36,974,475		131,181		131,498
Loans receivable, net		52,026,099		46,587,353		67,490		91,602
Property and equipment, net		976,483		989,796		2,017,548		1,878,850
Others		5,229,097		11,419,160		2,577,535		2,493,992
Total assets	₩	107,776,286	₩	98,376,467	₩	5,672,775	₩	5,573,027
Liabilities and shareholder's equity								
Liabilities								
Deposits	₩	15,639,967	₩	11,009,161	₩	-	₩	-
Borrowings		25,357,696		23,470,844		526,461		636,265
Debentures		43,022,046		40,484,496		-		-
Other liabilities		8,004,401		12,008,522		3,686,990		3,156,350
Total liabilities		92,024,110		86,973,023		4,213,451		3,792,615
Shareholder's equity								
Capital stock		8,241,861		8,241,861		961,954		961,954
Capital surplus		-		-		18,112		18,112
Retained earnings		3,888,382		1,434,182		780,368		856,424
Capital adjustments		2,502,649		882,166		(319,284)		(77,981)
Minority interest		1,119,284		845,235		18,174		21,903
Total equity		15,752,176		11,403,444		1,459,324		1,780,412
Total liabilities and shareholder's equity	₩	107,776,286	₩	98,376,467	₩	5,672,775	₩	5,573,027

[1] *Financial information from the non-finance and insurance segment is provided using the total amount before consolidation adjustments.*

The consolidated statements of income summarized by the industry segment for the years ended December 31, 2005 and 2004, are as follows:

(in millions of Korean Won)

	Finance & insurance		Non-finance & insurance [1]	
	2005	2004	2005	2004
Interest income	₩ 3,338,333	₩ 3,127,092	₩ 40,705	₩ 50,199
Interest expense	2,733,923	2,713,542	33,445	17,560
Net interest income	604,410	413,550	7,260	32,639
Provision for possible loan losses	114,121	306,122	46	-
Net interest income(loss) after provision for possible loan losses	490,289	107,428	7,214	32,639
Non-interest revenue	9,296,433	11,400,168	5,146,466	5,251,668
Non-interest expenses	9,184,376	11,042,541	5,197,454	4,962,775
Operating income(loss)	602,346	465,055	(43,774)	321,532
Non-operating income, net	2,058,558	768,244	48,103	26,629
Extraordinary income(loss), net	(37)	(3,147)	-	-
Income before income taxes	2,660,867	1,230,152	4,329	348,161
Income tax expense(benefit)	(9,148)	147,096	5,169	102,289
Net income before minority interest in earnings of consolidated subsidiaries	2,670,015	1,083,056	(840)	245,872
Minority interest in losses(earnings) of consolidated subsidiaries, net	(222,745)	13,654	8,486	(3,050)
Net income	₩ 2,447,270	₩ 1,096,710	₩ 7,646	₩ 242,822

[1] *Financial information from the non-finance and insurance segment is provided using the total amount before consolidation adjustments.*

Financial information summarized by industry segment as of and for the year ended December 31, 2005, is as follows:

(in millions of Korean Won)

	Finance	Manufacturing	Others	Adjustment	After Adjustment
Operating revenues(loss)	₩ 11,107,851	₩ 5,187,171	₩ 1,617,601	₩ (175,855)	₩ 17,736,768
Operating income(loss)	254,078	(43,774)	341,843	(10,710)	541,437
Total assets	101,438,027	5,672,775	9,942,517	(4,869,910)	112,183,409

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

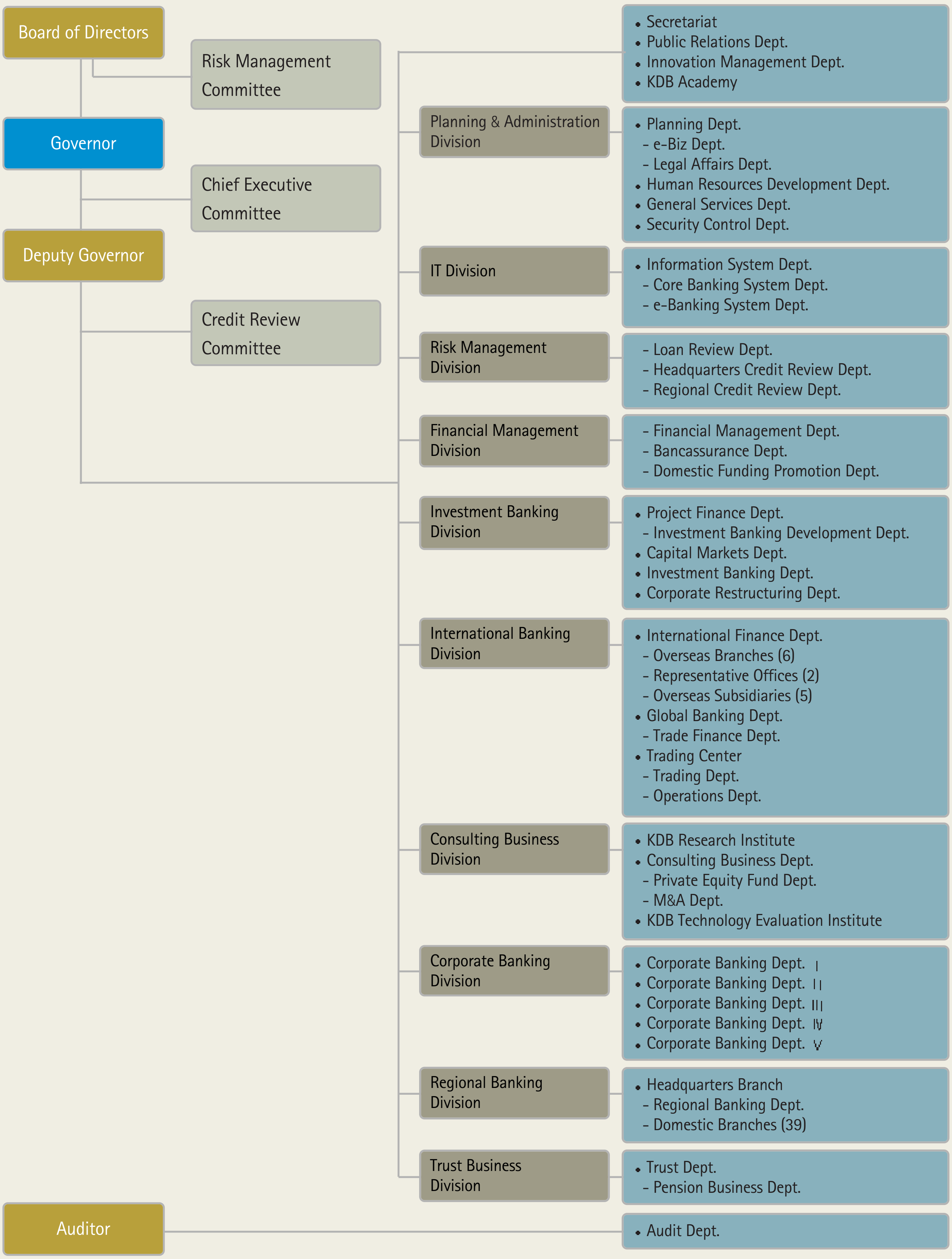
22. Restatement of Prior Year Financial Statements

In relation to private equity funds prior to January 1, 2005, the Bank classified private equity funds in the balance sheet according to the Bank's investment purpose and recognized valuation gains and losses in the income statement. In 2005, the Bank changed its method of accounting for private equity funds to conform with the new authoritative interpretation announced by the Financial Supervisory Service. Accordingly, valuation gains and losses on unspecified private equity funds are accounted for as a capital adjustment. The consolidated financial statement as of and for the year ended December 31, 2004, have been restated to reflect the change, resulting in an increase in capital adjustments of ₩23,391 million and an decrease in net income of ₩23,391 million. Retained earnings as of December 31, 2004, was adjusted for the effect of retroactive application of the new method. The effects on the December 31, 2005 consolidated financial statements are a decrease in capital adjustments of ₩22,202 million and an increase in net income of ₩22,202 million.

Prior to January 1, 2005, the Bank, where possible, used either the most recent audited annual financial statements or the reviewed interim financial statements of the investee in accounting for securities under the equity method. In 2005, the Bank changed its policy to conform with SKFAS No. 15, *Equity Method*. The Standard which became effective in 2005 requires the use of investee's latest audited or provisional financial statements in accounting for equity-method investments. The effect of this change as of and for the year ended December 31, 2005, was an increase in securities under the equity method of ₩132,091 million, an increase in capital adjustment of ₩85,382 million, an increase in retained earnings of ₩101,822 million and a decrease in valuation loss of securities under the equity method of ₩55,113 million. The consolidated financial statements as of and for the year ended December 31, 2004, have been restated to reflect the change, resulting in an increase in securities under the equity method of ₩354,709 million, an increase in capital adjustment of ₩113,688 million, an increase in retained earnings of ₩137,346 million and an increase in valuation gain of securities under the equity method of ₩103,675 million.

In 2005, the Bank changed the classification of its shares in Korea Tourism Organization from available-for-sale securities to securities under the equity method to conform with the new requirements of SKFAS No. 15, Equity Method. The effect of this change as of December 31, 2005, was an increase in securities under the equity method of ₩138,779 million, an increase in capital adjustment of ₩3 million, an increase in retained earnings of ₩102,825 million and a decrease in available-for-sale securities of ₩35,529 million. The effect of this change for the year then ended is an increase in valuation gain of ₩634 million and a decrease in dividend income of ₩212 million. The consolidated financial statement as of and for the year ended December 31, 2004, have been restated to reflect the change, resulting in an increase in securities under the equity method of ₩138,357 million, an increase in capital adjustment of ₩3 million, an increase in retained earnings of ₩102,427 million and a decrease in available-for-sale securities of ₩35,529 million. The effect of this change for the year 2004 is an increase in valuation gain of ₩680 million and a decrease in dividend income of ₩282 million.

Organization Chart



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Focusing More on Customers

To accentuate the transformation and enhance its brand recognition at home and abroad, KDB unveiled its new Corporate Identity (CI) in November 2005. The new CI is designed to re-establish the "KDB" brand and convey KDB's strategic focus on innovation and customer satisfaction within and outside Korea.

The new logo is intended to magnify brand awareness from the customers and bring KDB closer to the hearts and minds of its customers.

Along with the new CI, KDB introduced a new brand concept, "ⓤbank kdb," to encapsulate its "Ubiquitous, Universal and Unique" character. It is designed to highlight KDB's ubiquitous financial services accessible anytime and anywhere, its universal financial services encompassing banking, insurance, and trust and asset management, and its unique customer-tailored products and services.

The launch of KDB's new brand identity represents its unwavering endeavor to keep the trust and loyalty of its customers.

The vivid color scheme is a striking combination of KDB Blue, KDB Red, and KDB Royal Blue, all specially named in commemoration of the new CI introduction. KDB Blue represents trust, stability and future-oriented mind, and KDB Red conveys passion and challenge, while KDB Royal Blue symbolizes harmony and balance.

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