



Advancing ANNUAL REPORT 2004
to a New Path of Excellence



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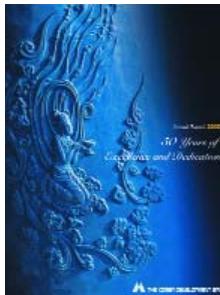
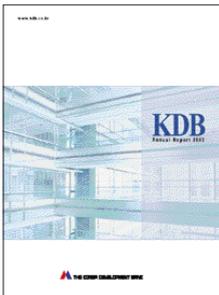
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PROFILE



The Korea Development Bank (KDB) was founded in 1954 in accordance with *The Korea Development Bank Act* for the purpose of supplying and managing major industrial capital to help develop Korean industries and the national economy. Over the past 50 years, KDB has fostered the growth and heightened the competitiveness of strategic industries by evolving to meet their ever-changing financial needs. The Bank has facilitated the management normalization and improved the corporate governance of companies by utilizing its corporate restructuring and consulting services.

Through an extensive network that consists of 36 domestic branches, 5 overseas branches, 3 overseas subsidiaries, 2 representative offices and 3 domestic subsidiaries, KDB provides a full range of financial services, backed by its 2,167 dedicated employees.

As a government-owned bank and Korea's leading corporate banking service provider, KDB plays a pivotal role in enhancing the nation's economic growth potential and advancing the financial industry in line with public policy.

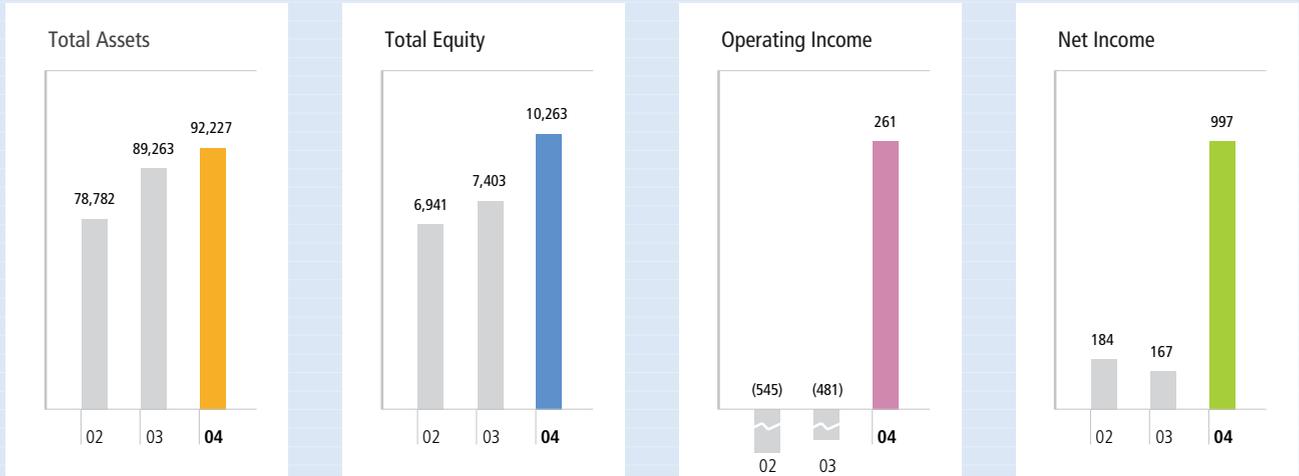


FINANCIAL HIGHLIGHTS

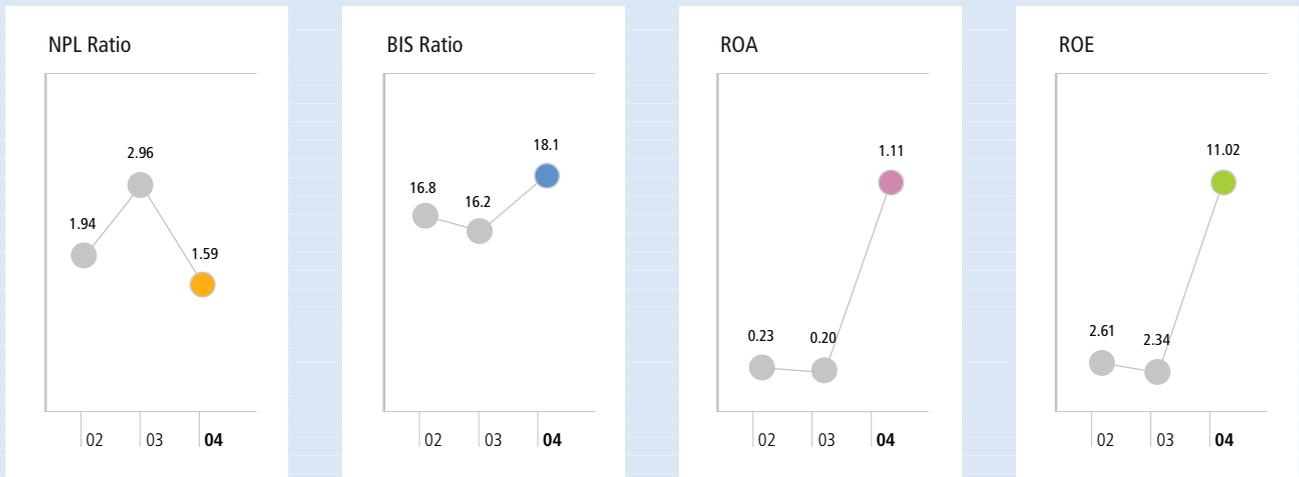
(In billions of won)

| | 2004 | 2003 | Change |
|---------------------------------------|-----------------|-----------------|----------------|
| INCOME STATEMENT DATA: | | | |
| Net interest income | 318.3 | 136.6 | 133.0% |
| Non-interest revenue | 10,534.0 | 4,930.5 | 113.6% |
| Non-interest expense | 10,276.1 | 4,973.1 | 106.6% |
| Provisions for loan losses | 315.1 | 575.2 | -45.2% |
| Operating income | 260.9 | -481.2 | N.M. |
| Non-operating income, net | 879.8 | 655.6 | 34.2% |
| Pretax income | 1,140.7 | 174.4 | 554.1% |
| Income tax | 143.2 | 7.5 | N.M. |
| Net income | 997.5 | 166.9 | 497.7% |
| BALANCE SHEET DATA: | | | |
| Total assets | 92,227.2 | 89,263.2 | 3.3% |
| Loans | 45,848.8 | 47,453.6 | -3.4% |
| Total liabilities | 81,964.3 | 81,860.3 | 0.1% |
| Borrowings | 21,545.9 | 22,503.6 | -4.3% |
| Debentures | 40,103.5 | 36,875.9 | 8.8% |
| Total shareholder's equity | 10,263.0 | 7,402.9 | 38.6% |
| Paid-in capital | 8,241.9 | 7,241.9 | 13.8% |
| ASSET QUALITY: | | | |
| NPL ratio (%) | 1.59 | 2.96 | -1.37%p |
| Loan loss coverage ratio (%) | 113.2 | 67.8 | 45.5%p |
| CAPITAL ADEQUACY: | | | |
| Tier I capital ratio (%) | 13.34 | 10.57 | 2.77%p |
| Tier II capital ratio (%) | 4.74 | 5.95 | -1.21%p |
| BIS capital adequacy ratio (%) | 18.08 | 16.22 | 1.86%p |

SIZE & EARNINGS (In billions of won)



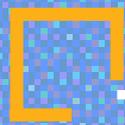
FINANCIAL RATIOS (%)



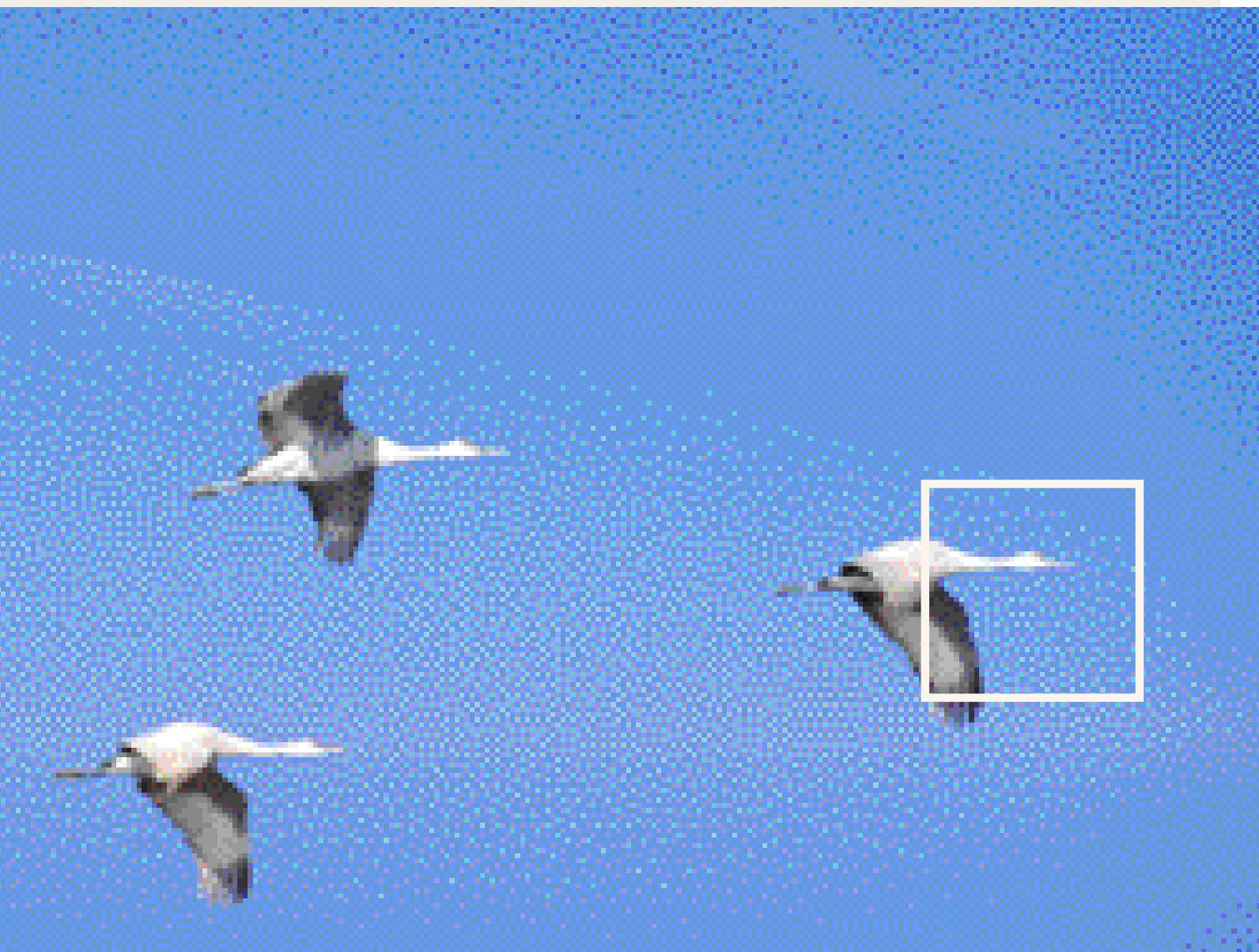
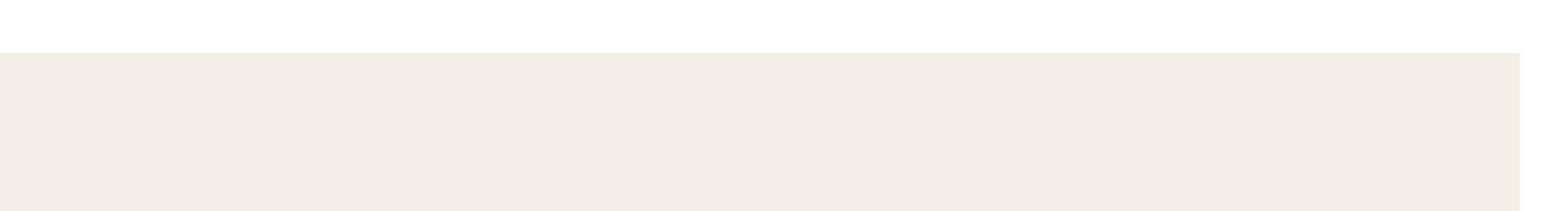
CREDIT RATINGS

| Moody's | S&P | Fitch |
|---------|-----|-------|
| A3 | A- | A |

Advancing to a New Path of Excellence



To Be a Leading Bank in Asia



By expanding the scope of our operations through strategic alliances and our overseas network, KDB plans to widen its presence in strategic markets beyond Korea. The capacity to provide global universal banking services has made a full line of financial services available for companies seeking to expand into foreign markets and has attracted a growing number of international customers. With an ambitious strategy to advance KDB's profitability and asset structure to new heights, the Bank is diligently striving to be a leading bank in Asia by 2011.

VISION

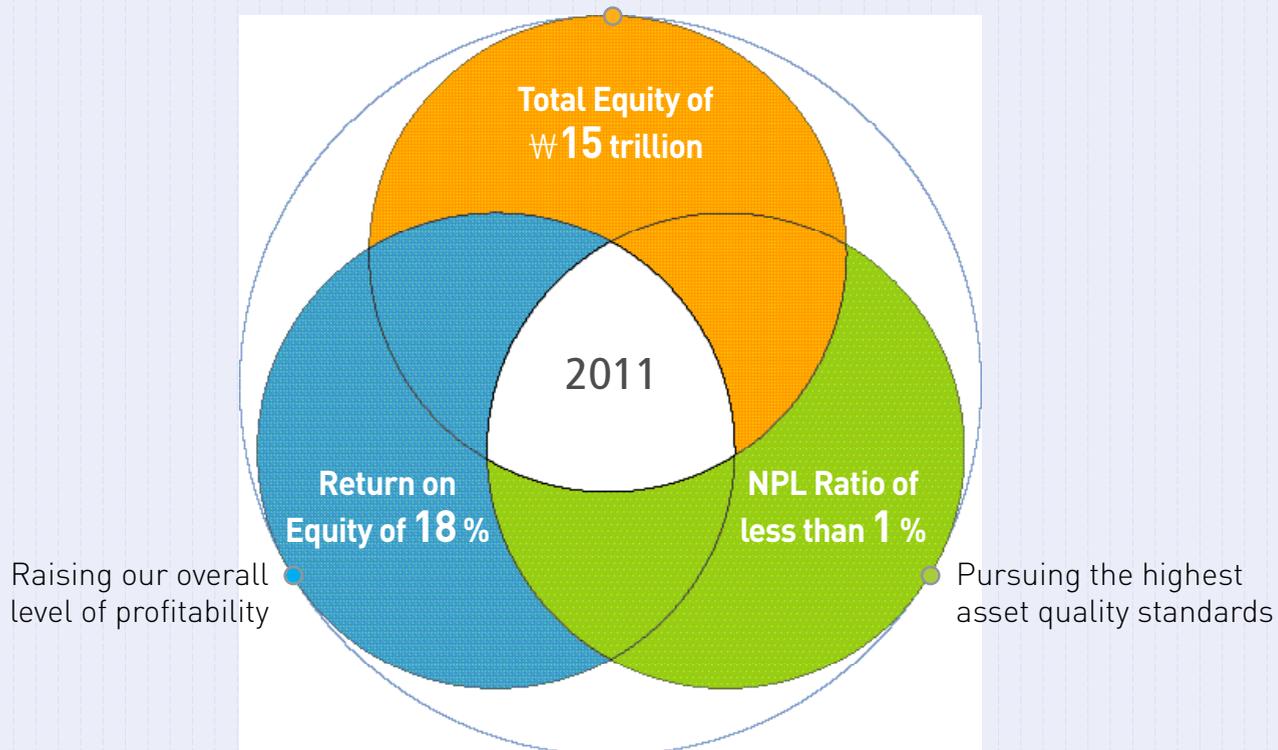


In line with the government's policy to transform Korea into a financial hub, the Bank has adopted the vision to become a leading bank in Asia by 2011.

To broaden its business presence beyond the nation's borders, KDB will focus on its four core financial services—corporate banking, investment banking, international banking, corporate restructuring and consulting—targeting customers both at home and abroad.

The expertise and experience accumulated over the past five decades will undoubtedly serve as a springboard for KDB to forge ahead. By remaining responsive to the ever-changing needs of its customers and offering quality, tailored financial solutions, KDB looks forward to seeing its list of international clients and business partners grow in the years ahead.

Attaining new heights in business capital



In addition to raising the competitiveness of its core businesses, KDB aims to align its business practices to meet the highest ethical standards and elevate its financial status to that of leading global banks. By 2011, KDB plans to strengthen its financial position by attaining a total equity of ₩15 trillion, an ROE of 18%, and an NPL ratio of less than 1%.

GOVERNOR'S MESSAGE



The year 2004 proved to be both a historical and business milestone for The Korea Development Bank (KDB), as it marked not only the completion of our 50th year, but also a year of extraordinary business initiatives and operating results.

Our Bank's recent achievements are particularly noteworthy in light of the difficult challenges the Korean economy encountered last year. Weak domestic demand and high oil prices undermined efforts to revive conditions. Geopolitical tensions stemming from North Korea's nuclear activities and the rapid appreciation of the Korean won acted to further heighten market uncertainty. Despite such adverse conditions, KDB generated a record-high net income of ₩1 trillion, marking a five-fold surge from 2003. Last year, we also improved our financial structure and thus, lowered our NPL ratio from 2.96% to 1.59% and raised our BIS ratio to 18.08%.

KDB is well positioned for 2005. By managing our operations with the efficiency and expertise gained over the last five decades and wisely investing in our people, we will continue to make great strides in key business areas and cross-border initiatives.

Strategic initiatives undertaken in the Bank's core business areas of corporate banking, investment banking, international banking, and corporate restructuring & consulting brought about positive developments strengthening KDB's overall competitiveness.

While the business downturn led other banks to tighten corporate lending, we extended ₩17.3 trillion in new loans and investments, reflecting a rise of 5.6% from 2003, to help companies weather the difficult business environment.

In 2004, KDB arranged project financing for 10 major projects and provided advisory services for 22 new projects. In recognition of the volume of deals closed, KDB was named No. 1 arranger in Asia Pacific and No. 6 globally last year. In addition, KDB served as an underwriter for 20.3% of Korea's corporate bonds, making it the largest corporate bond underwriter again in 2004.

Once again, the Bank reaffirmed its status as Korea's representative borrower by raising US\$3.64 billion in low-cost funding in global capital markets, marking an increase of 9% from 2003. At the same time, consistent growth in the trading volume of derivatives together with other achievements in financial engineering helped KDB maintain its leading position in the derivatives market.

Although KDB's role as Korea's representative bank has evolved over the past fifty years, we have remained steadfast in our mandate to enhance the nation's economic development and maintain market stability. Bold initiatives taken to normalize troubled companies, namely SK Networks and LG Card, have proven to be worthwhile.

Rather than resting on past laurels, KDB plans to pursue a new path of excellence, one that will lead us to become a leading bank in Asia by 2011. In pursuit of this ambitious goal, we have taken steps to expand our presence within the region. To collectively address the growing demand for major infrastructure financing throughout the region with our closest neighbors, KDB inaugurated the Northeast Asia Development Financing Council on May 16, 2004.

While we begin 2005 with a great deal of optimism, we realize that many of the challenges faced in 2004 have spilled over into 2005. In addition, competition within the domestic financial industry is intensifying with the number of mergers growing and foreign institutions have grown and customers increasingly demanding more diverse and sophisticated financial products. Yet, we at KDB are unfazed by these difficult circumstances. KDB is well positioned for 2005 and beyond. By managing our operations with the efficiency and expertise gained over the last five decades and wisely investing in our people, we will continue to make great strides in key business areas and cross-border initiatives.

All of these efforts are supported by a comprehensive internal system that serves as guideposts for KDB and its employees to uphold the highest standards of conduct. Refined and consistently improved over the years, these systems constitute a major part of the ongoing process to embed key principles of sustainability throughout the organization. A series of bank-wide campaigns to set higher standards, encourage innovation and foster greater commitment were implemented in 2004. In particular, the corporate motto "My Home, My Business, KDB" was created and administered to boost workplace productivity by creating a culture of ownership.

As a government-led institution, we have long recognized the need to integrate own profitability and business objectives with public policy and the nation's economic sustainability. We believe that financial results are only a part, albeit an important one, of measures to assess a financial institution. The more intangible aspects, such as supporting regional development, making funds available next-generation growth industries, funding major public infrastructure initiatives, fulfilling social responsibility, also constitute value of decisive importance.

On behalf of KDB, I would like to thank you, our valued clients, investors, business partners for the gracious support and encouragement. As we advance on a new path of excellence, KDB looks forward to another 50 years of setting new standards and facilitating economic growth for the benefit of the nation.



JICHANG YOO
Governor

HIGHLIGHTS OF YEAR 2004



Setting New Records in Profitability and Asset Quality

Despite difficult economic conditions, KDB successfully set a series of significant financial achievements. The establishment of a solid profit base enabled KDB to generate a record-high net income of nearly ₩1 trillion in 2004. As a result, KDB achieved an ROE of 11.02%. In addition, the Bank was able to significantly reduce its NPL ratio, a leading indicator of financial soundness, to 1.59% in 2004.

Strengthening of Universal Banking Services

KDB enhanced its overall competitiveness by offering financial services tailored to meet the unique needs of its clients through its four core business areas of corporate banking, investment banking, international banking, corporate restructuring and consulting. To further expand the range of its universal banking services, KDB added KDB Asset Management in May 2004, making it the third domestic subsidiary after KDB Capital and Daewoo Securities. The complementary nature of their business capacities has enabled KDB to offer more innovative investment products, while broadening business opportunities for its various units.

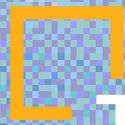
International Recognition for Project Financing

As the undisputed leader in Korea's project finance market, KDB arranged a staggering ₩4.853 trillion in project financing in 2004. The Bank's Incheon International Airport Railway project and the Kwangyang LNG-fired Combined Cycle Power Plant project were both awarded "Deal of the Year" for Asia-Pacific in their respective categories. KDB's expertise in coordinating and financing large-scale public projects has enabled KDB to play an instrumental role in the economic development of the nation's regional areas.

"My Home, My Business, KDB" Campaign

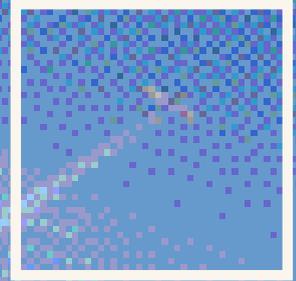
KDB has implemented a series of strategic internal communications campaigns designed to boost the morale and productivity of its employees. Monthly campaigns aiming to improve the work environment, facilitate increased communication, promote professionalism, and improve business practices have already made a positive impact. Realizing that a greater sense of ownership at every level influences productivity and performance, KDB created the motto "My Home, My Business, KDB" to encourage employees to embrace their work responsibilities as they do their personal ones.

Advancing to a New Path of Excellence



To Provide Excellence in Our Services





KDB has maintained its leadership in a number of key financial business areas by effectively responding to the ever-changing financial business environment. Armed with the expertise acquired over five decades in the banking industry, KDB will continue setting the standards for superior financial services.

Realizing that the success of our corporate customers here and abroad contributes to the strength of the local and global economy, the Bank seeks to offer its clients premier products and services. The Bank's strong reputation for innovation and quality is closely tied to its relentless quest for excellence.

CORPORATE BANKING

Although economic uncertainty lowered the overall demand for facility investments and operational capital, KDB's new loans and investments rose 5.6% in 2004.



New Loans and Investments

Despite the overall contraction in corporate demand for capital due to economic uncertainty both at home and abroad, KDB's new loans and investments during 2004 totaled ₩17.318 trillion, marking a 5.6% rise over the previous year.

Facility Loans

Although lackluster business conditions in 2004 led most companies to reduce their investments for equipment and facilities, the amount of facility loans extended by KDB rose 17.1% to reach ₩6.827 trillion. The growth can be attributed to the measures the Bank took to promote facility investment, including the expansion of special funds to support new technologies and knowledge-based industries. Of total facility loans, 50.3% were extended to large corporations, 25.3% were directed to the public sector, and 24.4% were channeled to SMEs. Lending to large corporations increased in 2004 with the rise in the demand for large capital.

Working Capital Loans

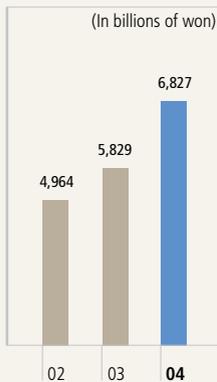
In 2004, working capital loans decreased 7.9% to total ₩4.494 trillion as a result of decreased demand for operational capital due to sluggish domestic demand. KDB provided funds to companies in the form of low-yield, 3-month floating rate working capital (₩939.3 billion), special working capital to SMEs (₩546.1 billion), and special working capital for VIP customers (₩193.0 billion). By size, large corporations accounted for 60.5%, while SMEs comprised 39.5% of total working capital loans.

Portfolio by Industry

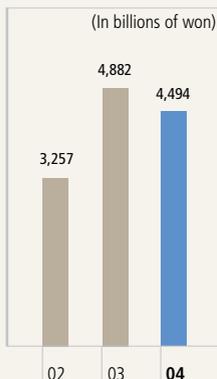
Of KDB's total new loan and investments of ₩17.318 trillion, the manufacturing industry accounted for ₩8.685 trillion (50.1%), while the non-manufacturing industry accounted for the remaining ₩8.633 trillion (49.9%). When compared to 2003, the above figures reflect a rise of 9.2% for the manufacturing industry and a rise of 2.1% for the non-manufacturing industry.

Among new loans and investments extended to the manufacturing industry, the assembled

Facility Loans
(In billions of won)



Working Capital Loans
(In billions of won)

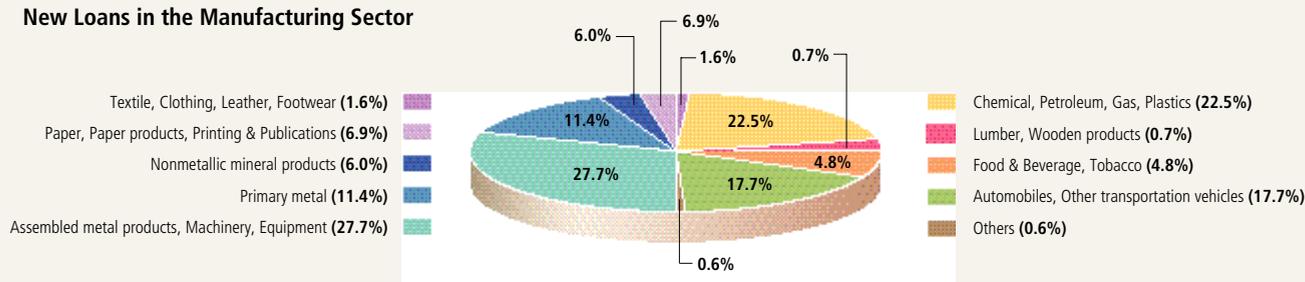


New Loans & Investments by Industry

| | Loans | | | Investment | Total | Composition | YoY Change |
|-----------------------------------------|--------------|-----------------|---------------|--------------|---------------|---------------|-------------|
| | Facility | Working Capital | Sub-total | | | | |
| Agriculture, forestry, fisheries | 27 | 12 | 39 | - | 39 | 0.2% | 79.9% |
| Mining | - | 125 | 125 | - | 125 | 0.7% | 3588.2% |
| Manufacturing | 3,345 | 3,032 | 6,377 | 2,308 | 8,685 | 50.1% | 9.2% |
| Electricity, gas, water | 1,654 | 26 | 1,679 | 600 | 2,279 | 13.2% | 20.4% |
| Construction | 86 | 28 | 114 | 163 | 276 | 1.6% | -55.7% |
| Wholesale & retail, restaurants, hotels | 333 | 317 | 650 | 331 | 982 | 5.7% | -47.0% |
| Transport, storage, communications | 1,085 | 441 | 1,526 | 694 | 2,219 | 12.8% | 56.4% |
| Finance, insurance, real estate | 135 | 401 | 536 | 1,828 | 2,363 | 13.6% | 11.1% |
| Social and private services | 164 | 112 | 275 | 74 | 349 | 2.0% | -31.8% |
| Total | 6,827 | 4,494 | 11,321 | 5,997 | 17,318 | 100.0% | 5.6% |

Note: Excludes equity investment derived from capital contribution from the government and debt-equity swaps

New Loans in the Manufacturing Sector



metal, machinery and equipment sector comprised the largest proportion of loans and investments (27.7%), followed by the chemical, petroleum, gas and plastics sector (22.5%). The finance, insurance and real estate sector accounted for the highest proportion of loans and investments (13.6%) in the non-manufacturing industry, followed by the electricity, gas & water sector (13.2%) and the transport, storage & communications sector (12.8%).

Support for Regional Economies

In 2004, KDB provided ₩604 billion in funds to stimulate regional economies and promote balanced regional economic development in a variety of ways. To support balanced development among regions, the Bank supplied ₩451 billion to support companies located in regional areas. It also set aside ₩38 billion for the development of regional industrial complexes, including ₩11 billion to the Daedeok Techno Valley and ₩30 billion to the Pucheon Techno Park. In addition, KDB provided

₩109 billion to support companies located in regional areas and the relocation of capital-based companies to regions outside of Seoul.

To invest in low-cost funding for regional companies, KDB formed investment cooperatives in cooperation with local authorities who agree to partially assume the interest burden.

In 2005, KDB will continue to support the growth of regional economies and has set aside ₩1 trillion for projects promoting regional development and SMEs located in regional areas.

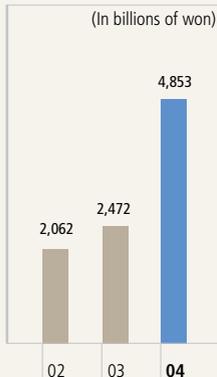


INVESTMENT BANKING

Armed with years of experience financing major projects, KDB plans to continue engaging in project finance deals for the development of the Asia-Pacific region.



Project Finance
(Arranged Amount)



Project Finance

In 2004, KDB expanded the scope and volume of its project financing by arranging a total of 10 projects worth ₩ 4.853 trillion and providing financial advisory services for 22 new projects. Its ability to facilitate local currency financing and its experience acquired from years of dealing with many large-scale development projects have made KDB the undisputed leader in Korea's project finance market.

Since arranging the ₩1.3 trillion Incheon International Airport Highway project in 1994, KDB has repeatedly gained international recognition for its expertise and volume of deals closed. The industry journal *Project Finance* ranked KDB the No. 1 lead arranger in the Asia-Pacific market and No. 6 in the global market in 2004. Over the past decade, the Bank has contributed to national and regional development by serving as the financial advisor for 104 projects, 27 of which are ongoing, and as a financial arranger for a total of 40 projects worth ₩14.760 trillion. The

volume of KDB's project financing has risen each year beginning in 2000, when the Bank arranged projects worth ₩1.695 trillion, then ₩1.958 trillion in 2001, ₩2.062 trillion in 2002, ₩2.472 trillion in 2003 and reached a new high of ₩4.853 trillion last year. In 2004, KDB held a 71% share in the domestic market.

Incheon International Airport Railway (₩3.310 trillion), Kwangyang LNG-fired Combined Cycle Power Plant (₩440 billion), High Speed PF-Equity Shipping (₩ 210 billion), Seoul Beltway Restructuring (₩540 billion), and Wangshimni Railroad Station Reconstruction (₩84 billion) are some of the major projects arranged in 2004. Among last year's projects, Incheon International Airport Railway was named Public-Private Partnership Deal of the Year by Euromoney's *Project Finance* magazine and Infrastructure Deal of the Year by Thomson's *Project Finance International* magazine. Also, Kwangyang LNG-fired Combined Cycle Power Plant, the first merchant-based power project in Korea, was named Power Deal of the Year by both

Led by its strength in placement and expertise in structuring, the Bank accomplished a number of notable deals that satisfied the financing needs of its clients.

Euromoney's *Project Finance* and Thomson's *Project Finance International*.

Armed with expertise and experience acquired from years of dealing with sizeable project financing projects, KDB plans to continue engaging in project finance deals not only for national development, but also for that of the Asia-Pacific region. In recent years, KDB has rapidly expanded the scope of project financing to include the merchant power industry, regional development projects, free economic zone (FEZ) development projects and international project finance. To maintain its market lead, the Bank aims to continue meeting clients' needs by providing innovative financial structures, participating as an equity investor, and pioneering new financing methods.

Capital Market Activities

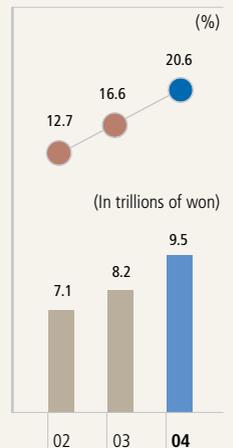
In 2004, the Korean financial market suffered from the negative effects of ongoing political uncertainty, prolonged stagnation of the industrial sector, and severe competition among securities companies in the capital market.

Despite unfavorable market conditions, KDB continued to play a pivotal role in the capital market. Led by its strength in placement and expertise in structuring, the Bank accomplished a number of notable deals that satisfied the financing needs of its clients. During 2004, KDB underwrote domestic corporate bonds worth ₩9.5 trillion, a figure that accounted for

20.6% of the total market, which enabled the Bank to maintain its position as the No.1 lead-manager in bond issuance.

KDB was involved in underwriting a wide range of bonds during the year, including corporate straight bonds, SOC bonds linked to project financing and other structured bonds. It also successfully diversified its client basis through the effective placement of marginal investment grade corporate bonds carrying ratings from BBB+ to BBB-. In addition, the Bank made a significant contribution to the development of the primary market by arranging a large number of deals using newly developed financial techniques. One of its most notable successes was the arrangement of asset backed securities (ABS) issuance through a master trust structure, a first for the Korean market. The new method not only improved the stability of the ABS market but also enabled KDB to occupy a leading position in the increasingly important domestic ABS market. The Bank also managed the first

Domestic Corporate Bond (Underwriting Amount)



domestic issue of mortgage backed securities (MBS) and executed a project financing bond issue that included a tranche carrying a maturity of 17 years, the longest in Korean corporate bond market history.

Furthermore, KDB's sophisticated trading strategies and advanced portfolio management techniques enabled it to participate successfully in trading bonds and equities. In addition, KDB has served as a primary dealer for Korea Treasury Bonds (KTB) after obtaining its primary dealer license from the government in March 2004.

Equity Investments

Through its venture capital investments, KDB has played a major role in the development of promising industries since 1998. To date, the Bank has invested a total of ₩578 billion in 461 companies, which includes 69 KOSDAQ-listed companies, spanning a variety of hi-tech industries including mobile telecommunications, display equipment, and biotechnology.

In 2004, the Bank's total investment in venture



companies amounted to approximately ₩48 billion. While the amount of investment in start-up companies has fallen, funds invested in more stable and established companies have increased.

Of its ₩578 billion total investment, the timely disposal of ₩143 billion in equities at a sale price of ₩551 billion generated a profit of ₩408 billion for the Bank. Since entering the venture capital market, the Bank has realized a 15.15% average annual rate of return.

Venture Capital Investment

(In billions of won)

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | Total |
|----------------------|------|------|------|------|------|------|------|-------|
| No. of companies | 39 | 44 | 125 | 96 | 85 | 38 | 34 | 461 |
| Amount of investment | 58 | 57 | 130 | 90 | 122 | 73 | 48 | 578 |

Growing recognition of its industry expertise and the expansion in its scope of services have led the volume of M&A related business handled by the Bank to increase rapidly.

M&A

KDB has provided comprehensive M&A services tailored to meet the varied needs of its clients. Growing recognition of its industry expertise and the expansion in its scope of services have led the volume of M&A-related business handled by the Bank to increase rapidly.

In 2004, KDB participated in high-profile transactions for a number of major domestic corporations. They included advising the equity sale of LG Investment & Securities, which contributed to averting a liquidity crisis at LG Card; attracting investment for Ssangyong Motors and Pan Ocean Shipping to

satisfy the demands of creditors; and arranging the syndication of debt refinancing for Kia Steel, Newcore and Shinho Paper to help them emerge from court receivership and debt workout. The Bank also played an important role as an advisor in the merger between Dongbu Electronics and Anam Semiconductor.

KDB is currently participating as a sell-side advisor in the equity sale of Daewoo Heavy Industries & Machinery and Thrunet. As a result of the Bank's strong transactional capabilities both are approaching successful completion.



INTERNATIONAL BANKING

Named the best arranger for foreign currency loans to Korean companies, KDB maintained its position as the nation's undisputed leader.



International Investment Banking

Increasing uncertainty in both the domestic and the global economy contributed to the deterioration of investor sentiment towards Korean companies in 2004, which weakened demand for overseas funding. Intense competition among domestic and foreign financial institutions also made business conditions more difficult for market participants.

In spite of unfavorable market conditions, KDB arranged deals amounting to US\$1.1 billion in 2004, accounting for 13.6% of Korea's foreign currency loan market. Deals, which KDB arranged, include a US\$170 million loan/FRN deal for Samsung Hong Kong and Samsung America, a US\$188 million aircraft financing deal for Korean Airlines, and a US\$188 million ship financing deal for Korea Line Corp. The Bank maintained its position as the undisputed leader in foreign currency loans in 2004 and was named the best lead arranger for foreign currency loans to Korean companies by *Basis Point*, the leading Asia-Pacific debt capital market publication.

The growing number of Korean corporations participating in the direct financing market has presented challenges for the Bank's international investment banking business. To overcome these challenges, KDB is making every endeavor to provide the highest quality products and services to Korean corporations and expand its international client base. These efforts, the Bank believes, will serve as a springboard for greater overseas projects.

International Treasury

KDB, an established market maker in local and international foreign exchange markets, quoting competitive prices in major tradable currencies as well as the Korean won (KRW) and acting as a primary provider of liquidity in the USD/KRW market. In 2004, KDB opened a KRW FX desk in Singapore, marking the second KRW FX desk for KDB after London, which was established in 2002. The Bank plans to establish a KRW FX desk in New York in the near future to facilitate round-the-clock trading. In 2003, KDB further strengthened its status as a market maker in the Korean market with the introduction of a two-

way swap margin price in the non-deliverable forwards (NDF) market.

In 2004, the Bank's total USD/KRW trading amounted to US\$149 billion, while the volume of foreign exchange trading in non-dollar currencies reached US\$22.5 billion. In the international money market, KDB traded US\$114 billion. The Bank was also successful in increasing its foreign currency liquidity by expanding its money market line and issuing commercial paper under its US\$6 billion CP Programme.

KDB has emerged as a market leader in trading Korean bonds as well as an influential trader in Asian bonds. It is also one of the region's most active traders of convertible bonds. Currently, it is expanding its investment book to include the U.S. and Eurozone markets. In 2004, the Bank's gross trading volume in the secondary market increased to US\$12.2 billion, almost double the US\$6.6 billion it recorded the previous year.

In addition, the Bank uses its expertise in the FX market and FX position management to offer FX and risk management advisory services to corporate clients. In 2004, the total trading volume for KDB's clients reached US\$35 billion.

KDB's strong performance in international treasury has been attributed to improved transparency and soundness stemming from its enhanced risk management capability and internal auditing system. The Bank will continue to upgrade its management of market risk, credit risk, and operational risk employing a framework to identify, monitor, and measure risks.

Derivatives

KDB has actively led Korea's derivatives market, building a reputation for innovation as the first market-maker for USD/KRW cross-currency interest rates swaps and KRW interest rates swaps. By further expanding into such areas as

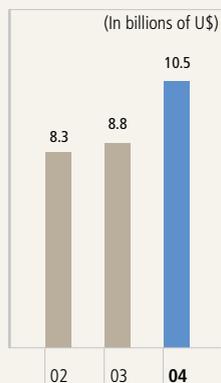
exotic options, interest rate options and equity options and growing in tandem with the rapid growth of the local derivatives market, KDB has maintained its position as one of the largest derivatives houses in Korea.

The year 2004 was a milestone for KDB's derivatives business in terms of both the tremendous growth in trading volume and the introduction of credit derivatives to the local market. Swap derivatives, comprising primarily of interest rate swaps, cross-currency interest rate swaps, and long-term foreign exchange forwards recorded a trading volume of US\$31.9 billion, marking an annual growth of 10.8%. These products enabled KDB to support its corporate clients in the management of their interest rates and foreign exchange exposures. The Bank's options business, which includes currency, equity, and interest rate options, also experienced a robust year with trading volume totaling US\$14.5 billion and annual growth reaching 320%. The steep increase in trading volume of foreign currency options illustrates how the Bank has helped clients effectively manage their currency risks.

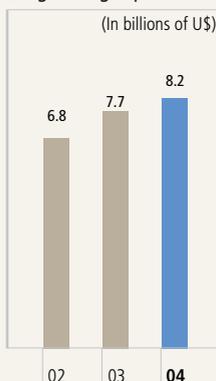
In addition, the Bank established a credit derivatives team in the Financial Engineering Department to develop and establish a lead in the local credit derivatives market, which is expected to grow rapidly with the implementation of the New Basel Accord. For its debut in the credit derivatives business, KDB participated as a joint book-runner in the issuance of collateralized swap obligations.

In recognition of the Bank's product innovations and contribution to the development of the derivatives market in Korea, in October 2004 *Asia Risk*, a renowned international financial publication, named KDB Korea House of the Year, an award the Bank also received in 2001.

Total Volume of Trade Finance
(L/C Issuance)



(Negotiating Export Drafts)



Trade Finance

Trade financing has been one of KDB's major profit sources since 1997. In 2004, the Bank provided US\$8.2 billion in export financing and US\$10.5 billion in import financing, an increase of 5.9% and 19.7% from the previous year, respectively. The healthy growth was attributable to the Bank's ability to quote competitive prices and provide outstanding service, as well as maintain a strong presence both at home and overseas. As a market leader, KDB is committed to satisfying the diverse and sophisticated needs of its customers. In order to maintain its lead position, it aims to continue innovating financing methods and strengthening its presence in a variety of fields related to export-import financing.

Correspondent Banking

The financial needs of customers are becoming increasingly diverse and sophisticated as they seek a wide range of business opportunities around the world. KDB is well prepared to meet those global needs. As a primary facilitator of growth in the Korean industry and economy over the past several decades, KDB has established correspondent banking relationships with more than 1,000 financial institutions worldwide. Through this extensive international network, it is able to assist customers in lowering risk and to provide the most up-to-date information on global markets.

Investor Relations

Dedicated to meeting the informational needs of the investment community, the investor relations (IR) team actively engages in a range of IR activities and serves as a two-way communication channel for our investors, particularly foreign institutional investors in the international debt capital market. To keep investors abreast of developments within the Bank and the Korean economy, KDB makes available prompt and accurate press releases, financial reports and IR presentations. In addition, the Bank also offers a



number of publications and services to provide investors with the latest in local business news and financial information. Each month, KDB makes available the *Korea Economic & Market Trends*, a web-based newsletter, containing information on Korea's economic activities, data on key market indicators, and KDB-related news. Each quarter, the Bank publishes the *KDB Journal*, a publication that features updates on KDB's operations and financial results, issues affecting the financial industry and Korean economy, and key market rates.

Among KDB's IR activities in 2004, the Bank conducted a non-deal roadshow in UAE and Bahrain from May 20 - 26, where KDB delegates met with institutional investors, analysts and fund managers to discuss the Bank's financial status and investment opportunities in Korea. Then from June 27 - July 3, KDB traveled to England, France, Germany and the Netherlands where staff members met with institutional investors and other finance professionals.

Guest Observer Course

In October, KDB hosted 14 representatives from seven countries for the 57th Guest Observer Course (GOC). Founded on the principles of broadening global understanding through cooperation and knowledge sharing, a total of 1,102 financiers from 57 countries around the world have participated in the GOC since its inception in 1968.

During the week-long course, participants attended a number of lectures and workshops to

KDB believes that the NADFC will yield results in time that are beneficial for all involved and will contribute to the advancement of the Northeast Asian region as a whole.

gain a deeper understanding of KDB's business activities and Korea's dynamic capital and financial market, Korean history and culture, and the political situation on the Korean peninsula from a distinguished panel of speakers. GOC participants also took part in a series of visits to leading corporations and Korea's most-prized cultural wonders. Recognized as a unique and culturally-enriching program, the GOC has served to strengthened ties and networking opportunities among the participating financial institutions and their representatives over the years.

Northeast Asia Development Financing Council

The Northeast Asia region, which accounts for about 20% of the global economy and 90% of the East Asian economy, is expected to become one of the most dynamic economic regions in the world. Recognizing the region's potential, the Korean government has embraced a strategy for transforming Korea into a regional financial hub and advancing the Northeast Asian economy to the rank of a major economic bloc.

Based on the region's growth prospects, demand for social infrastructure and public facilities is forecast to rise substantially. KDB in collaboration with Mizuho Corporate Bank and China Development Bank established the Northeast Asia Development Financing Council (NADFC) on May 16, 2004, to create a viable financing channel capable of meeting the demand for social overhead capital and major

industrial projects in the region and strengthen financial cooperation among the region's major development banks. The NADFC, in a consortium with seven other banks, successfully arranged its first deal on October 27, 2004, a US\$70 million syndicated loan for Hyosung Spandex (Guangdong) Co., Ltd.

In addition to encouraging financial cooperation for regional development, the NADFC also holds working group meetings for the exchange of ideas about business opportunities and promotes trainee exchange programs with other NADFC members. KDB believes that the NADFC will yield results in time that are beneficial for all involved and contribute to the advancement of the Northeast Asian region as a whole.



CORPORATE RESTRUCTURING & CONSULTING

Embracing the belief that the Bank's success is based upon the success of its clients, KDB aims to maximize each client's value by providing quality solutions.



Corporate Restructuring

Drawing on its corporate restructuring expertise, KDB played a pivotal role in M&A and business normalization of companies in court receivership and workout. During 2004, KDB successfully completed M&As for Jindo, Shinho Paper, KP Chemical and Hanbo Steel and made significant progress toward the business normalization of Hynix Semiconductor and SK Networks by restructuring their debt and business operations. Furthermore, KDB led the business normalization process for Hyundai Construction, Saehan and Namsun Aluminum by guiding them in their debt restructuring and implementation of their voluntary workout plans. In 2004, the Bank also acted in conjunction with other creditor banks to guide promising SMEs in their workout procedures, in addition to engaging in the business normalization activities for ten companies, including Dongwoon Industry.

In 2005, KDB plans to complete the restructuring of Thrunet, Incheon Oil and Hankook Core via M&A, while focusing on the successfully completing the turnaround of Hynix Semiconductor, SK Networks

and Hyundai Construction, which have shown favorable business performances. In addition, KDB plans to reinforce its activities for preventing company insolvencies by pursuing workouts for viable SMEs.

Consulting Business

KDB offers consulting services in a range of areas—new projects, corporate management strategy, corporate restructuring, public projects, development projects, overseas projects and financial advisory and arrangement.

The Consulting Business Department uses its team of specialists with diverse academic and professional backgrounds—from CPAs to PhDs—who are qualified to provide financial advice based on their extensive experience in corporate banking, international banking, venture capital and capital markets to help clients overcome challenges in adapting to the changing financial, economic and industrial environment. Some past projects have included the facilitation of smoother financial integration, the adoption of digital systems, the application of software across all industries, and the

management of the increased risks arising from such developments. Embracing the belief that the Bank's success is based upon the success of its clients, KDB aims to maximize each client's value by providing quality solutions and showing them the way forward.

In 2004, KDB's Consulting Business Department conducted a variety of consulting projects. A preliminary feasibility study was completed for a new industrial city planned by a local government and project feasibility studies for a diverse range of companies including manufacturing, steel, chemical and pharmaceutical as well as hospitals. Moreover, the financial solutions proposed by KDB helped improve the capital and debt structures of a number of companies. The Bank also created several value creation strategies for a local business conglomerate and a major textile manufacturer, in addition to drawing up master plans for a marine resort, a hospitality enterprise, and other tourism facilities for a municipal government. By formulating specific business expansion strategies, KDB helped several companies successfully enter the Chinese market in 2004.

Building on its success in 2004, KDB will expand the sphere of its consulting operations in the year ahead and concentrate on areas in which it is comparatively strong. It will focus on high value-added business such as large projects for conglomerates and overseas projects. Furthermore, it aims to contribute to public good by consulting public sector projects and offering services for small and medium enterprises.

Private Equity Fund

KDB recently launched its first Private Equity Fund (PEF), a buyout type fund carrying a five-year maturity. Its status as a limited partnership means not only that it meets regulations governing indirect investment and assets in Korea, but also that it offers greater flexibility than mutual funds in respect to formation, contract and distribution. As such, it provides an ideal solution for investors with

similar investment characteristics. Launched with assets of approximately US\$300 million, KDB's PEF is expected to raise more than US\$1 billion in 2005. The anticipated success of the fund will place the Bank firmly in the vanguard of the local private equity fund market.

KDB created a management team to provide strategic consulting. The management team is responsible for establishing and engaging in M&A services and contingency management plans. Other significant roles include monitoring the appointed CEO and taking an intermediary role between issuers and partners. Strategic consulting includes advising management, developing core competence, reorganizing business structure, evaluating human resources, and finance advisory.

KDB's strengths in both domestic and international financial markets place it in an ideal position to lead the domestic PEF market. The Bank has gained unparalleled experience in turning ailing companies around, earning recognition as the market leader in corporate restructuring. KDB is also the nation's leading venture capital investment bank offering comprehensive consulting services including asset management advisory. With expertise in each of those areas, KDB is confident that its Private Equity Fund will not only contribute to the development of the Korean economy, but also create profitable returns for its investors and partners.



RISK MANAGEMENT

A comprehensive approach to risk management has enabled the Bank to standardize its analysis on the various risk levels of industries and adjust its portfolios in line with its overall strategy.



Credit Risk Management

KDB considers the effective management of credit risk as a critical component of a comprehensive approach to risk management and closely monitors its credit risk arising from both micro and macro perspectives. By remaining in close contact with individual institutions, credit officers (CO) and relationship managers (RM) play a major role in the management of credit risk at the micro level and ensure that risk is properly managed through a series of checks and balances.

The Bank has also improved the quality of its ex post facto management through the application of systematic and well-defined techniques to assess corporate restructuring requirements and the credit status of borrowers. Macro risk management, meanwhile, employs tools and techniques that involve the analysis of credit ratings to measure industry risk and the setting of credit limits to avoid overexposure to businesses with low credit ratings. This comprehensive approach to risk management has enabled the Bank to standardize its analysis on the various risk levels of industries and adjust its

portfolios to correlate more closely with its overall strategy.

Market Risk Management

KDB manages its market risk, which arises from movements in observable market variables such as interest rates, exchange rates and equity market indexes, by adhering to VaR limits, exposure limits, stop-loss limits, and non-linear risk limits.

The Risk Management Division assesses, monitors, and reports VaR limits on a daily basis at a confidence level of 99% and with a one-day holding period. In addition to a specific VaR limit set for each portfolio and risk type, the Risk Committee sets an aggregate VaR limit based on factors that include capital structure and target BIS capital ratio. With respect to risk measurement, the Bank uses standardized measurements in order to determine its BIS regulatory capital and internal models based upon the Algorithmics RiskWatch System for internal management purposes.

Operational Risk

Operational risk is the potential loss arising from inadequacy or failure of internal controls or compromise by employees or systems or from natural and man-made disasters. The Risk Management Division is responsible for the design, implementation and maintenance of the Bank's operational risk management system. KDB manages operational risk by using analyzing tools such as Control Self Assessment (CSA), Checklist and the Loss Data Collection. In 2005, the Bank plans to implement advanced operational risk management procedures and corresponding IT system as a part of its new operational risk management project.

Liquidity Risk Management

KDB regards the sound management of liquidity risk as a fundamental requirement for market credibility. Not only does the Bank observe all liquidity ratio guidelines set by financial supervisory authorities, but also implements a liquidity risk management system to monitor the maturity gaps between assets and liabilities in both a timely and efficient manner. The system enables KDB to maintain sufficient liquidity to fund its day-to-day operations, meet customer deposit withdrawals and demand for new loans, participate in new investments when opportunities arise, and repay borrowings as they mature.

Liquidity risk is effectively managed within a framework of integrated procedures, controls and limits that govern internal units. The Risk Management Division measures liquidity risk on a daily basis, while the Financial Management Division implements cash flow planning & management and takes precautionary measures to keep liquidity in line with internal requirements.

Risk Management System

After years of development, a bank-wide risk management system was adopted in May 2001 that introduced innovative improvements in risk management processes. A data mart for credit

and market risk, assets and liabilities, and other types of risk was completed in December 2002.

Asset Quality

KDB has employed Forward Looking Criteria (FLC) since 2000 to classify its assets reflective of the debt-servicing ability of borrowers and determine the appropriate provisioning rate required to maintain financial soundness. The FLC takes into consideration a variety of factors including the future debt repayment ability of the borrower, as well as credit history, which allow the Bank to assess a borrower's ability to repay. Using its classification standards, the Bank analyzes and evaluates the credit risk for its assets and sets aside appropriate loan loss provisions.

Credit Ratings

In preparation for the implementation of the New Basel Accord, KDB redesigned its corporate credit rating system, heightening the level of its accuracy and objectivity of its former system. The new corporate credit rating system employs the restricted expert decision model, which simultaneously assesses quantitative factors, such as financial ratios and cash flows, along with qualitative factors such as industry risk and management ability. The credit rating calculated by the system is utilized in loan decision-making and risk management activities, such as the setting of credit limits, determining loan interest rates, establishing loan loss provisions, measuring credit risk, setting and allocating risk capital.

Ex Post Facto Management

KDB continues to evaluate the credit status of borrowers through its ex post facto management procedures. The Bank monitors the business activities of borrowers and evaluates the collateral value of borrowers until loans are repaid in full. An early warning system established to alert KDB of potential problems also serves to enhance the quality of the Bank's loan portfolio.

FUNDING ACTIVITIES

As the nation's prime borrower of overseas funds, KDB has set numerous benchmarks for other Korean borrowers.

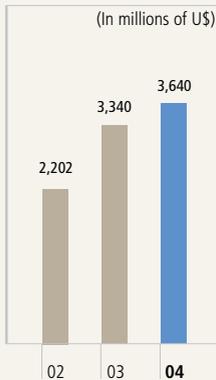


Overseas Funding

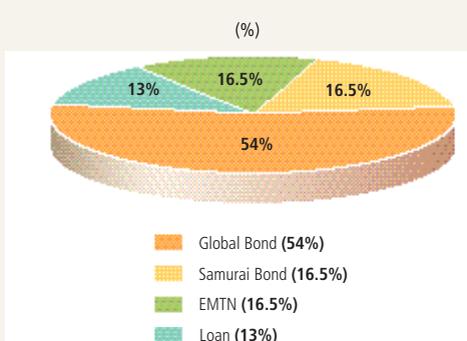
In 2004, KDB experienced brisk fundraising in overseas markets led by favorable conditions in international debt capital markets and improving investor sentiment towards the Korean economy. The Bank raised US\$3.64 billion in foreign funds at a relatively low-cost, compared to US\$3.34 billion raised in 2003.

amount of capital in term loans, the Bank also issued Euro-medium term notes (MTN) through its Euro MTN Program as another effective means to leverage low-cost funding. The Euro MTN issue helped the Bank reduce overall funding costs, thereby strengthening its ability to provide cost-efficient financial support to corporate clients.

Overseas Funding Amount



Overseas Funding Source



Similar to the previous year, KDB tapped major global capital markets through a series of successful Global Bond and Samurai Bond issuances. Besides borrowing a significant

As the nation's prime borrower of overseas funds, KDB has set numerous benchmarks for other Korean borrowers. Moreover, the Bank has worked hard to lower borrowing costs and diversify the currency base through its funding efforts.

Continuing international recognition of the KDB's funding activities reaffirmed the Bank's status as Korea's representative borrower. In January 2004, *Asset* named KDB the Best Quasi Sovereign Bond issuer, then in April *Emerging Markets* presented the Bank the Best Funding Official & Best Bond Deal award. In January 2005, KDB was also recognized as Best Asian Sovereign/Semi Sovereign Bond and Most

Impressive Asian Borrower by *EuroWeek*.

Domestic Funding

Industrial Finance Bonds

The bipolarization of the economy intensified as a result of the contraction of domestic demand and investments despite booming exports in 2004. In addition, concern regarding the slowdown of the domestic economy continued to linger as a result of high oil prices, the weak dollar and the possibility of China's retrenchment policy. Amidst such conditions, the domestic bond market exhibited a gradual downward trend in interest rates due to the prolonged economic depression and the government's low interest rate policy. In terms of supply and demand, the supply of bonds increased significantly due to the expansion of Treasury bonds, Monetary Stabilization Bonds and financial bonds, yet the preference for safe assets and expectations of a drop in interest rates led demand to rise exceeding supply.

In 2004, the Korean debenture market reached ₩133.9 trillion as new issuances increased by ₩12.1 trillion over 2003 to ₩77.9 trillion centered on bank bonds, despite the continued slowdown in issuance of credit card bonds since 2003. Outstanding bank bonds and other financial institution bonds recorded ₩108.8 trillion and ₩25.1 trillion, respectively.

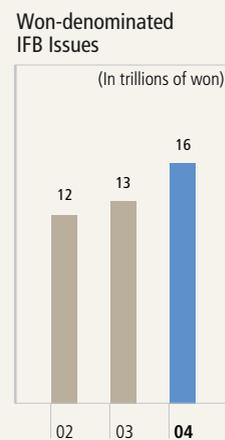
Industrial Finance Bonds issued by KDB for supplying facility loans for key industries recorded a balance of ₩ 31.617 trillion (approximately 29.1% of total bank bonds) as of the end of 2004 with new issuances totaling ₩16 trillion during 2004. In this respect, KDB faithfully fulfilled its role as the supplier of high quality investment assets in the domestic bond market.

Borrowings

As of December 31, 2004, KDB borrowed ₩685.6 billion in public funds to support energy use rationalization, tourism promotion & development, SME promotion, IT development, and environmental improvements. The Bank also borrowed ₩202.4 billion in government funds to support water purification plants, construct freight terminals and develop industrial parks. The amount of government funds borrowed in 2004 doubled from that of 2003, largely due to the ₩120.0 billion loan extended to the Korea Coal Corporation.

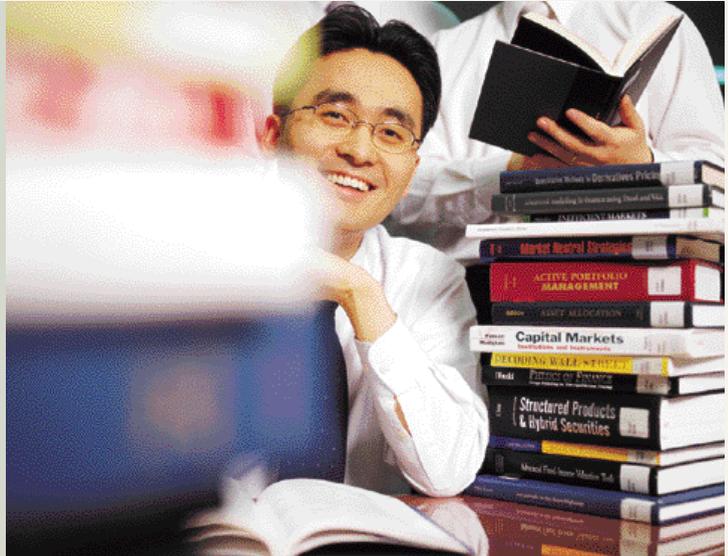
Deposits

Growth of bank deposits moderated in 2004 from the previous year as falling interest rates made higher-yielding alternative investments more attractive. Contrary to the market, KDB's average balance of bank deposits rose ₩1.2 trillion over 2003 to total ₩11.1 trillion. Moreover, outstanding savings deposits amounted to ₩10.3 trillion as of the end of 2004, up ₩1.4 trillion since 2003. KDB was able to raise its balance of deposits by attracting customers with its competitive money market deposit products, indicating that KDB's strategy to take advantage of increased interest rate sensitivity was effective in overcoming stagnation in bank deposits.



RESEARCH AND INFORMATION ACTIVITIES

The Bank concentrated on industrial research to foster corporate banking activities and market analysis to support its international and investment businesses.



Economic & Industrial Research

In 2004, KDB conducted financial, economic and industrial research, as well as research on issues involving the economic development of Northeast Asia (including China and North Korea). In particular, the Bank concentrated on industrial research to foster corporate banking activities and market analysis to support its international and investment banking businesses.

The Bank published numerous research papers providing insight into changing industrial paradigms. It addressed specific markets in publications such as *Next Generation Telecommunications Services in Korea* and *The Semiconductor Market: Structural Changes and Their Implications*, as well as various industries in reports including *The Hollowing-out of the Korean Manufacturing Industry* and *Suggestions for Enhancing Competitiveness of Korea's Mobile Phone Industry*. Moreover, regular surveys on facility investment plans and the Business Survey Index (BSI) helped monitor changes in the markets.

KDB has also strengthened its international and

investment businesses by providing research on international finance markets through reports such as *KDB Corporate Financing Review*, *Weekly Financial Market*, and *Monthly Trends and Outlook on the Financial Market*. In addition, KDB expanded its regional studies on Northeast Asia through the publication of various research reports including *Investment Environment in Northeastern China*, *Northeast Asia's Development Finance: Demand Estimation and Suggestions*, and *International Competitiveness of Korea's and China's Industries*, and by holding seminars on the North Korean economy. KDB carried out a total of 24 consulting projects in 2004.

Industrial Technology Research

The Industrial Technology Department contributes to the Bank's revenue and development by providing technology research support, industrial technology information, and technical consulting. The Department enhances the expertise of KDB's industrial technology activities and is the cornerstone of the Bank's comprehensive technology research support system.

Technology Research Support Activities

In 2004, the Industrial Technology Department conducted over 250 technology research projects centering on advanced technologies, large-scale plant projects and venture & SMEs with a high level of technological risks. The Department also contributed to improving KDB's loan screening process and post management functions by providing around 450 review opinions and technological information to various deliberation bodies within the Bank, including the Credit Committee.

Technical Consulting Activities

The Department provided support to transform the Bank's industrial technology activities into a fee-based business by conducting independent engineering services related to Daedeok TechnoValley and real estate investment trusts and participating in technology evaluation service projects led by government institutions including the Ministry of Commerce, Industry and Energy, the Small and Medium Business Administration and the Korean Industrial Property Office.

Industrial Technology Information Activities

The Industrial Technology Department further expanded its capabilities to provide industrial technology information by producing timely information on core technologies. This information, which is required for loan screening, is designated and managed by staff having industrial technology expertise, particularly in next-generation growth engine industries and basic industries.

Looking ahead, KDB plans to strengthen its position as the only domestic financial institution with expertise in technology consulting, perform technology service activities related to government policy and large-scale SOC projects, and develop various consulting techniques to diversify its consulting services.

Information Technology

In 2004, the IT Division achieved its goal of expanding the Bank's knowledge-based management infrastructure through the implementation of 37 IT projects and the completion of 95 business-related upgrades and improvements.

Some of the Division's more notable accomplishments during 2004 included enhancing the stability of the Bank's

information systems; establishing an airtight computer security system; improving response time to development requests; implementing an accountable management mechanism; and fostering a creative IT organizational culture. As a result, the Bank's IT system, which is backed by an effective early warning monitoring system, recorded zero operational downtime throughout the entire year.

The extensive installation of security equipment and the establishment of an IT control system have also enhanced the Bank's capability to control system access and track online activity. Since the implementation of an improved system to guard against IT-related financial problems, not a single incident has occurred. Nevertheless, KDB is vigilant in preparing for unexpected events and conducts data recovery exercises seven times a year.

The Bank's groupware system has been overhauled to offer comprehensive business information, enable data searching, and improve the document management and e-Approval functions. The development of an information system to provide industrial technology, legal, and audit information has also contributed toward expanding IT infrastructure and strengthening knowledge management initiatives.

Furthermore, the Bank has introduced a new system designed to analyze the cost benefits of IT projects. The new system's ability to assess the operational efficiency of information systems lays the foundation for accurately measuring the value acquired from various IT developments.

As a result of the above efforts, the IT Division earned the highest score ever on the user satisfaction survey in 2004, which was conducted by an independent research institution. Moreover, KDB also received first prize in the project technology category of the First Annual Korea Software Technology Awards.

TRUST & BANCASSURANCE

The Bank's retirement trust deposits reached ₩725.6 billion, which enabled KDB to maintain its leading market share of 22% for the second consecutive year.



Trust Business

The balance of trust deposits of banks declined in 2004 stemming from a lack of attractive alternative products and the expanded sales of indirect investment funds by banks. The Act on Business of Operating Indirect Investment and Assets (ABOIIA, formerly referred to as the Indirect Investment Asset Management Business Act), which took effect January 2004, prohibits the sale of unspecified trust products with the exception of specified money trusts, retirement trusts and pension trusts. Consequently, the sales of most trust products by banks including cost-method valued trusts have been suspended.

Against this backdrop, KDB's aggregate trust deposit balance amounted to ₩16.0 trillion, up 16.7% from 2003, and its trust fees and commissions totaled ₩37.8 billion, up 7.4%. Improved risk management techniques and efforts to recover insolvent obligations already written-off helped raise the volume of trust deposits in 2004.

More specifically, the balance of money trusts held by KDB totaled ₩2.7 trillion, down 19.6% as a result of sales restrictions stemming from the Act on Business of Operating Indirect Investment and Assets. The Bank's retirement trust deposits reached ₩725.6 billion during this period, which enabled KDB to maintain its leading market share of 22% for the second consecutive year. In addition, KDB achieved sales of ₩157.6 billion for Real Estate Money Trusts (specified money trust) and ₩97.9 billion for the KDB Real Estate Fund (indirect investment fund). During 2004, KDB began offering real estate trusts services to serve as a new fee-based revenue source.

In line with the ABOIIA, KDB will develop new trust products and strengthen the infrastructure of its trust business. Such measures are expected to shape KDB's trust business into a more significant profit source.

Bancassurance

Until recently, financial institutions were prohibited from engaging in financial

KDB plans to foster its bancassurance business as the basis for its commission-based operations by maintaining its productivity per branch at more than twice that of other banks.

businesses outside of their core businesses in Korea. However, in line with universal banking and consolidation trends in the financial industry throughout the world, bancassurance was introduced in Korea with the revision of the Insurance Business Act in May 2003 to facilitate the development of the financial industry and enhance the convenience of consumers. As such, KDB handles bancassurance business along with other banks, securities companies and credit card companies.

As of the end of December 2004, KDB has entered into business alliances with four life insurance companies and six non-life insurance companies to serve as a channel for the sales of their insurance products. Accordingly, the Bank sells corporate and household insurance at its headquarters and 37 branches nationwide. Last year, the Bank sold ₩3.8 billion worth of life insurance products and ₩29.1 billion worth of non-life insurance products based on initial premiums collected. As a result, commission income totaled approximately ₩6.5 billion. In particular, KDB has secured a position as a leading bank in the comprehensive corporate insurance sector by capturing a 35.9% share of the overall bancassurance performance of banks.

In 2005, KDB's goal is to generate ₩12.0 billion in commission income by maximizing its sales focusing on both corporate and pension insurance products. Despite a smaller

number of branches compared to other banks, KDB plans to foster its bancassurance business as the basis for its commission-based operations by maintaining its productivity per branch at more than twice that of other banks.

In the future, KDB also plans to maximize one-stop services by providing both traditional financial products and insurances to corporate and individual customers through its bancassurance business. In particular, the Bank will devote its efforts to upgrading corporate insurance products and reinforcing corporate competitiveness by taking the initiative to lead the provision of optimal insurance products in the corporate insurance sector.



Advancing to a New Path of Excellence



To Achieve Sustainability



As a government-led institution, the Bank has long recognized the need to integrate its profitability and business objectives with public policy and social responsibility. Thus, we believe that financial results are only a part of our role as a financial institution.

KDB realizes that its strength and future are based upon its people. In light of this, the Bank has created an environment that fosters personal growth and professional development through a range of welfare programs and educational opportunities.

We also believe that companies as corporate citizens have a responsibility to society. Our community service programs are designed to enhance the quality of life for those around us. KDB is privileged to highlight its values and principles in pursuit of sustainability and pledges to do more going forward in this important area.



CORPORATE SOCIAL RESPONSIBILITY

Companies that are socially responsible will gain not only respect and trust, but also will secure a competitive advantage for sustainable growth.



The financial services sector has a tremendous influence on the transition toward a more sustainable economy through its role in allocating financial capital. The domestic and international community today calls for companies to consider the economic, social and environmental impact of their decisions. It also demands that financial institutions adopt socially responsible management practices, including environmental protection and social consciousness in their corporate lending policies. Going forward, companies that are socially responsible will not only gain the growing respect and trust of their stakeholders, but will also secure a competitive advantage for sustainable growth.

This section of our annual report is a tangible demonstration of KDB's commitment to ethical management, human resources management, and community service. Sustainability development is not a new concept to us; KDB has had a long tradition of finding the delicate balance between its economic profitability and its social

responsibility in order to lead the nation's economic and industrial advancement. Although we realize that the road to secure sustainability management is not always a clear and direct path, we believe that KDB is headed in the right direction—one that will advance us to a new path of excellence.

Ethical Management

KDB has instituted an ethical management system to ensure that all business is conducted according to the highest standards of ethical conduct and in compliance with all applicable laws and regulations governing the financial industry. The values and ethical principles that have been adopted by KDB are defined in the Bank's Code of Ethics (Code) and Compliance Guidelines, which define the standards expected of each staff member as a financial service professional.

Code of Ethics

KDB believes that to be recognized and respected as a leading bank, the entire organization from staff to management must

embrace an ethics-based approach to business.

The Code offers a set of values, principles, and standards to guide decision making and conduct for the various issues and decisions that can arise in the context of employer-employee and employee-client relations. All executives and employees, in a conscious bid to win the trust and confidence of colleagues and customers adhere to the Code of Ethics. Adherence to the Code has incorporated high ethical standards in every aspect of our business, which has established the ethical foundation required to advance KDB in its aim to be a leading bank in Asia.

Fundamental principles of our Code of Ethics include:

- Proper business conduct
- Rejection of all forms of bribery
- Protection of company assets
- Transparency in information and financial management
- Anti-money laundering
- Maintaining the solid reputation of the company and employees

Due to the growing importance of ethics in business, KDB revised its Code of Ethics in November 2004 in order to make it more detailed, systematic and comprehensive. To ensure that the Code's principles are communicated to all staff, the Bank includes ethics and compliance education in its new employee training program. In addition to designating a staff to coordinate office-wide compliance programs, KDB has also incorporated ethical management themes into its other staff training programs. For instance, it conducts monthly in-house educational seminars for the purpose of increasing ethical awareness and encouraging staff to bring the prescribed values into actual practice.

Compliance Guidelines

KDB has embraced a compliance program complimentary to the Code of Ethics. In order to minimize legal risks, KDB's Compliance Team performs prior review on 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. The Compliance Team collects and monitors information related to the compliance of employees and implements improvements and corrective measures for problems.

Management Transparency

Over the last decade, KDB has taken a series of steps to enhance its management transparency and credibility. As a government-owned institution, KDB is subject to the supervision of the Ministry of Finance and Economy, the Financial Supervisory Service and the Bureau of Audit and Inspection. KDB is required to disclose its financial results in line with regulatory guidelines like other financial institutions. Specific measures to raise management transparency include the introduction of audits conducted by independent accounting firms in 1998, and the appointment of two outside (non-executive) directors to the board beginning in 1999. Certainly, these efforts have strengthened the Bank's management expertise and credibility.

Human Resources Management



KDB believes that the source of its strength lies within its highly skilled and dedicated staff. It is their determination and hard work that have enabled KDB to achieve its outstanding operating performance this year and will continue to be its most important source for future competitive advantage. Desiring to remain in the forefront of today's globally competitive financial industry, the Bank offers a wide range of professional development programs to provide staff with the knowledge and practical training they need to sharpen their skills in a number of fields, including risk management, international financing, and investment banking.

Fostering globally competitive financial professionals

KDB recognizes that next-generation leaders need to think strategically, and most importantly, think globally. In 2004, KDB invested ₩4.4 billion—an average of ₩2.2 million per employee—in professional development programs through its in-house academy and existing programs both in Korea

and abroad. Each KDB employee voluntarily participated in an average 2.5 educational courses spanning various areas, such as corporate banking, international banking and investment banking.

More specifically, KDB provides support and paid-leave for those that qualify to study in the nation's most competitive finance programs. In 2004, 47 employees were awarded the Bank's full support to continue their education at renowned institutions in Korea, including KDI School, KAIST's Graduate School of Management, and Seoul National University's Advanced Finance Program. In pursuit of cultivating the knowledge and the qualities required for next-generation leaders, KDB has also funded leadership training programs for senior management staff as a method to introduce change management and more contemporary business management skills.

Serious about investing in the quality and expertise of its workforce, KDB provides full-tuition, living expenses and paid-leave for staff wishing to pursue their graduate degree in business or finance abroad. In 2004, a total of 14 individuals were awarded support to attend business programs at top-ranked overseas institutions. In addition, KDB encourages its employees to participate in an array of staff development programs offered by domestic and foreign educational institutions specializing in finance.

Promotion of Self-Learning Culture

In line with the recent shift from traditional forms of training and education towards self-

Desiring to remain in the forefront of today's globally competitive financial industry, the Bank offers a wide range of professional development programs to provide staff with the knowledge and practical training they need.

directed learning programs, KDB has expanded its correspondence and online training programs, as well as evening and weekend self-development programs. In particular, KDB offers on-the-job training, with plans to gradually expand its scope of use, through the establishment of an e-learning system. The Bank also provides financial support for staff preparing for professional licensing examinations relevant to the banking industry, such as CFA, CPA (AICPA), credit analyst and custodian. Oftentimes, these staff form study groups to share information and materials and to learn from one another. To encourage self-directed learning, KDB offers incentives for those who participate. Already, KDB has experienced benefits from increased productivity and expertise as a result of employees applying their newly acquired knowledge to their work.

Organizational Diversity

KDB is an equal opportunity employer that recruits and hires individuals without regard to gender, regional area, or educational course of study. The Bank is committed to a fair and equitable workplace where everyone is a respected and valued member of the team. As such, KDB has taken a number of steps to promote organizational diversity within its staff composition. Of the newly recruited employees in 2004, 36% were women, 11% from regional areas and 23% had science or engineering majors.

In order to attract talented female candidates, KDB has made an effort to improve work conditions for women by (1) removing discriminatory practices such as the elimination

of additional points for military service during the recruiting process, (2) ensuring leave for both maternity and childcare, and (3) instituting sexual harassment prevention education.

Employees take equal opportunities to work in their desired area through open solicitation for new positions both within Korea and its representative offices abroad. In addition, strict policies and procedures are in place to ensure fair competition when selecting staff for competitive positions and educational opportunities.

Social Welfare Programs

KDB strongly believes that the well-being of staff and family members has a tremendous impact on staff productivity and overall job satisfaction. KDB's welfare program aims to improve the quality of life of employees by providing support for not only housing and health care, but also education, cultural and leisure activities to enrich the lives of its staff.

In order to provide a sufficient level of welfare benefits for its employees, KDB contributes up to 5% of its pre-tax earnings to its in-house labor welfare fund, which supports a wide scope of welfare programs, including loans to assist with living costs and housing and financial support to help cover the educational fees of dependents. In addition, employees are also able to choose from a range of welfare programs designed to enhance their physical health, exposure to the arts, and overall quality of life for them and their families.

Community Service

KDB believes that it has a responsibility to make a positive contribution to society aside from its role as a financial institution. By building a culture of volunteerism and philanthropy, KDB seeks to encourage its staff to make a difference in the lives of individuals all across the country through community service.



KDB Family Volunteer Corps

KDB encourages the participation of its employees and their families in volunteer social service activities. The vision to have staff bring along their family members to these volunteer opportunities helped launch the KDB Family Volunteer Corps in 1996. KDB proudly supports the activities of a number of established social welfare centers in Korea, including the Jumong Rehabilitation Center, the Samsung Center for the Hearing Impaired and the Sungrowon Home for Infants.

- Jumong Rehabilitation Center

For more than ten years, KDB has supported the Jumong Rehabilitation Center, a home for



children and young adults living with physical and mental disabilities located in southern Seoul. One Saturday a month, a team of KDB staff and their families serve as guides and friends on trips to museums, parks, movies, and other local sites. Several times each year, the Bank celebrates special holidays with the Center's residents. Approximately, 80 KDB staff and family members volunteered at the Jumong Rehabilitation Center in 2004.

- Samsung Center for the Hearing Impaired

A team of KDB volunteers dedicate one Saturday a month to the Samsung Center for the Hearing Impaired, where more than 40 children with hearing disabilities from across the nation receive care and educational training. The children look forward to visits from the KDB staff and their families, who play games, ride bicycles, see cultural performances, visit the zoo, in addition to other group activities with the children. The Bank sponsors special events for the children of the Samsung Center as well.

By building a culture of volunteerism and philanthropy, KDB seeks to encourage its staff to make a difference in the lives of individuals all across the country through community service.

- Sungrowon Home for Infants



A number of KDB staff and their families volunteer time each month at Sungrowon Home for Infants, a center for orphaned or abandoned children. Several times throughout the year, the Bank provides support to help the Center purchase diapers, formula and other essential supplies, as well as sponsor special events for the young children. In 2004, more than 100 KDB staff volunteered their time and energy at the Sungrowon Home for Infants.

Monetary and Gifts-in-Kind Donations

Near the close of each calendar year, KDB invites its staff to make a monetary donation to support a number of different worthwhile charities across the country. Staff participation was 100% in 2004. Last June, KDB introduced the "Beautiful Shop Campaign," a company-wide drive to collect used clothing, shoes, and other items for resale. Conducted in conjunction with the Beautiful Foundation, donated items were sold in "Beautiful Shops" throughout the city with proceeds going to support local charities.

Educational Programs

- Junior Achievement Korea

For the past three years, KDB has been an ardent supporter of the Junior Achievement Program in Korea (JA-Korea), a non-profit organization that seeks to educate and inspire young people to value free enterprise, business, and economics to improve the quality of their lives. In 2004, ten KDB staff dedicated ten weeks to provide lectures on finance and money management at local elementary schools and universities.



- Children's Economy Camp

In June 2004, KDB organized and sponsored the Children's Economy Camp, an educational event designed for the dependents of KDB's clients. The program was designed to teach students about how the economy affects their daily life and includes a field trip to the Kia Motors factory. Approximately, 80 students in grades 5-8 took part in 2004.

- Visit Seoul Program



For some children living in Korea's most remote islands and villages, a trip to Seoul may be a rare opportunity. To help inspire and encourage these children to dream big, KDB sponsors all-expense paid trips for these children each year to see the nation's capital.

Sisterhood Partnership with Yangjiri Village



As a part of the "One Company-One Rural Village Program," KDB has adopted the rural village of Yangjiri located in Kangwon-do.

Several times throughout the year, KDB organized special trips for KDB staff and their families designed to bridge regional differences and raise awareness of the area's agricultural products, such as potatoes and corn. In addition to donating equipment for Yangjiri's community center, KDB also conducted a special rice sales campaign to promote sales of their high-grade, organic rice to customers. Due to positive responses from bank customers, employees and Yangjiri residents who took part in these sisterhood events and campaigns, the Bank plans to continue many of these same programs in 2005.

FINANCIAL SECTION



44_ MANAGEMENT'S DISCUSSION & ANALYSIS

❖ **NON-CONSOLIDATED**

BANKING ACCOUNTS

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❖ **CONSOLIDATED**

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Management's Discussion and Analysis

The management's discussion and analysis of financial results may contain forward-looking statements provided to assist in the understanding of plans or objectives of the KDB's management for future operations, products or services, and forecasts of its revenues, earnings or other measures of economic performance. Forward-looking statements speak only as of the date they are made. The Bank does not undertake to update forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements are made or to reflect the occurrence of unanticipated events. The term "the Bank" used here without any other qualifying description will refer to "The Korea Development Bank."

SELECTED FINANCIAL INFORMATION

| | 2004 | 2003 | (In billions of won) Change |
|-----------------------------------|-----------------|-----------------|--------------------------------|
| INCOME STATEMENT DATA: | | | |
| Net interest income | 318.3 | 136.6 | 133.0% |
| Non-interest revenue | 10,534.0 | 4,930.5 | 113.6% |
| Provisions for loan losses | 315.1 | 575.2 | -45.2% |
| Operating income | 260.9 | -481.2 | N.M. |
| Non-operating income, net | 879.8 | 655.6 | 34.2% |
| Net income | 997.5 | 166.9 | 497.7% |
| BALANCE SHEET DATA: | | | |
| Total assets | 92,227.2 | 89,263.2 | 3.3% |
| Loans | 45,848.8 | 47,453.6 | -3.4% |
| Total liabilities | 81,964.3 | 81,860.3 | 0.1% |
| Borrowings | 21,545.9 | 22,503.6 | -4.3% |
| Debentures | 40,103.5 | 36,875.9 | 8.8% |
| Total shareholder's equity | 10,263.0 | 7,402.9 | 38.6% |
| Paid-in capital | 8,241.9 | 7,241.9 | 13.8% |

ANALYSIS OF OPERATING RESULTS

Net income, in tandem with operating profit turnaround and continued improvement in net non-operating income, surged almost five times to ₩997.5 billion in 2004 from ₩166.9 billion a year earlier.

Management's Discussion and Analysis

Net Interest Income

In 2004, net interest income more than doubled to ₩318 billion compared to ₩137 billion in 2003. Despite lower interest rate and sluggish loan demand, KDB managed to increase interest income on loans by 2.0% yoy to ₩2.139 trillion in 2004. Total interest income inched up 0.9% yoy to ₩2.847 trillion due to overall improvement of asset quality. On the other hand, interest expense decreased 5.8% yoy to ₩2.529 trillion in 2004; interest on deposits fell 8.3% yoy to ₩333 billion due to decline in deposits, and interest on borrowings and debentures also dropped 7.4% and 4.6% yoy to ₩500 billion and ₩1.683 trillion, respectively, due to lower funding costs.

| | 2004 | 2003 |
|-------------------------------------|--------------|--------------|
| (In billions of won) | | |
| INTEREST INCOME | | |
| Interest on cash and due from banks | 30 | 30 |
| Interest on securities | 658 | 664 |
| Interest on loans | 2,139 | 2,097 |
| Other interest income | 20 | 30 |
| Interest income | 2,847 | 2,821 |
| INTEREST EXPENSE | | |
| Interest on deposits | 333 | 363 |
| Interest on borrowings | 500 | 540 |
| Interest on debentures | 1,683 | 1,765 |
| Other Interest expenses | 13 | 17 |
| Interest expense | 2,529 | 2,685 |
| Net interest income | 318 | 137 |

Non-interest revenue and expense

In 2004, both non-interest revenue and non-interest expense doubled. While the Bank holds derivative financial instruments for hedging purposes, volatile movements of interest rates and foreign exchange rates during 2004 caused evaluation gains and losses from derivative financial instruments to surge. Both non-interest revenue and non-interest expense more than doubled to ₩10.534 trillion and ₩10.276 trillion in 2004, respectively. Net gains from foreign exchange transactions, derivative financial instruments and valuation of hedged items totaled ₩106 billion in 2004 compared to a net loss of ₩36 billion in 2003.

Management's Discussion and Analysis

| | 2004 | 2003 |
|--------------------------------------------|-----------------|----------------------|
| | | (In billions of won) |
| | 2004 | 2003 |
| Fees and commissions | 348.3 | 353.1 |
| Gain from trading securities | 60.1 | 48.3 |
| Gain from derivative financial instruments | 8,465.7 | 3,054.0 |
| Gain on foreign currency transactions | 589.3 | 948.4 |
| Gain on valuation of hedged items | 849.7 | 298.2 |
| Others | 220.8 | 228.6 |
| Non-interest revenue | 10,534.0 | 4,930.5 |
| Fees and commissions | 21.7 | 108.9 |
| Loss from trading securities | 32.8 | 35.5 |
| Loss from derivative financial instruments | 8,448.8 | 3,384.0 |
| Loss on foreign currency transactions | 1,232.1 | 460.5 |
| Loss on valuation of hedged items | 117.4 | 492.0 |
| General and administrative expenses | 324.2 | 295.0 |
| Others | 99.1 | 197.2 |
| Non-interest expense | 10,276.1 | 4,973.1 |
| Non-interest revenue, net | 257.9 | -42.6 |

Operating income

Propelled by improvement in net interest income as well as net non-interest revenue, KDB achieved a substantial rise in pre-provisioning income to ₩576.1 billion in 2004, compared to only ₩94.0 billion a year earlier. In addition, provision for loan losses almost halved to ₩315.1 billion in line with successful restructuring and normalization of SK Networks, Hynix, and KP Chemical. Accordingly, the Bank's operating income turned around to ₩260.9 billion in 2004 from an operating loss of ₩481.2 billion the previous year.

| | 2004 | 2003 |
|---------------------------|--------------|----------------------|
| | | (In billions of won) |
| | 2004 | 2003 |
| Pre-provisioning income | 576.1 | 94.0 |
| Provision for loan losses | 315.1 | 575.2 |
| Operating income | 260.9 | -481.2 |

Non-operating income, net

In 2004, KDB also accomplished remarkable improvement in net non-operating income. While the Bank aggressively wrote off bad loans to strengthen its financial soundness, impairment loss on investment securities plummeted on the back of successful corporate restructuring operations. Net non-operating income increased 34.2% yoy from ₩655.6 billion in 2003 to ₩879.8 billion in 2004.

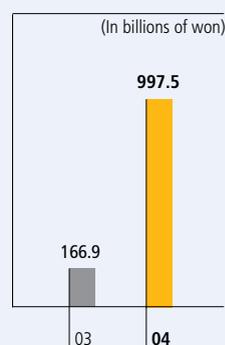
Management's Discussion and Analysis

| | 2004 | 2003 |
|----------------------------------|----------------|----------------|
| Gain on disposal of loans | 14.6 | 50.0 |
| Gain from investment securities | 1,302.2 | 1,188.8 |
| Others | 67.3 | 5.4 |
| Non-operating income | 1,384.1 | 1,244.2 |
| Loss on disposal of loans | 156.8 | 69.2 |
| Loss from investment securities | 300.0 | 466.6 |
| Others | 47.5 | 52.8 |
| Non-operating expense | 504.3 | 588.6 |
| Non-operating income, net | 879.8 | 655.6 |

(In billions of won)

As a result, the Bank's pretax income rose over 500% yoy to ₩1.141 trillion in 2004 compared to ₩174.4 billion in the previous year. Despite an 8.2%p increase in effective tax rate to 12.6%, net income soared almost 500% yoy to ₩997.5 billion in 2004.

Net income

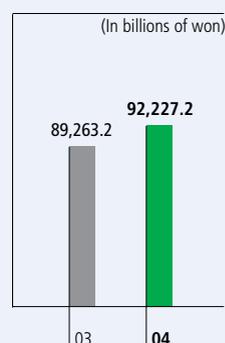


BALANCE SHEET ANALYSIS

Assets

As of December 31, 2004, the Bank's total assets grew 3.3% yoy to ₩92.2 trillion, compared to a rise of 13.3% yoy in 2003. Sluggish economic activities and the weak demand for loans were the primary reasons for the deceleration in growth rate in 2004.

Assets



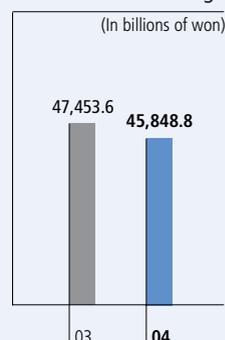
Loan Portfolio

Because demand for facility loans and working capital remained weak, total loans outstanding fell 3.4% yoy to ₩45.8 trillion at the end of 2004. In particular, core loans outstanding, excluding other loans, amounted to ₩30.6 trillion at the end of 2004, down 6.3% yoy from ₩32.7 trillion a year ago. In 2004, the Bank's loan portfolio shifted a bit towards Korean won-denominated loans in terms of currency and the manufacturing sector in terms of industry.

| | 2004 | 2003 | % of total |
|--------------------------------------------|-----------------|-----------------|--------------|
| BY CURRENCY | | | |
| Loans in Korean won | 17,125.4 | 16,803.1 | 55.9 |
| Loans in foreign currency | 13,504.1 | 15,872.8 | 44.1 |
| BY INDUSTRY | | | |
| Manufacturing | 16,243.6 | 15,612.2 | 53.0 |
| Banking and insurance | 2,773.6 | 2,751.8 | 9.1 |
| Electricity, gas and water supply | 1,133.7 | 2,170.6 | 3.7 |
| Transportation and communication | 3,155.3 | 3,490.0 | 10.3 |
| Public administration and national defense | 3,283.8 | 3,409.1 | 10.7 |
| Other industries | 4,039.8 | 5,242.2 | 13.2 |
| Sum of core loans outstanding | 30,629.5 | 32,675.9 | 100.0 |

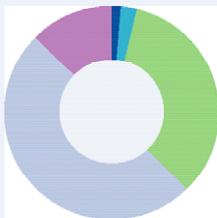
(In billions of won)

Total loans outstanding



Management's Discussion and Analysis

Asset Allocation (%)



| | |
|-----------------------|-------|
| Loans | 49.7% |
| Investment securities | 33.9% |
| Trading securities | 2.4% |
| Cash & due from banks | 1.3% |
| Other assets | 12.6% |

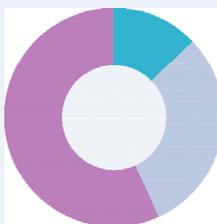
Asset Allocation

In 2004, the loan balance decreased 3.4% yoy to ₩45.8 trillion due to a sluggish demand for loans. Meanwhile, year-end balance of investment securities rose 16.7% yoy to ₩31.3 trillion. The increase in investment securities and decrease in loans facilitate fundamental changes in the Bank's asset structure: non-interest income such as fees and commissions and dividends will further expand its contribution to total revenue in the future.

| | 2004 | 2003 | Change |
|-----------------------|-----------------|-----------------|-------------|
| Cash & due from banks | 1,192.3 | 1,778.9 | -33.0% |
| Trading securities | 2,251.5 | 1,224.8 | 83.8% |
| Investment securities | 31,278.7 | 26,797.6 | 16.7% |
| Loans | 45,848.8 | 47,453.6 | -3.4% |
| Other assets | 11,655.9 | 12,008.3 | -2.9% |
| Total assets | 92,227.2 | 89,263.2 | 3.3% |

(In billions of won)

Funding Sources (%)



| | |
|---------------------------------------|-------|
| Debentures (Industrial Finance Bonds) | 56.8% |
| Borrowings | 30.5% |
| Deposits | 12.7% |

Funding Sources

KDB's total external funds outstanding at the end of 2004 amounted to ₩70.6 trillion, mainly comprised of ₩40.1 trillion in industrial finance bonds and ₩21.5 trillion of borrowings, and ₩8.9 trillion in deposits. Due to prolonged low interest rate throughout 2004, bank depositors have sought out higher yield generating financial products and services. In response to the lower level of deposits, the Bank financed through the issuance of Industrial Finance Bonds (debentures, a major source of funding), which accounted for 56.8% of total external funding as of the end of 2004.

| | 2004 | 2003 | Change |
|---------------------------------------|-----------------|-----------------|-------------|
| Deposits | 8,933.0 | 10,716.3 | -16.6% |
| Borrowings | 21,545.9 | 22,503.6 | -4.3% |
| Debentures (Industrial Finance Bonds) | 40,103.5 | 36,875.9 | 8.8% |
| Total funds outstanding | 70,582.4 | 70,095.8 | 0.7% |

(In billions of won)

Capital Adequacy

On April 30, 2004, the Korean government increased the Bank's capitalization ₩1 trillion to ₩8.242 trillion, by contributing KEPCO shares of ₩695 billion and subscription certificates of Korean Water Resources Corporation amounting to ₩305 billion. In addition, on the back of swelling net income, retained earnings more than quadrupled to ₩1.291 trillion at the end of 2004. Total shareholders' equity increased 38.6% yoy to ₩10.263 trillion as of December 31, 2004.

The Bank's BIS capital at the end of 2004 was ₩13.601 trillion, up by 13.1% yoy compared to ₩12.025 trillion in the previous year. Meanwhile, total risk-weighted assets increased to ₩75.223 trillion at year-end 2004 from ₩72.792 trillion a year ago. KDB's BIS capital adequacy ratio improved to 18.08% as of the end of 2004, compared to 16.22% in 2003. Separately, credit ratings on KDB are 'A3' by Moody's, 'A-' by S&P, and 'A' by Fitch, the highest level among domestic financial institutions.

Management's Discussion and Analysis

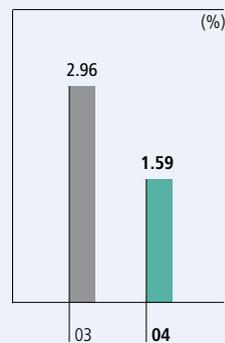
| | 2004 | (In billions of won) 2003 |
|--------------------------------|--------|------------------------------|
| Tier I capital | 10,035 | 7,693 |
| Tier II capital | 3,566 | 4,332 |
| total risk-weighted assets | 75,223 | 72,792 |
| Tier I capital ratio (%) | 13.34 | 10.57 |
| Tier II capital ratio (%) | 4.74 | 5.95 |
| BIS capital adequacy ratio (%) | 18.08 | 16.22 |

Asset Quality

The KDB's asset portfolio is one of the best structured among Korean banks. As of December 31, 2004, non-performing loans (loans classified as substandard or below) accounted for a mere 1.59% of total assets under the management of KDB, improving substantially from 2.96% at year-end 2003.

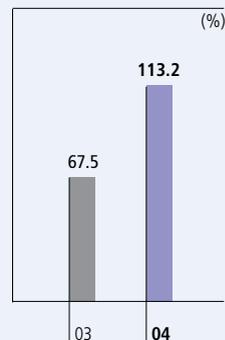
In particular, non-performing loans almost halved to ₩860 billion at the end of 2004 compared to ₩1.658 trillion as of the end of 2003. The substantial improvement resulted from the Bank's efforts to dispose of bad assets, combined with the successful normalization of troubled loans through its expertise in bad asset management and corporate restructuring.

NPL Ratio



| Classification | (In billions of won) | | | |
|--------------------------------|----------------------|---------------------------|--------------------------|---------------|
| | Loans* | Provision for loan losses | Loan loss coverage ratio | FSC guideline |
| Normal | 37,374.1 | 189.4 | 0.5% | 0.5% |
| Precautionary | 1,775.8 | 392.9 | 22.1% | 2.0% |
| Substandard | 575.0 | 141.1 | 24.5% | 20.0% |
| Doubtful | 182.7 | 148.3 | 81.1% | 50.0% |
| Estimated loss | 102.7 | 102.7 | 100.0% | 100.0% |
| Others | 13,989.4 | - | - | - |
| Total loans outstanding | 53,999.7 | 974.4 | 113.2% | |

Loan loss coverage ratio



* Present value discount account deducted

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 non-consolidated balance sheets of the Korea Development Bank (the "Bank") as of December 31, 2004 and 2003, 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, 2004 and 2003, 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, in June 2001, the Bank determined the original reversal period of negative goodwill arising from the acquisition of stocks of Korea Electric Power Corporation ("KEPCO") as nine years using the information available during acquisition. During our audit for the year ended December 31, 2004, the Bank re-estimated the reversal period of negative goodwill to be 20 years based on a new information from KEPCO. Accordingly, this change is regarded as a change in accounting estimate, resulting from the acquisition of new information. As a result of this change, the reversal amount of negative goodwill for the years then ended December 31, 2004 is lesser by ₩262 billion than the amount which would have been reported under the previous accounting estimate.

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

Report of Independent Auditors

As discussed in Note 2 to the non-consolidated financial statements, relative to loans receivable disposal prior to January 1, 2004, the Bank computes for gain(loss) on disposal as the difference between the disposal price and book value of the loan at disposal date; while for cases of written off loans, the disposal price is adjusted to consider the provision for bad debts in cases of written off loans. Effective January 1, 2004, however, the Bank adopted to only consider the difference between the book value of the loans in the prior year end and the disposal price as the gain(loss) on disposal for all loans. This change resulted in an increase of ₩113 billion in losses in loan disposal, a decrease of ₩18.2 billion in gains in loan disposal, and a decrease of ₩131.2 billion in provision for loan losses.

The income statement for the year ended December 31, 2003, presented herein for comparative purposes, has been restated, resulting in an increase of losses in loan disposal amounting to ₩33 billion, a decrease of gains in loan disposal amounting to ₩5.7 billion and a decrease of provision for loan losses amounting to ₩38.7 billion. Such changes do not affect net asset value, operating income and net income as of and for the year ended December 31, 2003.

As discussed in Note 15 to the non-consolidated financial statements, 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.

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.



Seoul, Korea
January 21, 2005

This report is effective as of January 21, 2005, 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, 2004 and 2003

(in millions of Korean won)

| | 2004 | | 2003 | |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|-------------------|------|-------------------|
| Assets | | | | |
| Cash and due from banks (Note 3) | ₩ | 1,192,300 | ₩ | 1,778,882 |
| Securities (Note 4) | | 33,530,241 | | 28,022,445 |
| Loans receivable, net of provision for possible loan losses of ₩1,029,095 million(2003 : ₩1,199,342 million) (Note 5) | | 45,848,786 | | 47,453,591 |
| Property and equipment, net (Note 6) | | 658,375 | | 669,014 |
| Derivative financial instruments (Note 14) | | 3,913,344 | | 1,546,464 |
| Other assets, net (Note 7) | | 7,084,162 | | 9,792,842 |
| Total assets | ₩ | 92,227,208 | ₩ | 89,263,238 |
| Liabilities and Shareholder's Equity | | | | |
| Deposits (Note 8) | ₩ | 8,932,958 | ₩ | 10,716,330 |
| Borrowings (Note 9) | | 21,545,932 | | 22,503,555 |
| Industrial finance bonds, gross of premium on bonds of ₩34,534 million (2003 : ₩19,591 million) and net of discount on bonds of ₩41,972 million (2003 : ₩52,403 million) (Note 10) | | 40,103,503 | | 36,875,943 |
| Provision for possible guarantee losses (Note 12) | | 11,931 | | 4,758 |
| Accrued severance benefits | | 29,855 | | 18,436 |
| Derivative financial instruments (Note 14) | | 3,916,698 | | 1,412,403 |
| Other liabilities (Note 11) | | 7,423,380 | | 10,328,922 |
| Total liabilities | | 81,964,257 | | 81,860,347 |
| Commitments and contingencies (Note 13) | | | | |
| Shareholder's Equity | | | | |
| Paid-in capital (Note 15) | | 8,241,861 | | 7,241,861 |
| Capital surplus (Note 15) | | 44,373 | | 44,373 |
| Retained earnings | | 1,290,775 | | 293,276 |
| Capital adjustments (Note 15) | | 685,942 | | (176,619) |
| Total shareholder's equity | | 10,262,951 | | 7,402,891 |
| Total liabilities and shareholder's equity | ₩ | 92,227,208 | ₩ | 89,263,238 |

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

Non-Consolidated Statements of Income

Years Ended December 31, 2004 and 2003

(in millions of Korean won)

| | 2004 | | 2003 | |
|-----------------------------------------------------------|------|----------------|------|----------------|
| Interest income | | | | |
| Interest on loans | ₩ | 2,138,604 | ₩ | 2,097,227 |
| Interest on due from banks | | 30,305 | | 30,120 |
| Interest on trading securities | | 54,522 | | 47,974 |
| Interest on available-for-sale securities | | 441,113 | | 406,596 |
| Interest on held-to-maturity securities | | 162,352 | | 209,899 |
| Other interest income | | 20,247 | | 29,581 |
| | | 2,847,143 | | 2,821,397 |
| Interest expense | | | | |
| Interest on deposits | | 332,772 | | 362,691 |
| Interest on borrowings | | 500,244 | | 540,164 |
| Interest on bonds payable | | 1,683,038 | | 1,765,122 |
| Other interest expenses | | 12,839 | | 16,817 |
| | | 2,528,893 | | 2,684,794 |
| Net interest income | | 318,250 | | 136,603 |
| Provision for loan losses (Note 5) | | 315,137 | | 575,214 |
| Net interest income(loss) after provision for loan losses | | 3,113 | | (438,611) |
| Non-interest revenue | | | | |
| Fees and commissions | | 348,325 | | 353,116 |
| Gain from trading securities | | 60,132 | | 48,262 |
| Gain from available-for-sale securities | | 65,746 | | 27,242 |
| Gain from derivative financial instruments | | 8,465,687 | | 3,053,988 |
| Others (Note 16) | | 1,594,060 | | 1,447,895 |
| | | 10,533,950 | | 4,930,503 |
| Non-interest expense | | | | |
| Fees and commissions | | 21,672 | | 108,947 |
| Loss from trading securities | | 32,841 | | 35,458 |
| Loss from derivative financial instruments | | 8,448,780 | | 3,384,023 |
| General and administrative expenses (Note 17) | | 324,196 | | 295,043 |
| Others (Note 16) | | 1,448,660 | | 1,149,631 |
| | | 10,276,149 | | 4,973,102 |
| Operating income(loss) | | 260,914 | | (481,210) |
| Non-operating income, net (Note 18) | | 879,819 | | 655,614 |
| Income before income taxes | | 1,140,733 | | 174,404 |
| Income taxes (Note 19) | | 143,234 | | 7,525 |
| Net income | ₩ | 997,499 | ₩ | 166,879 |

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

Non-Consolidated Statements of Appropriations of Retained Earnings (Disposition of Accumulated Deficit)

Years Ended December 31, 2004 and 2003 (Dates of Appropriation and Disposition : February 28, 2005 and February 28, 2004 for the years ended December 31, 2004 and 2003, respectively)

(in millions of Korean won)

| | 2004 | 2003 |
|------------------------------------------------------------------------------------|---------|-----------|
| Retained earnings before appropriations | | |
| Unappropriated retained earnings carried over from prior year | ₩ - | ₩ - |
| Effects on valuations of investments by the equity method | - | (167,706) |
| Net income | 997,499 | 166,879 |
| | 997,499 | (827) |
| Appropriation of retained earnings (Disposition of accumulated deficit) | | |
| Legal reserve | 997,499 | (827) |
| | 997,499 | (827) |
| Unappropriated retained earnings carried forward to the subsequent year | ₩ - | ₩ - |

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

Non-Consolidated Statements of Cash Flows

Years Ended December 31, 2004 and 2003

(in millions of Korean won)

| | 2004 | | 2003 | |
|-------------------------------------------------------------------------------------|------|-------------|------|-------------|
| | ₩ | | ₩ | |
| Cash flows from operating activities | | | | |
| Net income | ₩ | 997,499 | ₩ | 166,879 |
| Adjustments to reconcile net income to net cash provided by operating activities | | | | |
| Depreciation | | 19,027 | | 21,740 |
| Provision for allowance for loan losses | | 315,137 | | 575,214 |
| Loss on disposal of loans, net | | 142,192 | | 19,208 |
| Gain on trading securities, net | | (26,990) | | (12,804) |
| Loss on available-for-sale securities, net | | 143,090 | | 274,463 |
| Gain on equity method securities | | (1,145,317) | | (996,716) |
| Loss(Gain) on foreign currency translation | | 614,952 | | (465,271) |
| Loss(Gain) from derivative financial instruments, net | | (6,068) | | 149,621 |
| Loss(Gain) on valuation of hedged items, net | | (732,248) | | 193,841 |
| Retirement allowance | | 20,867 | | 16,822 |
| Others, net | | 148,631 | | (64,682) |
| | | (506,727) | | (288,564) |
| Changes in operating assets and liabilities | | | | |
| Decrease(increase) in accounts receivable | | 2,558,860 | | (6,762,213) |
| Increase(decrease) in accounts payable | | (2,605,011) | | 6,707,930 |
| Net decrease(increase) in derivative financial instruments | | 875,732 | | (62,722) |
| Payment of severance benefits | | (4,737) | | (3,121) |
| Receipt of dividends | | 178,439 | | 113,294 |
| Others, net | | (316,419) | | 230,273 |
| | | 686,864 | | 223,441 |
| Net cash provided by operating activities | | 1,177,636 | | 101,756 |
| Cash flows from investing activities | | | | |
| Disposal(acquisition) in trading securities, net | | (1,037,678) | | 121,010 |
| Disposal(acquisition) in loans receivable, net | | 1,038,140 | | (3,323,473) |
| Acquisition in available-for-sale securities, net | | (2,196,882) | | (1,379,996) |
| Disposal in held-to-maturity securities, net | | 808,116 | | 1,210,464 |
| Acquisition in equity method securities, net | | (231,002) | | (75,950) |
| Acquisition in property and equipment, net | | (12,533) | | (10,126) |
| Others, net | | 542,708 | | 243,668 |
| Net cash used in investing activities | | (1,089,131) | | (3,214,403) |
| Cash flows from financing activities | | | | |
| Increase(decrease) in deposits, net | | (1,783,372) | | 1,971,025 |
| Decrease in borrowings, net | | (2,967,811) | | (3,808,681) |

Continued;

Non-Consolidated Statements of Cash Flows

Years Ended December 31, 2004 and 2003

(in millions of Korean won)

| | 2004 | 2003 |
|-----------------------------------------------------|-----------------|------------------|
| Increase in bonds issued, net | 3,216,574 | 3,134,714 |
| Increase in paid-in capital | - | 80,000 |
| Others, net | 1,411,741 | 1,805,678 |
| Net cash provided by(used in) financing activities | (122,868) | 3,182,736 |
| Net increase(decrease) in cash and cash equivalents | (34,363) | 70,089 |
| Cash and cash equivalents | | |
| Beginning of year | 108,562 | 38,473 |
| End of year | ₩ 74,199 | ₩ 108,562 |

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

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

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 36 local branches, 5 overseas branches, 3 overseas subsidiaries and 2 overseas offices as of December 31, 2004. 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 be different from those estimates.

Application of the Statements of Korean Financial Accounting Standards

The Bank has 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 its financial statements. Except for the adoption of these SKFAS, the same accounting policies are applied for the financial statements as of and for the year ended December 31, 2004 and as of and for the year ended December 31, 2003.

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, 2004, is ₩434,377 million (2003: ₩275,244 million).

Provision for Possible Loan Losses

The Bank provides for possible loan losses based on the borrowers' future debt servicing ability (forward looking criteria) as determined by a credit rating model developed by the Bank. This credit rating model includes the financial and non-financial factors of borrowers and classifies the borrowers' credit risk. Provisions are determined by applying the following minimum percentages to the various credit risk ratings:

| Loan Classification | Provision Percentages |
|---------------------|-----------------------|
| Normal | 0.5% or more |
| Precautionary | 2% or more |
| Substandard | 20% or more |
| Doubtful | 50% or more |
| Estimated Loss | 100% |

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

Pursuant to the revised Regulation on the Supervision of the Banking Business which became effective December 1, 2002, the Bank changed the 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 operations 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, 2004, are ₩106,214 million (2003: ₩398,502 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 use of equity method of accounting for investments in equity method investees when the Bank's share of accumulated losses equals the costs of the investments and until the subsequent change in its proportionate net income of the investees equals its proportionate net losses not recognized during the period the equity method was suspended.

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

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 |
| Structures | 10 ~ 40 years |
| Machinery | 4 years |
| Vehicles | 4 years |
| Others | 4 years |

Routine maintenance and repairs are charged to expense as incurred.

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

Expenditures, which enhance the value or extend the useful life of the related assets, are capitalized.

The Bank recognizes an impairment loss when the carrying amount of an asset exceeds its recoverable amount. The impairment loss is recognized in the statement of income and is deducted from the acquisition cost of the impaired asset. If there is a subsequent recovery from the impairment, a reversal of the previous write-down is made 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, long-term cash loans (borrowings) and other similar transactions are stated at present value if the difference between the nominal value and present value is material. Such differences are presented in the present value discount account and directly deducted from the nominal value of the related receivables or payables. The present value discount account is amortized using the effective interest rate method as interest expense or interest income.

Loans which are impaired due to the restructuring of the borrower, court mediation or negotiation, are revalued using the adjusted interest rate. The difference between the book value and the readjusted value is offset against the provision for possible loan losses, and the remaining difference is recognized as 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 basic exchange rates (₩1,043.8:US\$1) on the balance sheet date. The resulting exchange gains or losses are reflected in current operations.

Bonds Sold under Repurchase Agreements

The Bank provides a provision for possible losses from the bonds sold under repurchase agreements as determined based on possible loss estimates when the bonds are repurchased. The provision for possible

losses for the year ended December 31, 2004, is ₩36,776 million (2003: ₩83,652 million).

Disposition of Loans

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

Accrued Severance Benefits

Employees and directors with 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 45.24% as of December 31, 2004, through a group severance trust in Woori Bank. The Bank accounts for the amounts funded under the group severance trust as a deduction to accrued severance benefits.

Actual payment of severance benefits for the year ended December 31, 2004, is ₩4,737 million (2003: ₩3,121 million).

Provision for Possible Guarantee Losses

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

Deferred Income Taxes

The Bank records deferred income taxes which arises from temporary differences between the amount reported for financial reporting purposes and income tax purposes. Income tax expense comprises taxes payable for the period and the change in deferred income tax assets and liabilities for the year. Deferred tax assets are recognized when it is more

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

likely that they will be realized in the future.

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 the 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.

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.

Change in Accounting Assumption

In June 2001, the Bank determined the original reversal period of negative goodwill arising from the acquisition of stocks of Korea Electric Power Corporation ("KEPCO") as nine years using the information available during acquisition. During our audit for the year ended December 31, 2004, the Bank re-estimated the reversal period of negative goodwill to be 20 years based on a new information from KEPCO. Accordingly, this change is regarded as a change in accounting estimate, resulting from the acquisition of new information. As a result of this change, the reversal amount of negative goodwill for the years then ended December 31, 2004 is lesser by ₩262 billion than the amount which would have been reported under the previous accounting estimate.

Restatement of Prior Year financial statements

Relative to loans receivable disposal prior to January 1, 2004, the Bank computes for gain(loss) on disposal as the difference between the disposal price and book value of the loan at disposal date; while for cases of written off loans, the disposal price is adjusted to consider the provision for bad debts in cases of written off loans. Effective January 1, 2004, however, the Bank adopted to only consider the difference between the book value of the loans in the prior year end and the disposal price as the gain(loss) on disposal for all loans. This change resulted in an increase of ₩113 billion in losses in loan disposal, a decrease of ₩18.2 billion in gains in loan disposal, and a decrease of ₩131.2 billion in provision for loan losses.

The income statement for the year ended December 31, 2003, presented herein for comparative purposes, has been restated, resulting in an increase of losses in loan disposal amounting to ₩33 billion, a decrease of gains in loan disposal amounting to ₩5.7 billion and a decrease of provision for loan losses amounting to ₩38.7 billion. Such changes do not affect net asset value, operating income and net income as of and for the year ended December 31, 2003.

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

3. CASH AND DUE FROM BANKS

Cash and due from banks as of December 31, 2004 and 2003, are as follows:

| | | | | (in millions of Korean won) | |
|------------------------------------|--------|--------------------------------------------------|------------------|-----------------------------|------------------|
| | | Annual interest rates (%) as of Dec. 31, 2004 | 2004 | 2003 | |
| Cash on hand in local currency | — | ₩ | 71,524 | ₩ | 105,722 |
| Cash on hand in foreign currency | — | | 2,676 | | 2,841 |
| Due from banks in local currency | 0-5.95 | | 402,940 | | 288,078 |
| Due from banks in foreign currency | 0-2.63 | | 715,160 | | 1,382,241 |
| | | ₩ | 1,192,300 | ₩ | 1,778,882 |

Due from banks in local currency as of December 31, 2004 and 2003, are as follows:

| | | | | (in millions of Korean won) | |
|-------------------|--------|--------------------------------------------------|----------------|-----------------------------|----------------|
| | | Annual interest rates (%) as of Dec. 31, 2004 | 2004 | 2003 | |
| The Bank of Korea | — | ₩ | 226,778 | ₩ | 208,487 |
| Others | 0-5.95 | | 176,162 | | 79,591 |
| | | ₩ | 402,940 | ₩ | 288,078 |

Due from banks in foreign currency as of December 31, 2004 and 2003, are as follows:

| | | | | (in millions of Korean won) | |
|---------------------|------|--------------------------------------------------|----------------|-----------------------------|------------------|
| | | Annual interest rates (%) as of Dec. 31, 2004 | 2004 | 2003 | |
| The Bank of Korea | - | ₩ | 29,159 | ₩ | 18,819 |
| Hana Bank | 2.63 | | 57,409 | | 55,099 |
| Shinhan Bank | 2.63 | | 15,657 | | 17,967 |
| Korea Exchange Bank | 2.63 | | 28,141 | | 41,923 |
| Chohung Bank | 2.63 | | 46,930 | | 35,934 |
| Woori Bank | 2.63 | | 69,831 | | 35,934 |
| KDB Asia (HK) Ltd. | 2.63 | | 113,774 | | 142,538 |
| KDB Ireland Ltd. | 2.63 | | 164,312 | | 347,961 |
| Others | 2.63 | | 189,947 | | 686,066 |
| | | ₩ | 715,160 | ₩ | 1,382,241 |

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

Restricted deposits included in due from banks as of December 31, 2004, are as follows:

| | (in millions of Korean won) | |
|----------------------------------------------------------------|-----------------------------|----------------|
| Reserve deposits with the Bank of Korea | ₩ | 235,331 |
| Kookmin Bank | | 78,907 |
| Shinhan Bank | | 12,405 |
| Industrial & Commercial Bank of China (ICBC) - Shanghai, China | | 3,131 |
| | ₩ | 329,774 |

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.

The maturities of the amounts due from banks as of December 31, 2004, 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 |
| March 31, 2005 | ₩ | 239,543 | ₩ | 392,104 | ₩ 631,647 |
| June 30, 2005 | | 29,882 | | 104,902 | 134,784 |
| Dec. 31, 2005 | | - | | 134,650 | 134,650 |
| Dec. 31, 2006 | | 49,025 | | 67,847 | 116,872 |
| Dec. 31, 2007 | | - | | - | - |
| Dec. 31, 2008 | | - | | 15,657 | 15,657 |
| Dec. 31, 2009 | | - | | - | - |
| Thereafter | | 84,490 | | - | 84,490 |
| | ₩ | 402,940 | ₩ | 715,160 | ₩ 1,118,100 |

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

4. SECURITIES

Securities as of December 31, 2004 and 2003, are as follows:

| | 2004 | | 2003 | |
|------------------------------------|------|-------------------|------|-------------------|
| | ₩ | | ₩ | |
| Trading securities | ₩ | 2,251,513 | ₩ | 1,224,821 |
| Available-for-sale securities | | 19,016,700 | | 16,119,344 |
| Held-to-maturity securities | | 2,093,475 | | 2,901,590 |
| Securities under the equity method | | 10,168,553 | | 7,776,690 |
| | ₩ | 33,530,241 | ₩ | 28,022,445 |

(in millions of Korean won)

Trading securities as of December 31, 2004 and 2003, are as follows:

| | Annual interest rates (%) as of Dec. 31, 2004 | 2004 | | 2003 | |
|----------------------------------|--------------------------------------------------|------|------------------|------|------------------|
| | | ₩ | | ₩ | |
| Equity investments | - | ₩ | 25,329 | ₩ | 2,664 |
| Government and public bonds | 4.56 | | 654,714 | | 467,319 |
| Corporate bonds | 4.62 - 6.96 | | 347,351 | | 277,913 |
| Beneficiary certificate | - | | 318,113 | | 968 |
| Commercial papers | 7.50 | | 9,932 | | - |
| Securities in foreign currencies | 2.58 | | 896,074 | | 475,977 |
| | | ₩ | 2,251,513 | ₩ | 1,224,821 |

(in millions of Korean won)

Par value, acquisition cost and fair value of trading debt securities as of December 31, 2004 and 2003, are as follows:

| | Par value | | Acquisition cost | | Fair value | |
|------------------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| | ₩ | ₩ | ₩ | ₩ | ₩ | ₩ |
| Government and public bonds | ₩ 640,000 | ₩ 467,772 | ₩ 652,586 | ₩ 467,319 | ₩ 654,714 | ₩ 467,319 |
| Corporate bonds | 350,000 | 278,516 | 345,630 | 277,913 | 347,351 | 277,913 |
| Commercial papers | 10,000 | - | 9,932 | - | 9,932 | - |
| Trading securities in foreign currencies | 895,079 | 477,275 | 896,074 | 475,977 | 896,074 | 475,977 |
| | ₩ 1,895,079 | ₩ 1,223,563 | ₩ 1,904,222 | ₩ 1,221,209 | ₩ 1,908,071 | ₩ 1,221,209 |

(in millions of Korean won)

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

Trading securities in each foreign currency as of December 31, 2004 and 2003, are as follows:

(in millions of Korean won ; thousands of USD, EUR, AUD, JPY, GBP, CHF, HKD and SGD)

| Foreign currency | | | Equivalent in Korean won | | |
|------------------|---------|-------------|--------------------------|------------------|------|
| 2004 | | 2003 | 2004 | | 2003 |
| USD | 426,443 | USD 223,116 | ₩ 445,121 | ₩ 267,248 | |
| EUR | 287,269 | EUR 126,076 | 408,773 | 187,902 | |
| AUD | - | AUD 11,983 | - | 10,748 | |
| JPY | 561,460 | JPY 528,270 | 5,682 | 5,915 | |
| GBP | 9,008 | GBP 1,040 | 18,096 | 2,215 | |
| CHF | 5,978 | CHF 2,021 | 5,510 | 1,949 | |
| HKD | 70,000 | HKD - | 9,396 | - | |
| SGD | 5,484 | SGD - | 3,496 | - | |
| | | | ₩ 896,074 | ₩ 475,977 | |

Available-for-sale securities as of December 31, 2004 and 2003, are as follows:

(in millions of Korean won)

| | Annual interest rates (%) as of Dec. 31, 2004 | 2004 | | 2003 | |
|---------------------------------------|--------------------------------------------------|---------------------|--|---------------------|--|
| | | ₩ | | ₩ | |
| Equity investments | - | ₩ 8,019,224 | | ₩ 7,150,234 | |
| Government and public bonds | 4.62 | 732,734 | | 422,964 | |
| Corporate bonds | 4.30 - 6.21 | 7,142,491 | | 5,771,881 | |
| Beneficiary certificates ¹ | - | 823,250 | | 325,137 | |
| Other securities in local currency | - | - | | 194,611 | |
| Other securities in foreign currency | 3.43 - 6.61 | 2,299,001 | | 2,254,517 | |
| | | ₩ 19,016,700 | | ₩ 16,119,344 | |

¹ As of December 31, 2004, the Bank has investments of ₩803,392 million in private equity fund, and the details of its 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 | ₩ | 41,270 | ₩ | 1,270 |
| Kyobo Securities Co., Ltd. | J5 and others | Government and public bonds and others | | 52,028 | | 2,028 |
| Others | | | | 710,094 | | 20,094 |
| | | | ₩ | 803,392 | ₩ | 23,392 |

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

Available-for-sale equity securities, not using the equity method, as of December 31, 2004, are as follows:

(in millions of Korean won ; shares in thousands)

| | Number of shares | Percentage of ownership (%) as of Dec. 31, 2004 | Acquisition cost | Book value | Fair value or Net book value |
|-------------------------------------------------|------------------------|----------------------------------------------------------|---------------------|--------------------|------------------------------------|
| Korea Highway Corporation | 143,010 | 9.18 | ₩ 1,430,100 | ₩ 1,430,184 | ₩ 1,472,138 |
| GM Daewoo Auto & Technology Company | 108 | - | 261,375 | 281,255 | 281,255 |
| Samsung Life Insurance Co., Ltd. | 378 | 1.89 | 264,496 | 132,248 | 150,907 |
| Industrial Bank of Korea | 46,915 | - | 326,906 | 323,575 | 323,375 |
| Hyundai Engineering & Construction Co., Ltd. | 18,290 | 16.75 | 349,615 | 284,402 | 284,402 |
| Korea National Housing Corp. | - | 17.71 | 1,300,618 | 1,300,618 | 998,286 |
| Korea Land Development Corp. | - | 26.77 | 1,161,904 | 1,191,329 | 1,062,308 |
| Korea Water Resources Corp. | - | 10.57 | 976,307 | 976,307 | 899,791 |
| Others | - | - | 2,117,678 | 2,108,966 | 2,251,768 |
| | | | ₩ 8,188,999 | ₩ 8,028,884 | ₩ 7,724,230 |

Available-for-sale debt securities as of December 31, 2004 and 2003, are as follows:

(in millions of Korean won)

| | Par value | | Acquisition cost | | Book value | |
|-----------------------------------------------------|---------------------|--------------------|---------------------|--------------------|---------------------|--------------------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| Government and Public bonds | ₩ 714,550 | ₩ 411,319 | ₩ 731,799 | ₩ 431,311 | ₩ 732,734 | ₩ 422,964 |
| Corporate bonds | 7,220,280 | 6,344,071 | 7,319,827 | 6,383,294 | 7,142,491 | 5,771,881 |
| Beneficiary certificates | 195,413 | 367,580 | 806,364 | 377,862 | 823,250 | 325,137 |
| Investment debt securities in local currency | - | 194,029 | - | 193,970 | - | 194,611 |
| Investment debt securities in foreign currencies | 2,282,805 | 2,257,634 | 2,308,597 | 2,259,090 | 2,289,341 | 2,250,024 |
| | ₩ 10,413,048 | ₩ 9,574,633 | ₩ 11,166,587 | ₩ 9,645,527 | ₩ 10,987,816 | ₩ 8,964,617 |

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

Held-to-maturity debt securities as of December 31, 2004 and 2003, are as follows:

(in millions of Korean won)

| | Par value | | Acquisition cost | | Carrying value | |
|--------------------------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| Government and Public bonds | ₩ 1,659,505 | ₩ 1,842,827 | ₩ 1,595,174 | ₩ 1,738,128 | ₩ 1,595,349 | ₩ 1,740,048 |
| Corporate bonds | 310,000 | 417,000 | 302,123 | 408,715 | 323,823 | 413,109 |
| Investment debt securities in local currency | 1,055 | 1,126 | 1,037 | 1,105 | 1,045 | 1,112 |
| Investment debt securities in foreign currencies | 173,263 | 747,888 | 173,174 | 747,199 | 173,256 | 747,321 |
| | ₩ 2,143,823 | ₩ 3,008,841 | ₩ 2,071,508 | ₩ 2,895,147 | ₩ 2,093,473 | ₩ 2,901,590 |

Securities under the equity method as of December 31, 2004 and 2003, are as follows:

(in millions of Korean won)

| | Percentage of ownership (%) as of Dec. 31, 2004 | Acquisition cost | | Book value | | Fair value or net book value | |
|----------------------------------------------------|-------------------------------------------------|--------------------|--------------------|---------------------|--------------------|------------------------------|---------------------|
| | | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| Korea Electric Power Corporation | 29.99 | ₩ 4,491,411 | ₩ 3,265,468 | ₩ 7,353,545 | ₩ 5,394,029 | ₩ 11,209,749 | ₩ 8,103,319 |
| Daewoo Shipbuilding & Marine Engineering Co., Ltd. | 31.10 | 288,383 | 288,383 | 573,734 | 481,381 | 552,684 | 439,897 |
| Daewoo Securities Co., Ltd. | 39.09 | 548,252 | 548,252 | 540,343 | 499,090 | 504,238 | 438,513 |
| Daewoo Heavy Industries & Machinery Ltd. | 21.91 | 173,078 | 173,078 | 259,276 | 212,417 | 249,461 | 192,787 |
| LG Card Co., Ltd. | 26.02 | 326,943 | - | 254,713 | - | (231,897) | - |
| The KDB Capital Corp. | 97.49 | 754,052 | 754,052 | 247,329 | 222,694 | 221,312 | 188,530 |
| GM Daewoo Auto & Technology Company | 29.93 | 213,206 | 213,206 | 231,240 | 196,209 | 578,435 | 576,159 |
| STX Pan Ocean Shipping Co., Ltd. | 21.12 | 31,907 | 97,396 | 86,509 | 126,738 | 94,607 | 153,159 |
| KDB Bank (Hungary) Ltd. | 100.00 | 58,191 | 35,240 | 78,972 | 44,237 | 82,572 | 49,745 |
| KDB Asia (HK) Ltd. | 100.00 | 69,572 | 69,572 | 73,567 | 67,750 | 73,566 | 67,750 |
| Others | | 494,824 | 532,233 | 469,325 | 532,145 | 465,759 | 530,523 |
| | | ₩ 7,449,819 | ₩ 5,976,880 | ₩ 10,168,553 | ₩ 7,776,690 | ₩ 13,800,486 | ₩ 10,740,382 |

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

Details of valuation on the securities using the equity method as of and for the year ended December 31, 2004, 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 Corp. | ₩ 5,394,029 | ₩ 1,225,943 | ₩ 144,959 | ₩ 883,925 | ₩ - | ₩ (5,393) | ₩ 7,353,545 |
| Daewoo Shipbuilding & Marine Engineering Co., Ltd. | 481,381 | - | 20,939 | 54,428 | - | 58,864 | 573,734 |
| Daewoo Securities Co., Ltd. | 499,090 | - | - | (32,946) | - | 74,199 | 540,343 |
| Daewoo Heavy Industries & Machinery Ltd. | 212,417 | - | - | 42,944 | - | 3,915 | 259,276 |
| LG Card Co., Ltd. | - | 326,943 | - | (66,241) | - | (5,989) | 254,713 |
| The KDB Capital Corp. | 222,694 | - | - | 10,493 | - | 14,142 | 247,329 |
| GM Daewoo Auto & Technology Company | 196,209 | - | - | (1,253) | - | 36,284 | 231,240 |
| STX Pan Ocean Shipping Co., Ltd. | 126,738 | (83,517) | 1,954 | 45,127 | - | 115 | 86,509 |
| KDB Bank (Hungary) Ltd. | 44,237 | 22,952 | - | 11,399 | - | 384 | 78,972 |
| KDB Asia (HK) Ltd. | 67,750 | - | - | 2,497 | - | 3,320 | 73,567 |
| Others | 532,145 | (37,449) | 10,587 | (10,709) | - | (4,075) | 469,325 |
| | ₩ 7,776,690 | ₩ 1,454,872 | ₩ 178,439 | ₩ 939,664 | ₩ - | ₩ 175,766 | ₩ 10,168,553 |
| Foreign currency translation loss | | | | 19,726 | | | |
| Impairment losses | | | | 2,053 | | | |
| | | | | ₩ 961,443 | | | |

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

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

The accumulated unamortized equity method adjustments as of December 31, 2004 and 2003, are as follows:

(in millions of Korean won)

| | 2004 | | 2003 | |
|-------------------|--------------------------------|---------------------------------|--------------------------------|---------------------------------|
| | Equity method adjustment debit | Equity method adjustment credit | Equity method adjustment debit | Equity method adjustment credit |
| Beginning balance | 159,357 | 3,123,049 | 215,900 | 3,156,356 |
| Increase | 550,946 | 1,333,506 | 8,856 | 412,916 |
| Amortization | (119,772) | (234,091) | (65,399) | (446,223) |
| Ending balance | ₩ 590,531 | ₩ 4,222,464 | ₩ 159,357 | ₩ 3,123,049 |

Investees in which the Bank holds more than 15% of interest but are not valued using the equity method as of December 31, 2004 are as follows:

(in millions of Korean won, shares in thousands)

| | Number of shares | Percentage of ownership (%) as of Dec. 31, 2004 | Acquisition cost | Fair value or Net book value | |
|--------------------------------------------------|------------------|-------------------------------------------------|------------------|------------------------------|----------------|
| | | | | Book value | Net book value |
| Korea Land Development Corp. ¹ | - | 26.77 | ₩ 1,161,904 | ₩ 1,191,329 | ₩ 1,062,308 |
| Korea National Housing Corp. ¹ | - | 17.71 | 1,300,618 | 1,300,618 | 998,286 |
| Hyundai Engineering & Construction Co., Ltd. | 18,290 | 16.75 | 349,615 | 284,402 | 284,402 |
| Korea National Tourism Organization ¹ | 2,824 | 43.58 | 24,370 | 35,529 | 137,944 |
| Donghae Pulp Co., Ltd. | 4,900 | 51.36 | 24,500 | 12,250 | 12,250 |
| Hyundai Corporation | 3,894 | 16.96 | 15,248 | 13,395 | 13,395 |
| Others | | | 242,356 | 215,510 | 203,916 |
| | | | ₩ 3,118,611 | ₩ 3,053,033 | ₩ 2,712,501 |

¹ Notwithstanding its over 15% ownership holdings of the investee companies presented above, the Bank is not considered to exercise a significant influence over the management of these companies because the aggregate ownership percentage held by the Korean government exceeds 50% of the ownership in these companies.

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

The Bank used unaudited financial statements of the following investee companies as of December 31, 2004, for the valuation of securities using the equity method, as follows:

(in millions of Korean won)

| | Expected closing month | Net asset value before adjustment | Adjustment | Net asset value after adjustment |
|----------------------------------------------------|------------------------|-----------------------------------|------------|----------------------------------|
| Daewoo Shipbuilding & Marine Engineering Co., Ltd. | March 2005 | ₩ 551,052 | ₩ - | ₩ 551,052 |
| Daewoo Securities Co., Ltd. | May 2005 | 502,238 | - | 502,238 |
| Mukoonghwa Restructuring Fund | May 2005 | 43,467 | - | 43,467 |
| Pan Ocean Shipping Co., Ltd. | March 2005 | 94,607 | - | 94,607 |
| KDB Ireland Ltd. | March 2005 | 30,415 | - | 30,415 |
| KDB Asia (HK) Ltd. | March 2005 | 73,462 | - | 73,462 |
| The KDB Capital Corp. | May 2005 | 219,011 | - | 219,011 |
| KDB Bank (Hungary) Ltd. | March 2005 | 82,520 | - | 82,520 |
| Arirang Restructuring Fund | May 2005 | 53,727 | - | 53,727 |
| Hankang Restructuring Fund | May 2005 | 30,187 | - | 30,187 |
| KIF | March 2005 | 35,430 | - | 35,430 |

The reason for using unaudited financial statements of the companies presented above is due to the differences in audit periods between the Bank and these companies. Furthermore, the Bank used the latest financial statements of investee companies, other than those presented above, for the valuation under the equity method.

The maturity of investments in available-for-sale and held-to-maturity debt securities as of December 31, 2004, are as follows:

(in millions of Korean won)

| Maturing on or before | Available-for-sale debt securities | Held-to-maturity debt securities |
|-----------------------|------------------------------------|----------------------------------|
| Dec. 31, 2005 | ₩ 3,127,174 | ₩ 1,674,995 |
| Dec. 31, 2009 | 7,006,100 | 285,547 |
| Dec. 31, 2014 | 854,542 | 132,931 |
| | ₩ 10,987,816 | ₩ 2,093,473 |

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

Investment securities denominated in foreign currencies as of December 31, 2004 and 2003, are as follows:

(in millions of Korean won ; USD, JPY, EUR, SGD, CHF, GBP and CNY in thousands)

| Foreign currency | | Equivalent in Korean won | | | | | |
|--------------------------------------|------------|--------------------------|------------|---|------------------|---|------------------|
| 2004 | 2003 | 2004 | 2003 | | | | |
| Available-for-sale debt securities : | | | | | | | |
| USD | 1,825,747 | USD | 1,450,952 | ₩ | 1,905,715 | ₩ | 1,737,950 |
| JPY | 21,538,332 | JPY | 43,209,718 | | 217,983 | | 483,776 |
| GBP | 29,536 | GBP | 5,910 | | 59,338 | | 12,585 |
| EUR | 72,062 | EUR | 7,564 | | 102,542 | | 11,365 |
| CNY | 29,837 | CNY | 30,051 | | 3,763 | | 4,348 |
| | | | | ₩ | 2,289,341 | ₩ | 2,250,024 |
| Held-to-maturity debt securities : | | | | | | | |
| USD | 165,986 | USD | 541,844 | ₩ | 173,256 | ₩ | 625,066 |
| JPY | - | JPY | 10,653,269 | | - | | 119,274 |
| EUR | - | EUR | 1,984 | | - | | 2,981 |
| | | | | ₩ | 173,256 | ₩ | 747,321 |

As of December 31, 2004, investment securities amounting to ₩485,000 million are pledged as collateral to KDB First Securitization Specialty Co., Ltd.

With regard to futures trading, 7,680,060 shares of Korea Electric Power Corporation and debt securities of Korea Deposit Insurance Corporation amounting to ₩20,000 million are pledged as a substitute for the deposit money to Kookmin Futures Inc. and others as of December 31, 2004.

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

Impairment losses on securities for the year ended December 31, 2004, are as follows:

(in millions of Korean won)

| | Amortized cost | | Impairment loss | | Book value | |
|---------------------------------------|----------------|----------------|-----------------|---------------|------------|----------------|
| Equity Securities | | | | | | |
| Ssangyong Cement Industrial Co., Ltd. | ₩ | 71,628 | ₩ | 13,643 | ₩ | 57,985 |
| Thrunet Co., Ltd. | | 3,563 | | 1,157 | | 2,406 |
| Donghae Pulp Co., Ltd. | | 24,500 | | 12,250 | | 12,250 |
| Choil Paper Co., Ltd. | | 19,842 | | 18,251 | | 1,591 |
| Others | | 185,457 | | 37,464 | | 147,993 |
| | ₩ | 304,990 | ₩ | 82,765 | ₩ | 222,225 |
| Debt Securities | | | | | | |
| KDB First SPC | | 72,393 | | 18,166 | | 54,227 |
| Koromas Fund | | 9,715 | | 5,283 | | 4,432 |
| | ₩ | 82,108 | ₩ | 23,449 | ₩ | 58,659 |

Issuers of securities held by the Bank as of December 31, 2004 and 2003, are as follows:

(in millions of Korean won)

| By Country | 2004 | | 2003 | | Ratio (%) as of Dec. 31, 2004 |
|-------------------|------|-------------------|------|-------------------|-------------------------------|
| Republic of Korea | ₩ | 32,023,594 | ₩ | 27,194,726 | 95.51 |
| USA | | 458,111 | | 196,174 | 1.37 |
| The Philippines | | 3,121 | | 29,133 | 0.01 |
| Thailand | | 2,648 | | 149,637 | 0.01 |
| Others | | 1,042,766 | | 452,775 | 3.10 |
| | ₩ | 33,530,240 | ₩ | 28,022,445 | 100.00 |

(in millions of Korean won)

| By Issuer | 2004 | | 2003 | | Ratio (%) as of Dec. 31, 2004 |
|----------------------------------|------|-------------------|------|-------------------|-------------------------------|
| Korea Electric Power Corporation | ₩ | 7,450,916 | ₩ | 5,574,702 | 22.22 |
| Korea National Housing Corp. | | 1,300,618 | | 1,630,855 | 3.88 |
| Korea Highway Corporation | | 1,439,421 | | 1,430,184 | 4.29 |
| Korea Deposit Insurance Corp. | | 1,273,662 | | 1,224,712 | 3.80 |
| Korea Land Development Corp. | | 1,164,059 | | 1,191,328 | 3.47 |
| Korea Asset Management Corp. | | 66,789 | | 255,620 | 0.20 |
| Others | | 20,834,775 | | 16,715,044 | 62.14 |
| | ₩ | 33,530,240 | ₩ | 28,022,445 | 100.00 |

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

(in millions of Korean won)

| By Industry | 2004 | | 2003 | | Ratio (%) as of Dec. 31, 2004 |
|-----------------------------------------|------|-------------------|------|-------------------|----------------------------------|
| Banking and insurance | ₩ | 9,829,215 | ₩ | 8,662,002 | 29.31 |
| Electric, gas and water supply industry | | 7,630,367 | | 5,780,736 | 22.76 |
| Manufacturing | | 5,931,303 | | 5,230,939 | 17.69 |
| Construction | | 4,537,294 | | 4,590,577 | 13.53 |
| Public administration | | 2,271,111 | | 1,893,083 | 6.77 |
| Others | | 3,330,950 | | 1,865,108 | 9.94 |
| | ₩ | 33,530,240 | ₩ | 28,022,445 | 100.00 |

5. LOANS RECEIVABLE

Loans receivable as of December 31, 2004 and 2003, are as follows:

(in millions of Korean won)

| | 2004 | | 2003 | |
|-------------------------------------------|------|-------------------|------|-------------------|
| Loans receivable in local currency | ₩ | 17,125,418 | ₩ | 16,803,143 |
| Loans receivable in foreign currencies | | 13,504,107 | | 15,872,758 |
| Other loans | | 16,248,356 | | 15,977,032 |
| | | 46,877,881 | | 48,652,933 |
| Less : Provision for possible loan losses | | (961,578) | | (1,097,039) |
| Present value discount account | | (67,517) | | (102,303) |
| | ₩ | 45,848,786 | ₩ | 47,453,591 |

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

Loans receivable in local and foreign currencies as of December 31, 2004 and 2003, are as follows:

| Loans receivable in local currency | Annual interest rates (%) as of Dec. 31, 2004 | 2004 | | 2003 | |
|------------------------------------|-----------------------------------------------|------|-------------------|------|-------------------|
| | | ₩ | | ₩ | |
| Loans for working capital | | | | | |
| Industrial fund loans | 6.41 | ₩ | 5,427,615 | ₩ | 5,395,737 |
| Government fund loans | 4.35 | | 455,136 | | 457,707 |
| Overdraft | 5.96 | | 257,331 | | 285,977 |
| Others | 5.48 - 6.05 | | 993,195 | | 822,483 |
| | | | 7,133,277 | | 6,961,904 |
| Loans for facilities | | | | | |
| Industrial fund loans | 6.98 | | 6,685,812 | | 6,829,475 |
| Government fund loans | 4.62 | | 911,956 | | 882,978 |
| Others | 3.35 - 7.25 | | 2,394,373 | | 2,128,786 |
| | | | 9,992,141 | | 9,841,239 |
| | | ₩ | 17,125,418 | ₩ | 16,803,143 |

| Loans receivable in foreign currencies | Annual interest rates (%) as of Dec. 31, 2004 | 2004 | | 2003 | |
|----------------------------------------------------------------|-----------------------------------------------|------|-------------------|------|-------------------|
| | | ₩ | | ₩ | |
| Loans for working capital | | | | | |
| Local currency loans denominated in foreign currencies | 4.13 | ₩ | 1,051,400 | ₩ | 872,385 |
| Foreign currency loans | 3.01 | | 715,961 | | 768,278 |
| Others | 3.20 | | 523,684 | | 770,003 |
| | | | 2,291,045 | | 2,410,666 |
| Loans for facilities | | | | | |
| Local currency loans denominated in foreign currencies | 3.42 | | 3,387,046 | | 4,665,701 |
| Foreign currency loans | 3.64 | | 2,719,306 | | 2,641,692 |
| Offshore loans in foreign currencies | 5.89 | | 1,132,703 | | 1,208,784 |
| Asian Development Bank loans | 2.26 | | 1,043,800 | | 1,201,764 |
| Loans to International Bank for Reconstruction and Development | 2.38 | | 2,930,206 | | 3,744,122 |
| Others | - | | - | | 29 |
| | | | 11,213,061 | | 13,462,092 |
| | | ₩ | 13,504,106 | ₩ | 15,872,758 |

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

| Other loans receivable | 2004 | | 2003 | |
|---------------------------------------------|------|-------------------|------|-------------------|
| | ₩ | | ₩ | |
| Notes purchased | ₩ | 255 | ₩ | 1,295 |
| Bills purchased | | 1,877,044 | | 1,946,704 |
| Advances for customers | | 63,149 | | 78,927 |
| Bonds purchased under repurchase agreements | | 192,152 | | 213,693 |
| Call loans | | 634,452 | | 2,177,355 |
| Domestic import usance bills | | 2,823,961 | | 3,173,871 |
| Debentures accepted by private subscription | | 9,302,841 | | 8,005,502 |
| Others ¹ | | 1,354,502 | | 379,685 |
| | ₩ | 16,248,356 | ₩ | 15,977,032 |

¹ Includes loans receivable of ₩200,000 million to Ssangyong Cement Industrial Co., Ltd. convertible into equity at ₩5,000 per share, disposal of which is restricted until December 31, 2005.

The maturity of loans receivable in local receivable and foreign currencies as of December 31, 2004, are as follows:

| Maturing on or before | Loans for working capital in local currency | | Loans for facilities in local currency | | Loans for working capital in foreign currency | | Loans for facilities in foreign currency | | Total |
|-----------------------|---------------------------------------------|------------------|----------------------------------------|------------------|-----------------------------------------------|------------------|------------------------------------------|-------------------|---------------------|
| | ₩ | | ₩ | | ₩ | | ₩ | | |
| March 31, 2005 | ₩ | 1,436,183 | ₩ | 416,802 | ₩ | 602,292 | ₩ | 1,500,950 | ₩ 3,956,227 |
| June 30, 2005 | | 791,682 | | 373,308 | | 415,928 | | 335,792 | 1,916,710 |
| Dec. 31, 2005 | | 1,843,046 | | 767,616 | | 879,483 | | 938,853 | 4,428,998 |
| Dec. 31, 2006 | | 829,516 | | 1,546,984 | | 195,322 | | 1,979,807 | 4,551,629 |
| Dec. 31, 2007 | | 1,209,151 | | 1,807,947 | | 158,433 | | 1,657,613 | 4,833,144 |
| Dec. 31, 2008 | | 465,485 | | 1,513,218 | | 18,665 | | 1,465,693 | 3,463,061 |
| Dec. 31, 2009 | | 473,179 | | 1,226,322 | | 11,804 | | 1,012,666 | 2,723,971 |
| Thereafter | | 85,035 | | 2,339,945 | | 9,118 | | 2,321,687 | 4,755,785 |
| | ₩ | 7,133,277 | ₩ | 9,992,142 | ₩ | 2,291,045 | ₩ | 11,213,061 | ₩ 30,629,525 |

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

Changes in the provision for possible loan losses for the year ended December 31, 2004 and 2003, are as follows:

| | 2004 | | | (in millions of Korean won) | |
|------------------------------------------------------------------|------------------|----------------|------------------|-----------------------------|------------------|
| | Loan | Other assets | Total | 2003 | |
| Balance at the beginning of the year | ₩ 1,097,039 | ₩ 4,810 | ₩ 1,101,849 | ₩ | 1,094,929 |
| Changes in overseas branches due to foreign currency translation | (4,211) | - | (4,211) | | 678 |
| Provision carryover from loan acquisition | 237,126 | - | 237,126 | | 184,985 |
| Change to provision for possible losses | (965) | - | (965) | | - |
| Decrease in provision due to loan disposal | (48,680) | - | (48,680) | | (63,516) |
| Changes in provision from loan restructuring | 6,202 | - | 6,202 | | (4,108) |
| Current write-offs | (640,980) | - | (640,980) | | (725,037) |
| Current provision (reversal) | 316,047 | (910) | 315,137 | | 613,918 |
| | ₩ 961,578 | ₩ 3,900 | ₩ 965,478 | ₩ | 1,101,849 |

As of December 31, 2004 and 2003, the provisions for possible loan losses and other assets are as follows:

| | 2004 | | (in millions of Korean won) | |
|-------------------------------------------------------------------------------|------|----------------|-----------------------------|------------------|
| | | | 2003 | |
| Loans receivable in local currency and foreign currencies and notes purchased | ₩ | 732,367 | ₩ | 798,679 |
| Bills purchased | | 36,583 | | 40,279 |
| Advances for customers | | 8,276 | | 9,992 |
| Domestic import usance bills | | 41,933 | | 51,024 |
| Debentures accepted by private subscription | | 139,410 | | 195,509 |
| Other loans receivable | | 3,009 | | 1,556 |
| | | 961,578 | | 1,097,039 |
| Other assets | | 3,900 | | 4,810 |
| | ₩ | 965,478 | ₩ | 1,101,849 |

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

As of December 31, 2004, the classification of loans and provisions for possible loan losses is as follows:

(in millions of Korean won)

| Classification | Loans ¹ | Provisions for possible loan losses | Ratio (%) as of Dec. 31, 2004 |
|---------------------|---------------------|----------------------------------------|----------------------------------|
| Normal | ₩ 37,306,514 | ₩ 190,449 | 0.51 |
| Precautionary | 1,772,765 | 392,908 | 22.16 |
| Substandard | 540,418 | 134,026 | 24.80 |
| Doubtful | 177,713 | 143,288 | 80.63 |
| Estimated Loss | 100,907 | 100,907 | 100.00 |
| Others ² | 6,912,047 | - | - |
| | ₩ 46,810,364 | ₩ 961,578 | 2.05 |

¹ Net of present value discounts.

² Loans to or loans guaranteed by the Korean government.

The ratio of provisions to total loans and ratio of provisions to non-performing loans as of December 31, 2004, 2003 and 2002 are as follows:

(in millions of Korean won)

| | 2004 | 2003 | 2002 |
|--------------------------------|--------------|--------------|--------------|
| Total loans | ₩ 46,810,364 | ₩ 48,550,631 | ₩ 46,007,214 |
| Provisions for possible losses | 961,578 | 1,097,039 | 1,089,983 |
| Provision ratio (%) | 2.05 | 2.26 | 2.37 |
| Non-performing loans | ₩ 819,038 | 1,626,381 | 886,130 |
| Provisions for possible losses | 378,221 | 584,104 | 313,028 |
| Provision ratio (%) | 46.18 | 35.91 | 35.33 |

Restructured loans receivable as of December 31, 2004 and 2003, due to court receivership, court mediation or other financial restructuring process are as follows:

(in millions of Korean won)

| | 2004 | 2003 |
|---------------------------------|------------------|------------------|
| Conversion to equity investment | ₩ 701,736 | ₩ 682,477 |
| Changes in contractual terms | - | 25,292 |
| Exemption | - | 25,245 |
| Total | ₩ 701,736 | ₩ 733,014 |

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

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 year ended December 31, 2004 and 2003 are as follows:

| | 2004 | | 2003 | |
|--------------------------------------|------|-----------------|-----------------------------|-----------------|
| | | | (in millions of Korean won) | |
| Beginning | | | | |
| Original amount before restructuring | ₩ | 964,673 | ₩ | 1,156,979 |
| Present value | | (862,370) | | (1,030,024) |
| Present value discount | ₩ | 102,303 | ₩ | 126,955 |
| Present value discount | | | | |
| Increase | ₩ | 3,598 | ₩ | 19,210 |
| Decrease(amortization) | | (38,384) | | (43,862) |
| | ₩ | (34,786) | ₩ | (24,652) |
| Ending | | | | |
| Original amount before restructuring | ₩ | 534,694 | ₩ | 964,673 |
| Present value | | (467,177) | | (862,370) |
| Present value discount | ₩ | 67,517 | ₩ | 102,303 |

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 portfolio by country, major customers and industry as of December 31, 2004 and 2003 are as follows:

| | 2004 | | 2003 | | Ratio (%) as of Dec. 31, 2004 |
|-------------------|------|-------------------|------|-------------------|----------------------------------|
| | | | | | |
| By Country | | | | | |
| Republic of Korea | ₩ | 29,098,337 | ₩ | 31,148,520 | 95.00 |
| USA | | 182,750 | | 166,361 | 0.60 |
| Russia | | - | | 161,703 | - |
| Indonesia | | 114,773 | | 140,428 | 0.37 |
| Others | | 1,233,665 | | 1,058,889 | 4.03 |
| | ₩ | 30,629,525 | ₩ | 32,675,901 | 100.00 |

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

(in millions of Korean won)

| | 2004 | | 2003 | | Ratio (%) as of Dec. 31, 2004 |
|----------------------------------------|------|-------------------|------|-------------------|----------------------------------|
| By Customer | | | | | |
| Small Business Corp. | ₩ | 2,768,488 | ₩ | 3,329,235 | 9.04 |
| Korea Deposit Insurance Corp. | | 939,420 | | 1,197,800 | 3.07 |
| GM Daewoo Auto & Technology Company | | 817,700 | | 503,200 | 2.67 |
| Korean Airline Co., Ltd. | | 694,123 | | 768,173 | 2.27 |
| DongbuAnam Semiconductor Inc. | | 544,500 | | 350,000 | 1.78 |
| Tong Yang Cement Corporation | | 514,842 | | 531,457 | 1.68 |
| Others | | 24,350,452 | | 25,996,036 | 79.49 |
| | ₩ | 30,629,525 | ₩ | 32,675,901 | 100.00 |

(in millions of Korean won)

| | 2004 | | 2003 | | Ratio (%) as of Dec. 31, 2004 |
|-----------------------------------------|------|-------------------|------|-------------------|----------------------------------|
| By Industry | | | | | |
| Manufacturing | ₩ | 16,243,589 | ₩ | 15,612,171 | 53.03 |
| Banking and insurance | | 2,773,301 | | 2,751,798 | 9.05 |
| Transportation and communication | | 3,155,291 | | 3,490,007 | 10.30 |
| Public administration | | 3,283,814 | | 3,409,126 | 10.72 |
| Electric, gas and water supply industry | | 1,133,682 | | 2,170,579 | 3.70 |
| Others | | 4,039,848 | | 5,242,220 | 13.20 |
| | ₩ | 30,629,525 | ₩ | 32,675,901 | 100.00 |

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

6. PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2004 and 2003, are as follows:

(in millions of Korean won)

| | Acquisition cost or revaluation | | Accumulated depreciation | | Net book value | |
|--------------------------|---------------------------------|------------------|--------------------------|------------------|------------------|------------------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| Land | ₩ 314,687 | ₩ 327,380 | ₩ - | ₩ - | ₩ 314,687 | ₩ 327,380 |
| Buildings and structures | 375,013 | 360,496 | 47,684 | 38,579 | 327,329 | 321,917 |
| Machinery | 52,350 | 55,329 | 42,816 | 46,461 | 9,534 | 8,868 |
| Vehicles | 1,298 | 1,488 | 913 | 1,150 | 385 | 338 |
| Construction-in-progress | - | 4,334 | - | - | - | 4,334 |
| Others | 31,180 | 34,535 | 24,740 | 28,358 | 6,440 | 6,177 |
| | ₩ 774,528 | ₩ 783,562 | ₩ 116,153 | ₩ 114,548 | ₩ 658,375 | ₩ 669,014 |

The government-valued price of the Bank's land for the year ended December 31, 2004 is ₩277,816 million (2003: ₩258,872 million).

As of December 31, 2004, the Bank's premises, equipment and other assets are insured against fire and other casualty losses up to approximately ₩304,961 million.

7. OTHER ASSETS

Other assets as of December 31, 2004 and 2003, are as follows:

(in millions of Korean won)

| | 2004 | 2003 |
|--------------------------------------|--------------------|--------------------|
| Intangible assets | ₩ 38,255 | ₩ 45,792 |
| Other accounts receivables | 6,000,878 | 8,559,739 |
| Accrued income | 311,572 | 378,872 |
| Prepaid expense | 188,769 | 181,573 |
| Deferred income tax assets | - | 139,039 |
| Others | 548,588 | 492,637 |
| | 7,088,062 | 9,797,652 |
| Less: Provisions for possible losses | (3,900) | (4,810) |
| | ₩ 7,084,162 | ₩ 9,792,842 |

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

8. DEPOSITS

Deposits as of December 31, 2004 and 2003, are as follows:

| | Annual interest rate (%) as of Dec. 31, 2004 | (in millions of Korean won) | |
|--------------------------------------------|----------------------------------------------------|-----------------------------|---------------------|
| | | 2004 | 2003 |
| Local currency deposits | | | |
| Demand deposits | | | |
| Checking accounts | - | ₩ 2,473 | ₩ 2,751 |
| Temporary deposits | 0.01 | 90,448 | 236,602 |
| Passbook deposits | 0.19 | 16,171 | 21,507 |
| Others | 0.25 | 283 | 3,000 |
| | | 109,375 | 263,860 |
| Time and savings deposits | | | |
| Time deposits | 3.72 | 2,492,840 | 3,464,213 |
| Installment savings deposits | 4.86 | 123,378 | 174,083 |
| Corporate savings deposits | 3.08 | 2,514,240 | 2,177,690 |
| Savings deposits | 2.22 | 156,820 | 203,291 |
| Long-term savings for households | 2.16 | 409 | 30,697 |
| Others | 9.17 | 157,465 | 155,057 |
| | | 5,445,152 | 6,205,031 |
| Total local currency deposits | | 5,554,527 | 6,468,891 |
| Foreign currency deposits | | | |
| Demand deposits | | | |
| Checking accounts | - | 35,723 | 19,617 |
| Temporary deposits | 0.55 | 172,465 | 152,015 |
| Passbook deposits | 0.44 | 262 | 124 |
| Others | 0.05 | 4 | 3 |
| | | 208,454 | 171,759 |
| Savings deposits | | | |
| Time deposits | 1.47 | 537,257 | 497,863 |
| | | 745,711 | 669,622 |
| Negotiable certificates of deposits | 3.29 | 2,632,720 | 3,577,817 |
| | | ₩ 8,932,958 | ₩ 10,716,330 |

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

The maturities of time and savings deposits in local and foreign currencies as of December 31, 2004, are as follows:

(in millions of Korean won)

| Maturing on or before | Time deposits | | Installment savings deposits | | Time deposits in foreign currency | | Total | |
|--------------------------|---------------|------------------|---------------------------------|----------------|--------------------------------------|----------------|-------|------------------|
| March 31, 2005 | ₩ | 1,039,730 | ₩ | 35,598 | ₩ | 464,487 | ₩ | 1,539,815 |
| June 30, 2005 | | 460,130 | | 15,821 | | 17,568 | | 493,519 |
| Dec. 31, 2005 | | 719,347 | | 28,669 | | 55,202 | | 803,218 |
| Dec. 31, 2006 | | 115,253 | | 35,418 | | - | | 150,671 |
| Dec. 31, 2007 | | 17,918 | | 7,871 | | - | | 25,789 |
| Dec. 31, 2008 | | 1,149 | | 1 | | - | | 1,150 |
| Dec. 31, 2009 | | 139,313 | | - | | - | | 139,313 |
| | ₩ | 2,492,840 | ₩ | 123,378 | ₩ | 537,257 | ₩ | 3,153,475 |

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

9. BORROWINGS

Borrowings as of December 31, 2004 and 2003, are as follows:

| | Annual interest rate (%) as of Dec. 31, 2004 | (in millions of Korean won) | |
|-------------------------------------------------------|----------------------------------------------------|-----------------------------|---------------------|
| | | 2004 | 2003 |
| Local currency borrowings | | | |
| Ministry of Finance and Economy | 3.93 | ₩ 1,739,149 | ₩ 1,923,326 |
| Industrial Bank of Korea | 3.54 | 406,255 | 448,519 |
| Small Business Corp. | 4.16 | 359,379 | 283,206 |
| Ministry of Culture and Tourism | 2.65 | 737,056 | 616,222 |
| Korea Energy Management Corporation | 2.91 | 564,072 | 505,572 |
| Local governments | 3.70 | 72,908 | 75,121 |
| Others | 2.71 - 3.39 | 855,832 | 474,141 |
| | | 4,734,651 | 4,326,107 |
| Foreign currency borrowings | | | |
| Small Business Corp. | - | - | 26 |
| KFW group in Germany | 2.42 | 17,978 | 27,514 |
| Asian Development Bank | 2.07 | 1,043,800 | 1,201,764 |
| International Bank for Reconstruction and Development | 2.20 | 3,411,124 | 4,671,618 |
| The Bank of Korea | - | - | 72,673 |
| Others | 0.84 - 1.78 | 6,486,850 | 7,747,560 |
| | | 10,959,752 | 13,721,155 |
| Other borrowings | | | |
| Bonds sold under repurchase agreements | - | 3,555,260 | 3,399,914 |
| Notes sold | - | 1,109 | 4,793 |
| Call money | - | 2,295,160 | 1,051,586 |
| | | 5,851,529 | 4,456,293 |
| | | ₩ 21,545,932 | ₩ 22,503,555 |

As of December 31, 2004, the repayment of ₩83,748 million included in the foreign currency borrowings above are guaranteed by the Korean government.

As of December 31, 2004, the Bank has local currency loans receivable denominated in foreign currency of ₩70,824 million and foreign currency loans receivable of ₩12,971 million, which were both sourced from the Bank's borrowings from Japan Bank for International Cooperation amounting to ₩83,849 million.

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

The maturities of borrowings in local and foreign currencies as of December 31, 2004, are as follows:

(in millions of Korean won)

| Maturing on or before | Borrowings in local currency | | Borrowings in foreign currency | | Total |
|--------------------------|---------------------------------|------------------|-----------------------------------|-------------------|---------------------|
| March 31, 2005 | ₩ | 265,481 | ₩ | 3,841,387 | ₩ 4,106,868 |
| June 30, 2005 | | 123,294 | | 1,413,754 | 1,537,048 |
| Dec. 31, 2005 | | 309,170 | | 1,477,918 | 1,787,088 |
| Dec. 31, 2006 | | 575,236 | | 967,317 | 1,542,553 |
| Dec. 31, 2007 | | 585,100 | | 677,116 | 1,262,216 |
| Dec. 31, 2008 | | 573,388 | | 477,247 | 1,050,635 |
| Dec. 31, 2009 | | 623,429 | | 655,995 | 1,279,424 |
| Thereafter | | 1,679,553 | | 1,449,018 | 3,128,571 |
| | ₩ | 4,734,651 | ₩ | 10,959,752 | ₩ 15,694,403 |

The subordinated debt included in borrowings as of December 31, 2004 and 2003, are as follows:

(in millions of Korean won)

| | Annual interest rates (%) as of Dec. 31, 2004 | 2004 | | 2003 | Repayment terms |
|----------------------------------------------------------------------------------|-----------------------------------------------------|------|------------------|--------------------|------------------------------|
| | | ₩ | | ₩ | |
| Government funds | 3.93 | ₩ | 1,738,980 | ₩ 1,923,090 | Installment reimbursement |
| Agency for International Development relending facilities | 2.01 | | 169 | 236 | Installment reimbursement |
| Asian Development Bank relending facilities | 2.07 | | 1,043,800 | 1,201,764 | Lump-sum reimbursement |
| International Bank for Reconstruction and Development relending facilities | 2.20 | | 3,411,124 | 4,671,618 | Installment reimbursement |
| | | ₩ | 6,194,073 | ₩ 7,796,708 | |

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

10. INDUSTRIAL FINANCE BONDS

Industrial Finance Bonds ("IFB") as of December 31, 2004 and 2003, are as follows:

| | Annual interest rate (%) as of Dec. 31, 2004 | 2004 | | 2003 | |
|------------------------------------|----------------------------------------------|------|-------------------|------|-------------------|
| | | ₩ | | ₩ | |
| IFB in local currency | 5.41 | ₩ | 28,741,478 | ₩ | 25,217,631 |
| IFB in foreign currencies | 1.67 | | 10,170,197 | | 10,099,605 |
| Offshore IFB in foreign currencies | 1.71 | | 1,199,266 | | 1,591,519 |
| | | | 40,110,941 | | 36,908,755 |
| Premiums on IFB | | | 34,535 | | 19,591 |
| Discounts on IFB | | | (41,973) | | (52,403) |
| | | ₩ | 40,103,503 | ₩ | 36,875,943 |

(in millions of Korean won)

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, 2004 is ₩784 million (2003: ₩792 million).

The Bank acquired industrial finance bonds for the year ended December 31, 2004 is ₩177,841 million (2003: ₩261,902 million). The treasury bonds are deducted from industrial finance bonds.

The maturities of IFB as of December 31, 2004, are as follows:

| Maturing on or before | IFB in local currency | | IFB in foreign currency | | Offshore IFB in foreign currency | | Total |
|-----------------------|-----------------------|-------------------|-------------------------|-------------------|----------------------------------|------------------|---------------------|
| | ₩ | | ₩ | | ₩ | | |
| March 31, 2005 | ₩ | 5,994,804 | ₩ | - | ₩ | - | ₩ 5,994,804 |
| June 30, 2005 | | 3,867,505 | | 342,154 | | - | 4,209,659 |
| Dec. 31, 2005 | | 6,740,082 | | 205,056 | | - | 6,945,138 |
| Dec. 31, 2006 | | 4,893,636 | | 2,758,852 | | 889,487 | 8,541,975 |
| Dec. 31, 2007 | | 5,282,639 | | 1,069,409 | | 52,236 | 6,404,284 |
| Dec. 31, 2008 | | 607,615 | | 1,313,690 | | - | 1,921,305 |
| Dec. 31, 2009 | | 856,986 | | 3,047,310 | | 151,757 | 4,056,053 |
| Thereafter | | 518,728 | | 1,407,177 | | 104,380 | 2,030,285 |
| | ₩ | 28,761,995 | ₩ | 10,143,648 | ₩ | 1,197,860 | ₩ 40,103,503 |

(in millions of Korean won)

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

11. OTHER LIABILITIES

Other liabilities as of December 31, 2004 and 2003, are as follows:

| | 2004 | | 2003 | |
|--------------------------------------|------|------------------|------|-------------------|
| | ₩ | | ₩ | |
| Trust account debit | | 328,334 | | 332,834 |
| Other accounts payables | | 5,907,381 | | 8,512,392 |
| Accrued expenses | | 627,818 | | 831,119 |
| Advanced income | | 69,290 | | 73,500 |
| Guarantee deposits | | 41,143 | | 50,785 |
| Advances received on IFB | | 4,607 | | 15,108 |
| Provisions for possible other losses | | 79,064 | | 235,847 |
| Others | | 365,743 | | 277,337 |
| | ₩ | 7,423,380 | ₩ | 10,328,922 |

(in millions of Korean won)

12. GUARANTEES OUTSTANDING AND COMMITMENTS

The Bank provides guarantees for its customers. Outstanding guarantees and the related provisions for possible losses as of December 31, 2004 and 2003, are as follows:

| | Guarantees | | Provision for possible losses | |
|--------------------------------------------------|--------------------|--------------------|-------------------------------|----------------|
| | 2004 | 2003 | 2004 | 2003 |
| | ₩ | ₩ | ₩ | ₩ |
| Acceptances | 428,052 | 727,285 | 5,890 | 3,265 |
| Guarantees on local borrowings | 267,045 | 654,780 | 4,950 | - |
| Guarantees on indebtedness in foreign currencies | 8,218,519 | 8,253,904 | 1,054 | 1,429 |
| Letters of guarantee for importers | 32,319 | 39,350 | 37 | 64 |
| | ₩ 8,945,935 | ₩ 9,675,319 | ₩ 11,931 | ₩ 4,758 |

(in millions of Korean won)

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

The unsettled guarantees and commitments provided by the Bank as of December 31, 2004 and 2003, are as follows:

| | 2004 | | (in millions of Korean won) 2003 | |
|----------------------------------------|------|-------------------|-------------------------------------|-------------------|
| Unsettled guarantees | | | | |
| Local letter of credit issuance | ₩ | 12,449 | ₩ | 27,016 |
| Foreign letter of credit issuance | | 1,397,814 | | 1,756,531 |
| Others | | 1,852,251 | | 639,516 |
| | | 3,262,514 | | 2,423,063 |
| Commitments | | | | |
| For loans in local currency | | 6,991,481 | | 7,813,675 |
| For loans in foreign currency | | 747,704 | | 1,225,228 |
| | | 7,739,185 | | 9,038,903 |
| Bonds sold under repurchase agreements | | 1,021,952 | | 1,290,895 |
| | ₩ | 12,023,651 | ₩ | 12,752,861 |

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 USD124.6 million, EUR4 million and JPY2,164 million (equivalent to ₩157,648 million) and ₩116,570 million, of which USD49 million, EUR1 million and JPY1,100 million (equivalent to ₩63,960 million) and ₩54,190 million have not been withdrawn by borrowers as of December 31, 2004.

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 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, 2004, the unsettled amount of such loans amounted to ₩191,381 million, and the provision for possible losses from the disposal of unsettled loans recorded as other liabilities amounted to ₩36,776 million.

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

Loans sold off to KDB First Securitization Specialty Co., Ltd. and others in accordance with the Asset Securitization Plan as of December 31, 2004, are as follows:

(in millions of Korean won)

| | Disposal date | Book value | Selling price | Retained subordinated debt securities | Collateral ¹ |
|----------------|----------------------|--------------------|----------------------|------------------------------------------------------|--------------------------------|
| KDB First SPC | June 8, 2000 | ₩ 950,627 | ₩ 600,000 | ₩ 201,800 | ₩ 120,000 |
| KDB Second SPC | November 8, 2000 | 914,764 | 423,600 | 143,600 | 80,000 |
| KDB Third SPC | September 20, 2001 | 1,793,546 | 949,900 | 349,900 | 185,000 |
| KDB Fifth SPC | December 13, 2001 | 765,358 | 528,400 | 238,400 | 100,000 |
| | | ₩ 4,424,295 | ₩ 2,501,900 | ₩ 933,700 | ₩ 485,000 |

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 ₩7,739,185 million, of which ₩168,026 million was withdrawn as of December 31, 2004.

The Bank still has the valid legal right to seek indemnity for a part of loan receivables written off as of December 31, 2004, in the amount of ₩1,462,902 million.

The Bank has outstanding loans receivable amounting to ₩2,377,792

million and securities amounting to ₩1,236,144 million as of December 31, 2004, of companies under workout, court receivership, court mediation and other restructuring process. The Bank recorded ₩604,754 million as provisions 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 receivable from the provisions recorded.

As of December 31, 2004, the Bank faces 10 legal cases involving an aggregate amount of ₩23,911 million, and has filed 16 lawsuits, with an aggregate amount of ₩287,400 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.

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

14. DERIVATIVE FINANCIAL INSTRUMENTS AND THE RELATED CONTRACTS

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

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

Additionally, the trading derivatives include the derivatives used to hedge the exchange rate of the Bank's foreign currency assets and liabilities

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

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

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

The unsettled contract amount of the Bank's derivatives and the related valuation gain(loss) as of December 31, 2004, are as follows:

(in millions of Korean won)

| | Unsettled Contract Amount | | | Valuation Gain/Loss (P/L) | | | Valuation Asset(Liability) (B/S) |
|------------------------------|---------------------------|--------------------|----------------------|---------------------------|--------------------|----------------|----------------------------------------|
| | Trading purpose | Hedging purpose | Total | Trading purpose | Hedging purpose | Total | |
| Interest rate | | | | | | | |
| Forward | ₩ 835,040 | ₩ - | ₩ 835,040 | ₩ (70) | ₩ - | ₩ (70) | ₩ (70) |
| Futures | 6,037,117 | - | 6,037,117 | (1,255) | - | (1,255) | - |
| Swap | 40,595,035 | 2,960,850 | 43, 555,885 | (30,842) | 37,300 | 6,458 | 168,518 |
| Option | | | | | | | |
| Buy | 823,561 | - | 823,561 | 5,265 | - | 5,265 | 21,517 |
| Sell | 824,166 | - | 824,166 | (8,481) | - | (8,481) | (24,604) |
| | <u>49,114,919</u> | <u>2,960,850</u> | <u>52,075,769</u> | <u>(35,383)</u> | <u>37,300</u> | <u>1,917</u> | <u>165,361</u> |
| Currency | | | | | | | |
| Forward | 62,641,256 | - | 62,641,256 | (131,021) | - | (131,021) | (137,722) |
| Futures | 46,971 | - | 46,971 | - | - | - | - |
| Swap | 16,511,901 | 1,799,029 | 18,310,930 | 188,105 | 16,033 | 204,138 | 47,262 |
| Option | | | | | | | |
| Buy | 3,048,560 | - | 3,048,560 | 25,823 | - | 25,823 | 59,599 |
| Sell | 3,445,704 | - | 3,445,704 | (95,579) | - | (95,579) | (137,824) |
| | <u>85,694,392</u> | <u>1,799,029</u> | <u>87,493,421</u> | <u>(12,672)</u> | <u>16,033</u> | <u>3,361</u> | <u>(168,685)</u> |
| Stock price index | | | | | | | |
| Futures | 11,485 | - | 11,485 | 276 | - | 276 | - |
| Option | | | | | | | |
| Buy | 544,604 | - | 544,604 | (2,148) | - | (2,148) | 16,724 |
| Sell | 538,243 | - | 538,243 | 2,662 | - | 2,662 | (16,754) |
| | <u>1,094,332</u> | <u>-</u> | <u>1,094,332</u> | <u>790</u> | <u>-</u> | <u>790</u> | <u>(30)</u> |
| | <u>₩ 135,903,643</u> | <u>₩ 4,759,879</u> | <u>₩ 140,663,522</u> | <u>₩ (47,265)</u> | <u>₩ 53,333</u> | <u>₩ 6,068</u> | <u>₩ (3,354)</u> |

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 ₩10,000,000 million as of December 31, 2004. The total paid-in capital of the Bank outstanding as of December 31, 2004 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.

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

Legal Reserve

The Korea Development Bank Act requires the Bank to appropriate net income as a legal reserve. This reserve can be transferred to paid-in capital or used to offset accumulated deficit.

Offsetting of Accumulated Deficit

In accordance with the Korea Development Bank Act, the Bank offsets accumulated deficit with reserves. If reserves are insufficient to eliminate the accumulated deficit, the Korean government should complement the deficiency.

The changes in valuation gain (loss) from investment securities recorded as capital adjustments for the years ended December 31, 2004 and 2003, are presented as follows:

| | 2004 | | | (in millions of Korean won) | |
|-------------------------------------------------|-------------------------------|------------------------------------|------------------|-----------------------------|------------------|
| | Available-for-sale securities | Securities under the equity method | Total | 2003 | |
| Beginning balance | ₩ (79,490) | ₩ (97,130) | ₩ (176,620) | ₩ | (559,731) |
| Increase (decrease) due to disposals and others | 5,698 | (33) | 5,665 | | 222,857 |
| Valuation gain (loss) during the year | 681,131 | 175,766 | 856,897 | | 160,254 |
| Ending balance | ₩ 607,339 | ₩ 78,603 | ₩ 685,942 | ₩ | (176,620) |

16. OTHER NON-INTEREST REVENUE (EXPENSES)

Other non-interest revenue (expenses) for the years ended December 31, 2004 and 2003, are as follows:

| | 2004 | | (in millions of Korean won) | |
|---------------------------------------------------------------------|------|------------------|-----------------------------|------------------|
| | 2004 | | 2003 | |
| Other non-interest revenue | | | | |
| Gain on foreign currency transactions | ₩ | 589,306 | ₩ | 948,415 |
| Reversal of provision for possible losses on guarantees outstanding | | - | | 58,465 |
| Gain on valuation of hedged items | | 849,676 | | 298,151 |
| Others | | 155,078 | | 142,864 |
| | ₩ | 1,594,060 | ₩ | 1,447,895 |
| Other non-interest expense | | | | |
| Loss on foreign currency transactions | ₩ | 1,232,134 | ₩ | 460,476 |
| Donations | | 35,434 | | 30,454 |
| Loss on valuation of hedged items | | 117,428 | | 491,992 |
| Others | | 63,664 | | 166,709 |
| | ₩ | 1,448,660 | ₩ | 1,149,631 |

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

17. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the years ended December 31, 2004 and 2003, are as follows:

| | 2004 | | 2003 | |
|----------------------|------|----------------|------|----------------|
| | ₩ | | ₩ | |
| Salaries | ₩ | 172,297 | ₩ | 153,904 |
| Retirement allowance | | 20,867 | | 16,822 |
| Employee benefits | | 14,036 | | 12,472 |
| Rent | | 7,709 | | 7,273 |
| Depreciation | | 19,027 | | 21,740 |
| Taxes and dues | | 13,100 | | 11,474 |
| Printing | | 4,082 | | 3,748 |
| Travel | | 3,171 | | 2,930 |
| Commission | | 9,577 | | 9,085 |
| Others | | 60,330 | | 55,595 |
| | ₩ | 324,196 | ₩ | 295,043 |

18. NON-OPERATING INCOME (EXPENSES)

Non-operating income (expenses) for the years ended December 31, 2004 and 2003, are as follow:

| | 2004 | | 2003 | |
|--------------------------------------------|------|----------------|------|----------------|
| | ₩ | | ₩ | |
| Non-operating income | | | | |
| Gain on disposal of premises and equipment | ₩ | 173 | ₩ | 712 |
| Rental income | | 1,317 | | 1,139 |
| Gain on disposal of loans receivable | | 14,587 | | 50,040 |
| Gain from investment securities | | 1,302,206 | | 1,188,828 |
| Others | | 65,793 | | 3,486 |
| | | 1,384,076 | | 1,244,205 |
| Non-operating expenses | | | | |
| Loss on disposal of premises and equipment | | 4,319 | | 2,035 |
| Loss on disposal of loans receivable | | 156,779 | | 69,248 |
| Loss from investment securities | | 299,979 | | 466,576 |
| Others | | 43,180 | | 50,732 |
| | | 504,257 | | 588,591 |
| | ₩ | 879,819 | ₩ | 655,614 |

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

19. INCOME TAX EXPENSE

Income tax expense for the years ended December 31, 2004 and 2003, are as follows:

| | 2004 | | 2003 | |
|-----------------------------------------------|------|----------------|------|--------------|
| | ₩ | - | ₩ | - |
| Income taxes payable (special additional tax) | ₩ | - | ₩ | - |
| Deferred income taxes ¹ | | 139,465 | | 7,244 |
| Income taxes for overseas branches | | 3,769 | | 281 |
| | ₩ | 143,234 | ₩ | 7,525 |

(in millions of Korean won)

¹ All local deferred income taxes for the year ended December 31, 2004, are estimated to have no future benefits.

The applicable statutory income tax rate for the years ended December 31, 2004 and 2003, is approximately 29.7%, including resident surcharges. However, due to the net operating loss carry-over, the Bank has no corporate tax to be paid for the years ended December 31, 2004 and 2003.

The tax effect of major tax adjustments for the years ended December 31, 2004 and 2003, are as follows:

| | 2004 | | 2003 | |
|-----------------------------------------------------|------|-----------|------|-----------|
| | ₩ | 1,140,733 | ₩ | 174,403 |
| Income before income tax expense | ₩ | 1,140,733 | ₩ | 174,403 |
| Computed income tax at the expected statutory rate | | 338,798 | | 51,798 |
| Tax effect from temporary differences | | | | |
| Provision for possible loan losses | | (9,182) | | (35,678) |
| Provision for severance benefits | | 2,878 | | (753) |
| Loss on settlement of non-performing loans disposed | | (54,745) | | (37,038) |
| Loss on investments using the equity method | | (272,921) | | (205,035) |
| Write-off of loans receivable | | (58,908) | | (115,937) |
| Provision for guarantees outstanding | | 2,130 | | (17,364) |
| Impairment loss on investment securities | | 2,226 | | 103,234 |
| Present value discount | | (3,863) | | (51,689) |
| Gain on valuation of trading securities | | (2,109) | | 3,582 |
| Others | | 117,019 | | 342,482 |
| | | (277,475) | | (14,196) |
| Tax effect from permanent differences | | | | |
| Dividends received | | (14,632) | | (3,864) |
| Others | | 54,164 | | 2,838 |
| | | 39,532 | | (1,026) |
| Tax effect of operating loss carry-forward | | 100,855 | | 36,576 |
| Income taxes payable | ₩ | - | ₩ | - |

(in millions of Korean won)

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

Changes in temporary differences for the years ended December 31, 2004 and 2003, are as follows:

(in millions of Korean won)

| | Beginning balance | Decrease | Increase | Ending balance |
|-----------------------------------------------------------------------------------------------|--------------------|--------------------|----------------------|--------------------|
| Accrued severance benefits | ₩ 3,081 | ₩ - | ₩ 5,854 | ₩ 8,935 |
| Acquisition of shares of stock resulting from the transfer of capital surplus to common stock | 92,967 | - | - | 92,967 |
| Loss on valuation of investment securities | 11,612 | 12 | - | 11,600 |
| Gain on valuation of trading securities | (148,051) | (2,897) | (9,998) | (155,152) |
| Impairment loss on investment equity securities | 953,141 | 95,199 | 82,765 | 940,707 |
| Impairment loss on investment debt securities | 430,184 | 3,521 | 23,449 | 450,112 |
| Present value discount | 41,308 | 13,005 | - | 28,303 |
| Provision for guarantees outstanding | 4,758 | 4,758 | 11,931 | 11,931 |
| Loss on investment valuation by the equity method | (1,800,827) | (1,799,810) | (2,718,734) | (2,719,751) |
| Provision for possible loan losses | 398,246 | 398,246 | 367,332 | 367,332 |
| Write-off of loans receivable | 1,394,154 | 180,270 | - | 1,213,884 |
| Others | 651,927 | 212,513 | 407,965 | 847,379 |
| | ₩ 2,032,500 | ₩ (895,183) | ₩ (1,829,436) | ₩ 1,098,247 |
| Operating loss carry-forward | ₩ 2,786,109 | ₩ 339,578 | ₩ - | ₩ 2,446,531 |

As of December 31, 2004, the Bank did not recognize deferred income tax assets and deferred income tax liabilities amounting to ₩132 million which are related to foreign branches of the Bank.

Operating loss carry-forward as of December 31, 2004 though not recognized as deferred income tax assets are as follows:

(in millions of Korean won)

| | Amounts | Expiration |
|-----------------------------------------------|-----------|------------|
| Operating loss carry-forward incurred on 2000 | ₩ 379,936 | 2005 |
| Operating loss carry-forward incurred on 2001 | 816,542 | 2006 |
| Operating loss carry-forward incurred on 2003 | 1,250,053 | 2008 |

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

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, 2004 and 2003, are as follows:

(in millions of Korean won)

| | 2004 | | 2003 | |
|--------------------|----------------|----------------------------|----------------|----------------------------|
| | Average amount | Interest income or expense | Average amount | Interest income or expense |
| Asset | | | | |
| Due from banks | ₩ 1,553,614 | ₩ 30,305 | ₩ 1,768,960 | ₩ 30,120 |
| Securities | 13,954,406 | 657,987 | 12,771,978 | 664,469 |
| Loans receivable | 47,130,736 | 2,138,604 | 46,376,377 | 2,097,225 |
| Others | - | 20,246 | - | 29,583 |
| | | 2,847,142 | | 2,821,397 |
| Liabilities | | | | |
| Deposits | ₩ 10,067,279 | ₩ 332,772 | ₩ 9,096,637 | ₩ 362,691 |
| Borrowings | 21,707,719 | 500,244 | 23,744,697 | 540,164 |
| Bonds | 39,313,612 | 1,683,038 | 35,888,145 | 1,765,122 |
| Others | | 12,839 | - | 16,817 |
| | | ₩ 2,528,893 | | ₩ 2,684,794 |

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

21. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

Significant assets and liabilities denominated in foreign currencies as of December 31, 2004 and 2003, are as follows:

(in millions of Korean won, USD in thousands)

| | Foreign currency ¹ | | Equivalent in Korean won | |
|--------------------------------------------------|-------------------------------|-----------------------|--------------------------|---------------------|
| | 2004 | 2003 | 2004 | 2003 |
| Asset | | | | |
| Cash | USD 2,563 | USD 2,371 | ₩ 2,676 | ₩ 2,841 |
| Due from banks | 685,151 | 1,153,983 | 715,160 | 1,382,241 |
| Trading securities | 858,473 | 397,376 | 896,074 | 475,977 |
| Investment securities (available-for-sale) | 2,202,531 | 1,882,216 | 2,299,001 | 2,254,518 |
| Investment securities (held-to-maturity) | 165,986 | 623,910 | 173,256 | 747,320 |
| Investment securities using the equity method | 175,277 | 113,198 | 182,954 | 135,588 |
| Bills bought | 1,798,280 | 1,625,233 | 1,877,044 | 1,946,704 |
| Call loans | 532,600 | 1,751,100 | 555,928 | 2,097,468 |
| Loans receivable | 12,937,447 | 13,254,765 | 13,504,106 | 15,876,557 |
| Domestic import usance bills | 2,705,462 | 2,649,750 | 2,823,961 | 3,173,871 |
| Receivables | 16,105 | 21,162 | 16,811 | 25,348 |
| Other assets | 5,241,385 | 4,912,400 | 5,470,957 | 5,884,072 |
| | USD 27,321,260 | USD 28,387,464 | ₩ 28,517,928 | ₩ 34,002,505 |
| Liabilities | | | | |
| Deposits | USD 1,588,031 | USD 1,170,178 | ₩ 1,657,586 | ₩ 1,401,639 |
| Borrowings | 10,499,858 | 11,388,400 | 10,959,752 | 13,641,025 |
| Bonds sold under repurchase agreements | 382,390 | 569,557 | 399,139 | 682,216 |
| Call money | 251,148 | 157,443 | 262,148 | 188,586 |
| Bonds in foreign currencies | 10,865,595 | 9,738,981 | 11,341,508 | 10,075,806 |
| Other liabilities | 3,948,314 | 4,766,315 | 4,121,250 | 5,709,092 |
| | USD 27,535,336 | USD 27,790,874 | ₩ 28,741,383 | ₩ 33,287,909 |

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, 2004.

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

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 the related parties, including payment guarantees, as of December 31, 2004 and 2003, subject to consolidation:

| | 2004 | | 2003 | |
|----------------------------------------------------|------|------------------|------|------------------|
| | ₩ | | ₩ | |
| The KDB Capital Corp. | ₩ | 460,208 | ₩ | 167,714 |
| KDB Asia Limited Hong Kong | | 183,210 | | 23,956 |
| Daewoo Shipbuilding & Marine Engineering Co., Ltd. | | 1,302,117 | | 1,309,081 |
| Daewoo Securities Co., Ltd. | | 400,000 | | 200,000 |
| Pan Ocean Shipping Co., Ltd. | | 65,238 | | 115,538 |
| KDB Ireland Ltd. | | 88,723 | | - |
| KDB Bank (Hungary) Ltd. | | 41,752 | | 11,978 |
| | ₩ | 2,541,248 | ₩ | 1,828,267 |

(in millions of Korean won)

23. OPERATION RESULTS OF TRUST ACCOUNTS

The income statement of the trust accounts for the years ended December 31, 2004 and 2003, are as follows:

| | 2004 | | 2003 | |
|---------------------------------------------|------|----------------|------|----------------|
| | ₩ | | ₩ | |
| Revenue | | | | |
| Interest income | ₩ | 176,916 | ₩ | 210,874 |
| Gain from securities | | 32,704 | | 275,658 |
| Others | | 30,245 | | 23,911 |
| | ₩ | 239,865 | ₩ | 510,443 |
| Expenses | | | | |
| Dividends of trust profits to beneficiaries | ₩ | 151,924 | ₩ | 373,390 |
| Commissions paid | | 9,160 | | 507 |
| Loss from securities | | 10,087 | | 76,150 |
| Trust fee to the Bank | | 26,249 | | 27,703 |
| Provisions for possible loan losses | | 30,912 | | 22,397 |
| Others | | 11,533 | | 10,296 |
| | ₩ | 239,865 | ₩ | 510,443 |

(in millions of Korean won)

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

24. SUPPLEMENTAL CASH FLOW INFORMATION

Transactions not involving any inflow or outflow of cash for the year ended December 31, 2004 and 2003 are as follows:

| | (in millions of Korean won) | |
|-------------------------------------|-----------------------------|-----------|
| | 2004 | 2003 |
| Loan converted to equity securities | ₩ 701,736 | ₩ 682,477 |
| Investment in kind | 1,000,000 | - |

25. APPROVAL OF FINANCIAL STATEMENTS

The December 31, 2004 audited financial statements will be approved by Ministry of Finance and Economy, Republic of Korea on February 28, 2005.

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 balance sheets of The Korea Development Bank Trust Accounts ("the Trust Accounts"), which The Korea Development Bank ("the Bank") operates, as of December 31, 2004 and 2003, 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 the 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, 2004 and 2003, and the results of their operations for the years then ended in conformity with trust accounting standards 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, 2004 and 2003 are as follows:

(in millions of Korean won)

| | Amount | | Ratio (%) | |
|------------------------------------|---------------------|---------------------|------------|------------|
| | 2004 | 2003 | 2004 | 2003 |
| Securities | ₩ 5,699,445 | ₩ 6,349,956 | 35 | 45 |
| Loans | 60,624 | 56,260 | - | - |
| Money receivables for collection | 10,236,033 | 7,154,490 | 62 | 51 |
| Other assets | 457,377 | 576,552 | 3 | 4 |
| Allowance for possible loan losses | (22,281) | (17,558) | - | - |
| | ₩ 16,431,198 | ₩ 14,119,700 | 100 | 100 |

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

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 standards 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 knowledgeable about Korean accounting principles for trust funds or auditing standards for trust funds and their application in practice.

Emil Picaatorhouse Looper

Seoul, Korea
January 21, 2005

This report is effective as of January 21, 2005, 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, 2004 and 2003

(in millions of Korean won)

| | 2004 | | 2003 | |
|------------------------------------------|------|-------------------|------|-------------------|
| Assets (Note 13) | | | | |
| Cash deposits | ₩ | 15,640 | ₩ | 108 |
| Securities (Note 5) | | 5,699,445 | | 6,349,956 |
| Loans (Note 6) | | 60,624 | | 56,260 |
| Money receivables for collection(Note 7) | | 10,236,033 | | 7,154,490 |
| Real estate trusted (Note 8) | | 97,021 | | 185,000 |
| Accrued income | | 25,627 | | 43,731 |
| Due from banking accounts (Note 12) | | 317,254 | | 322,695 |
| Other assets (Note 10) | | 1,835 | | 25,018 |
| Allowance for possible loan losses | | (22,281) | | (17,558) |
| Total assets | ₩ | 16,431,198 | ₩ | 14,119,700 |
| Liabilities (Note 13) | | | | |
| Money trusts | ₩ | 2,737,736 | ₩ | 3,406,879 |
| Money receivable trusts | | 10,342,387 | | 7,279,750 |
| Securities in trust (Note 9) | | 2,867,649 | | 2,882,201 |
| Real estate collateral trusts | | 42,021 | | - |
| Mortgage bond trusts | | 55,000 | | 185,000 |
| Accrued trust dividends | | 343,203 | | 340,719 |
| Other liabilities (Note 10) | | 35,792 | | 19,356 |
| Provision for future trust losses | | 7,410 | | 5,795 |
| Total liabilities | ₩ | 16,431,198 | ₩ | 14,119,700 |

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

Statements of Income (Trust Accounts)

Years Ended December 31, 2004 and 2003

(in millions of Korean won)

| | 2004 | | 2003 | |
|-------------------------------------------------|------|----------------|------|----------------|
| Revenue (Note 13) | | | | |
| Interest on securities | ₩ | 160,025 | ₩ | 192,341 |
| Interest on loans | | 5,601 | | 7,683 |
| Interest on call loans | | - | | 526 |
| Interest on due from banking accounts (Note 12) | | 11,080 | | 9,304 |
| Other interest income | | 210 | | 1,019 |
| | | 176,916 | | 210,873 |
| Gains on derivatives transactions | | 5,030 | | 6,955 |
| Gains on securities | | 32,704 | | 275,657 |
| Other income (Note 11) | | 19,075 | | 4,687 |
| Reversal of provision for possible loan losses | | 6,140 | | 12,271 |
| | | 239,865 | | 510,443 |
| Expenses (Note 13) | | | | |
| Commission expenses | | 9,160 | | 507 |
| Losses on derivatives transactions | | 6,946 | | 6,601 |
| Losses on securities | | 10,087 | | 76,150 |
| Interest on borrowings (Note 12) | | - | | 260 |
| Trust fees to the Bank (Note 12) | | 26,249 | | 27,704 |
| Other expenses (Note 11) | | 4,587 | | 3,435 |
| Provision for possible loan losses | | 30,912 | | 22,397 |
| | | 87,941 | | 137,054 |
| Dividends of trust profit to beneficiaries | ₩ | 151,924 | ₩ | 373,389 |

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

Notes to Financial Statements (Trust Accounts)

December 31, 2004 and 2003

1. THE TRUST

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 is engaged in the banking business under the Korea Development Bank Act and in the trust business according to the Trust Business Act and other related regulation in the Republic of Korea.

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

The trusts are classified into money trusts or property trusts. Cash is entrusted for money trusts and distributions to the beneficiaries are made

in cash at trust maturity. Among the money trusts, there are specified money trusts where the trustor specifically determines how the trust is to be managed, and unspecified money trusts where the management is totally entrusted to the trustee. Properties, including securities or other monetary receivables, 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, 2004 and 2003, are as follows:

(in millions of Korean won)

Bank Accounts

| | 2004 | 2003 |
|-------------------------|---------------------|---------------------|
| Cash and due from banks | ₩ 1,192,300 | ₩ 1,778,881 |
| Securities | 33,530,241 | 28,022,445 |
| Loans | 45,848,786 | 47,453,591 |
| Other assets | 11,655,881 | 12,008,747 |
| Assets | ₩ 92,227,208 | ₩ 89,263,664 |
| Deposits | 8,932,958 | 10,716,330 |
| Borrowings | 21,545,932 | 22,503,555 |
| Other liabilities | 51,485,367 | 48,640,888 |
| Liabilities | ₩ 81,964,257 | ₩ 81,860,773 |
| Shareholder's equity | ₩ 10,262,951 | ₩ 7,402,891 |

(in millions of Korean won)

Trust Accounts

| | 2004 | 2003 |
|------------------------------------|---------------------|---------------------|
| Securities | ₩ 5,699,445 | ₩ 6,349,956 |
| Loans | 60,624 | 56,260 |
| Due from banking accounts | 317,254 | 322,695 |
| Money receivables for collection | 10,236,033 | 7,154,490 |
| Other assets | 140,123 | 253,857 |
| Allowance for possible loan losses | (22,281) | (17,558) |
| Assets | ₩ 16,431,198 | ₩ 14,119,700 |
| Money trusts | 2,737,736 | 3,406,879 |
| Money receivable trusts | 10,342,387 | 7,279,750 |
| Securities in Trust | 2,867,649 | 2,882,201 |
| Real estate collateral trusts | 42,021 | - |
| Other liabilities | 441,405 | 550,870 |
| Liabilities | ₩ 16,431,198 | ₩ 14,119,700 |

Notes to Financial Statements (Trust Accounts)

December 31, 2004 and 2003

2. SUMMARY OF THE TRUST ACCOUNTS

Major assets of the Trust Accounts, as of December 31, 2004 and 2003, are as follows:

(in millions of Korean won)

| | Amount | | Ratio (%) | |
|------------------------------------|---------------------|---------------------|------------|------------|
| | 2004 | 2003 | 2004 | 2003 |
| Securities | ₩ 5,699,445 | ₩ 6,349,956 | 35 | 45 |
| Loans | 60,624 | 56,260 | - | - |
| Money receivables for collection | 10,236,033 | 7,154,490 | 62 | 51 |
| Other assets | 457,377 | 576,552 | 3 | 4 |
| Allowance for possible loan losses | (22,281) | (17,558) | - | - |
| | ₩ 16,431,198 | ₩ 14,119,700 | 100 | 100 |

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by the Trust Accounts in the preparation of its financial statements are summarized below.

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 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 standards 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 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.

Notes to Financial Statements (Trust Accounts)

December 31, 2004 and 2003

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. Marketable equity securities included in specified money trusts are valued from fair value method to cost method in 2004.

Allowance for Possible Loan Losses

The Trust Accounts provide allowance for possible loan losses based on

borrowers' future debt servicing ability (forward looking criteria) as determined by a credit rating model developed by the Bank. This credit rating model includes financial and non-financial factors of borrowers and classifies borrowers' credit risk. Allowance for possible loan losses in the Trust Accounts are determined by applying the following minimum percentage to the various credit risk ratings:

| Loan Classifications | Allowance Percentages | |
|----------------------|-----------------------|---------------------|
| | Loans to Enterprise | Loans to Households |
| Normal ¹ | 0.5% | 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% |

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

Notes to Financial Statements (Trust Accounts)

December 31, 2004 and 2003

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.

Provision for Future Trust Losses

In accordance with the Trust Business Act, guaranteed principal or rate of return trusts are required to set up special provisions of more than 25% of trust fees to the Bank until the total provision equals 5% of the related trust balance. As of December 31, 2004, provision for future trust losses amounts to ₩7,410 million (2003: ₩5,795 million).

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 is total asset less total liability divided by total number of beneficial certificate units issued.

Money Receivables for Collection

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

Real Estates Truited

In accordance with the Mortgage Bonds Trust Acts, the Trust Accounts record real estates entrusted as collateral for bonds as real estates trusted 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.

Notes to Financial Statements (Trust Accounts)

December 31, 2004 and 2003

4. NATURE OF MONEY TRUST ACCOUNTS

The details of the Bank's money trust accounts as of December 31, 2004 and 2003 are as follows:

| Trusts | Trusts terms of maturity(Years) | (in millions of Korean won) | |
|-----------------------------------|---------------------------------|-----------------------------|-----------|
| | | 2004 | 2003 |
| General unspecified money trusts | over 1.5 ¹ | ₩ 11 | ₩ 11 |
| Installment money trusts | over 1.5 ³ | 80 | 514 |
| Development trusts | 2,3 and 5 ¹ | - | 32 |
| Corporation money trusts | 1.5 ³ | 1 | 7,812 |
| Household money trusts | 1.5 ³ | 838 | 1,936 |
| Old-age living pension trusts | over 5 ² | 15,010 | 43,953 |
| Specified money trusts | over 0.25 | 1,542,522 | 1,815,000 |
| Individual pension trusts | over 10 ² | 141,999 | 126,925 |
| Household long-term trusts | 3 ~ 5 | 8,448 | 47,661 |
| Labor preferential trusts | 3 ~ 5 | 4,203 | 20,341 |
| New installment trusts | over 1.5 | 9,259 | 58,809 |
| Unit type money trusts | 1 | 10,890 | 22,307 |
| Retirement trusts | - ² | 725,650 | 614,007 |
| Additional money trusts | 1 | 31,210 | 88,914 |
| New individual pension trusts | over 10 ² | 15,477 | 12,596 |
| New old-age living pension trusts | over 5 ² | 103,058 | 188,269 |
| Pension trusts | over 11 ² | 29,610 | 18,162 |
| Real estate investment trusts | 1, 1.5 | 89,563 | 335,994 |
| Long-term trusts for housing | 7 ~ 10 | 9,906 | 3,636 |

¹ Fixed rate of return is guaranteed by the Bank.

² Repayment of principal is guaranteed by the Bank.

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

Notes to Financial Statements (Trust Accounts)

December 31, 2004 and 2003

5. SECURITIES

Securities as of December 31, 2004 and 2003 are as follows:

(in millions of Korean won)

| | Annual interest rates (%) as of | 2004 | | 2003 | |
|------------------------------|---------------------------------|------|------------------|------|------------------|
| | Dec. 31, 2004 | ₩ | | ₩ | |
| Equity securities | - | ₩ | 3,413,831 | ₩ | 3,364,772 |
| Government bonds | 3.0 - 5.0 | | 259,127 | | 41,299 |
| Monetary stabilization bonds | 3.5 - 4.9 | | 76,877 | | 219,154 |
| Other financial bonds | 3.4 - 13.8 | | 113,721 | | 82,308 |
| Corporate bonds | 0 - 13.0 | | 1,362,047 | | 2,241,794 |
| Commercial paper | 0 - 8.4 | | 376,779 | | 230,411 |
| Certified deposit | 3.3 - 3.9 | | 63,882 | | 125,424 |
| Beneficiary certificates | 9.0 - 9.5 | | 3,581 | | 13,004 |
| Other securities | 5.1 | | 29,600 | | 31,790 |
| | | ₩ | 5,699,445 | ₩ | 6,349,956 |

Investments in bonds classified by valuation methods as of December 31, 2004, are as follows:

(in millions of Korean won)

| | Trusts by cost methods | | Trusts by fair value methods | | Total | |
|------------------------------|------------------------|------------------|------------------------------|----------------|-------|------------------|
| | ₩ | | ₩ | | ₩ | |
| Government bonds | ₩ | 31,391 | ₩ | 227,736 | ₩ | 259,127 |
| Monetary stabilization bonds | | 14,027 | | 62,850 | | 76,877 |
| Other financial bonds | | 113,721 | | - | | 113,721 |
| Corporate bonds | | 835,523 | | 526,524 | | 1,362,047 |
| Others | | 359,186 | | 114,656 | | 473,842 |
| | ₩ | 1,353,848 | ₩ | 931,766 | ₩ | 2,285,614 |

Notes to Financial Statements (Trust Accounts)

December 31, 2004 and 2003

The information about the securities by country, type, customer as of December 31, 2004, is as follows:

(in millions of Korean won)

| By Country | Amount | Ratio(%) |
|-------------------|--------------------|-----------------|
| Korea | ₩ 5,568,217 | 97.70 |
| Foreign countries | 131,228 | 2.30 |
| | ₩ 5,699,445 | 100.00 |

| By Type | Amount | Ratio(%) |
|--------------------------|--------------------|-----------------|
| Fixed rate bonds | ₩ 1,577,235 | 27.67 |
| Floating rate bonds | 149,075 | 2.62 |
| Equity securities | 3,413,831 | 59.90 |
| Beneficiary certificates | 3,581 | 0.06 |
| Commercial papers | 376,779 | 6.61 |
| Others | 178,944 | 3.14 |
| | ₩ 5,699,445 | 100.00 |

| By Customer | Amount | Ratio(%) |
|--------------------------------------|--------------------|-----------------|
| Government investment organization | ₩ 108,697 | 1.91 |
| Financial institution | 6,463 | 0.11 |
| Manufacturing and service industries | 4,001,968 | 70.22 |
| Others | 1,582,317 | 27.76 |
| | ₩ 5,699,445 | 100.00 |

The scheduled maturities of debt securities, as of December 31, 2004, are as follows:

(in millions of Korean won)

| | Government bonds | Financial bonds | Corporate bonds | Commercial paper | Other securities | Total |
|------------------|-----------------------------|----------------------------|----------------------------|-----------------------------|-----------------------------|--------------------|
| Within 3 month | ₩ 972 | ₩ 19,128 | ₩ 201,922 | ₩ 322,275 | ₩ 62,660 | ₩ 606,957 |
| Within 6 month | 390 | 15,123 | 298,964 | 4,937 | - | 319,414 |
| Within 1 year | 3,535 | 95,934 | 291,982 | 49,567 | 4,803 | 445,821 |
| Within 2 year | 12,188 | 60,413 | 225,132 | - | - | 297,733 |
| Within 3 year | 123,420 | - | 141,645 | - | - | 265,065 |
| Within 4 year | 20,785 | - | 63,706 | - | 10,000 | 94,491 |
| Within 5 year | 97,796 | - | 72,929 | - | 10,000 | 180,725 |
| More than 5 year | 41 | - | 65,767 | - | 9,600 | 75,408 |
| | ₩ 259,127 | ₩ 190,598 | ₩ 1,362,047 | ₩ 376,779 | ₩ 97,063 | ₩ 2,285,614 |

Notes to Financial Statements (Trust Accounts)

December 31, 2004 and 2003

As of December 31, 2004, 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 | Estimated Loss | Total |
|------------------------------------|-------------|---------------|-------------|----------|----------------|-------------|
| Government bonds | | | | | | |
| Book value | ₩ 259,127 | ₩ - | ₩ - | ₩ - | ₩ - | ₩ 259,127 |
| Allowance for possible loan losses | - | - | - | - | - | - |
| Allowance ratio | - | - | - | - | - | - |
| Financial bonds | | | | | | |
| Book value | 190,598 | - | - | - | - | 190,598 |
| Allowance for possible loan losses | - | - | - | - | - | - |
| Allowance ratio | - | - | - | - | - | - |
| Corporate bonds | | | | | | |
| Book value | 1,333,565 | 7,417 | - | - | 21,065 | 1,362,047 |
| Allowance for possible loan losses | 8 | 390 | - | - | 20,729 | 21,127 |
| Allowance ratio | 0.0% | 5.3% | - | - | 98.4% | 1.6% |
| Commercial papers | | | | | | |
| Book value | 376,779 | - | - | - | - | 376,779 |
| Allowance for possible loan losses | - | - | - | - | - | - |
| Allowance ratio | - | - | - | - | - | - |
| Equity securities | | | | | | |
| Book value | 3,413,831 | - | - | - | - | 3,413,831 |
| Allowance for possible loan losses | 1,078 | - | - | - | - | 1,078 |
| Allowance ratio | 0.0% | - | - | - | - | 0.0% |
| Other securities | | | | | | |
| Book value | 97,063 | - | - | - | - | 97,063 |
| Allowance for possible loan losses | - | - | - | - | - | - |
| Allowance ratio | - | - | - | - | - | - |
| Total | | | | | | |
| Book value | ₩ 5,670,963 | ₩ 7,417 | ₩ - | ₩ - | ₩ 21,065 | ₩ 5,699,445 |
| Allowance for possible loan losses | 1,086 | 390 | - | - | 20,729 | 22,205 |
| Allowance ratio | 0.0% | 5.3% | - | - | 98.4% | 0.4% |

Notes to Financial Statements (Trust Accounts)

December 31, 2004 and 2003

6. LOANS

Loans as of December 31, 2004 and 2003 are as follows:

| | Annual interest rates (%) as of Dec. 31, 2004 | 2004 | | (in millions of Korean won) 2003 | |
|---------------------------|-----------------------------------------------------|------|---------------|-------------------------------------|---------------|
| | | ₩ | | ₩ | |
| Loans collateralized by : | | | | | |
| Marketable securities | 3.7 ~ 12.5 | ₩ | 6,470 | ₩ | 2,274 |
| Real estate | 12.0 ~ 13.0 | | 278 | | 470 |
| Bonds | 4.5 ~ 12.5 | | 12,434 | | 17,106 |
| Beneficiary certificates | 3.9 ~ 19.5 | | 17,127 | | 11,594 |
| Other loans | 9.9 ~ 15.0 | | 24,315 | | 24,816 |
| | | ₩ | 60,624 | ₩ | 56,260 |

Notes to Financial Statements (Trust Accounts)

December 31, 2004 and 2003

As of December 31, 2004, 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 | Estimated Loss | Total |
|---------------------------------------|----------|---------------|-------------|----------|----------------|----------|
| Marketable securities loans | | | | | | |
| Book value | ₩ 6,470 | ₩ - | ₩ - | ₩ - | ₩ - | ₩ 6,470 |
| Allowance for possible loan losses | - | - | - | - | - | - |
| Allowance ratio | - | - | - | - | - | - |
| Real estates loans | | | | | | |
| Book value | 121 | 84 | 10 | 22 | 41 | 278 |
| Allowance for possible loan losses | 1 | 7 | 2 | 12 | 41 | 63 |
| Allowance ratio | 0% | 8% | 20% | 55% | 100% | 23% |
| Bonds loans | | | | | | |
| Book value | 12,434 | - | - | - | - | 12,434 |
| Allowance for possible loan losses | - | - | - | - | - | - |
| Allowance ratio | - | - | - | - | - | - |
| Beneficiary certificates loans | | | | | | |
| Book value | 17,127 | - | - | - | - | 17,127 |
| Allowance for possible loan losses | - | - | - | - | - | - |
| Allowance ratio | - | - | - | - | - | - |
| Other loans | | | | | | |
| Book value | 24,301 | - | - | - | 14 | 24,315 |
| Allowance for possible loan losses | - | - | - | - | 14 | 14 |
| Allowance ratio | - | - | - | - | 100% | 0% |
| Total | | | | | | |
| Book value | ₩ 60,453 | ₩ 84 | ₩ 10 | ₩ 22 | ₩ 55 | ₩ 60,624 |
| Allowance for possible loan losses | 1 | 7 | 2 | 12 | 55 | 77 |
| Allowance ratio | 0% | 8% | 20% | 55% | 100% | 0.1% |

Notes to Financial Statements (Trust Accounts)

December 31, 2004 and 2003

7. MONEY RECEIVABLES FOR COLLECTION

Money receivables for collection, as of December 31, 2004 and 2003, are as follows:

| | (in millions of Korean won) | |
|----------------------------------------------|-----------------------------|--------------------|
| | 2004 | 2003 |
| Receivables trusted by : | | |
| Doosan Construction & Engineering (We've) | ₩ 8,646 | ₩ 47,554 |
| Doosan Construction & Engineering (6th) | 20,643 | 88,854 |
| Doosan Construction & Engineering (7th) | 108,300 | 145,100 |
| Asiana Airlines (1st) | 988,167 | 1,291,216 |
| Asiana Airlines (2nd) | 187,057 | 521,384 |
| Asiana Airlines (3rd) | 343,391 | 584,092 |
| Dong-kook Industry | 92,334 | 292,435 |
| Dong-bu | 110,410 | 161,141 |
| Dong-bu Steel Mill | 197,967 | 935,078 |
| Dong-bu Corporation | 75,383 | 21,144 |
| Dong-bu Corporation (3rd) | 47,724 | 140,097 |
| Hansol Chemience | 18,215 | 87,836 |
| Doosan (5th) | 65,470 | 137,498 |
| Sambo computer | 263,462 | 324,889 |
| 2001 outlet | 292,350 | 510,337 |
| Ubase | 164,525 | 233,343 |
| Dong bu Anam Semiconductor | 345,241 | 535,080 |
| Hankook Core | 135,277 | 148,500 |
| Dreamline | 608,814 | 148,376 |
| LG Card | 3,267,195 | - |
| Asiana Airlines | 10,310 | - |
| Hyundai Merchant Marine (3rd) | 493,986 | - |
| Special Asset Investment Trust (Real estate) | 96,000 | - |
| Doosan Industrial Development (9th) | 139,072 | - |
| Doosan Industrial Development (10th) | 202,864 | - |
| Doosan Industrial Development (11th) | 136,791 | - |
| Asiana Airlines (5th) | 1,080,620 | - |
| Dong-bu Corporation(express bus) | 50,832 | - |
| Lotte Card | 88,726 | - |
| Kumho Petrochemical | 337,183 | - |
| Erae Electronics Industry | 138,039 | - |
| Wooyoung | 72,621 | - |
| Choongwae Pharma | 48,418 | - |
| Doosan Construction & Engineering (Wol-gok) | - | 693 |
| Hyundai Merchant Marine (2nd) | - | 799,843 |
| | ₩ 10,236,033 | ₩ 7,154,490 |

Notes to Financial Statements (Trust Accounts)

December 31, 2004 and 2003

8. REAL ESTATE TRUSTED

Real estates trusted as of December 31, 2004 and 2003 are as follows:

| | 2004 | | (in millions of Korean won) 2003 | |
|--------------------------|------|---------------|-------------------------------------|----------------|
| | ₩ | | ₩ | |
| Trusted by : | | | | |
| Hanwha Living & Creative | ₩ | 25,000 | ₩ | 25,000 |
| SKC | | 30,000 | | 30,000 |
| Hanwha Resort | | - | | 30,000 |
| LG Industrial Systems | | - | | 100,000 |
| P&D Valley | | 18,912 | | - |
| Stigisol Construction | | 9,199 | | - |
| Dongil Highvill | | 13,910 | | - |
| | ₩ | 97,021 | ₩ | 185,000 |

9. SECURITIES IN TRUST

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

| Trusted Securities | Stocks | | Commercial papers | | (in millions of Korean won) 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 |

Notes to Financial Statements (Trust Accounts)

December 31, 2004 and 2003

10. OTHER ASSET AND LIABILITIES

As of December 31, 2004 and 2003, details of other assets and other liabilities are as follows:

| Other assets | 2004 | | 2003 | |
|-------------------------------|------|--------------|------|---------------|
| | ₩ | | ₩ | |
| Accounts receivables | ₩ | 1,380 | ₩ | 1,974 |
| Accrued expenses | | 423 | | 12 |
| Bonds under resale agreements | | - | | 23,000 |
| Sundry asset | | 32 | | 32 |
| | ₩ | 1,835 | ₩ | 25,018 |

(in millions of Korean won)

| Other liabilities | 2004 | | 2003 | |
|---------------------------------------------|------|---------------|------|---------------|
| | ₩ | | ₩ | |
| Other accounts payables | ₩ | 12,632 | ₩ | 2,632 |
| Accrued payable trust fees | | 22,253 | | 15,697 |
| Accrued expenses | | 363 | | 224 |
| Discounted present value | | 537 | | 661 |
| Deposits payable from Credit Guarantee Fund | | 6 | | 7 |
| Income in advance | | 1 | | 135 |
| | ₩ | 35,792 | ₩ | 19,356 |

(in millions of Korean won)

11. OTHER INCOME AND OTHER EXPENSES

For the years ended December 31, 2004 and 2003, details of other income and other expenses are as follows:

| Other income | 2004 | | 2003 | |
|---------------------------------|------|---------------|------|--------------|
| | ₩ | | ₩ | |
| Commission received | ₩ | 125 | ₩ | 1,329 |
| Transfer from special provision | | 966 | | 1,532 |
| Other sundry gains | | 17,984 | | 1,826 |
| | ₩ | 19,075 | ₩ | 4,687 |

(in millions of Korean won)

| Other expenses | 2004 | | 2003 | |
|---------------------------------------|------|--------------|------|--------------|
| | ₩ | | ₩ | |
| Provision for special provision | ₩ | 2,581 | ₩ | 2,367 |
| Insurance fees on deposits | | 924 | | 788 |
| Contribution to Credit Guarantee Fund | | 92 | | 97 |
| Other sundry expenses | | 990 | | 183 |
| | ₩ | 4,587 | ₩ | 3,435 |

(in millions of Korean won)

Notes to Financial Statements (Trust Accounts)

December 31, 2004 and 2003

12. RELATED PARTY TRANSACTIONS

Significant transactions with the Bank's banking accounts for the years ended December 31, 2004 and 2003 are as follows:

| | 2004 | | 2003 | |
|-------------------------------------------|------|---------|-----------------------------|---------|
| | | | (in millions of Korean won) | |
| Assets or Liabilities: | | | | |
| Due from banking accounts | ₩ | 317,254 | ₩ | 322,695 |
| Revenues or Expenses: | | | | |
| Interest on due from banking accounts | | 11,080 | | 9,304 |
| Trust fee | | 26,249 | | 27,704 |
| Interest expense paid to banking accounts | | - | | 260 |

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.

Transactions and transfers among trust accounts for the year ended December 31, 2004 amounted to ₩214,713 million (2003: ₩45,458 million). As of December 31, 2004 the face value for the sales of bonds to the banking accounts and gain on disposal of securities amounted to ₩20,000 million and ₩6,096 million, respectively.

Notes to Financial Statements (Trust Accounts)

December 31, 2004 and 2003

13. DETAIL OF THE TRUST ACCOUNTS

The condensed balance sheets as of December 31, 2004 and 2003 and statements of operations for the years then ended of the Trust Accounts by category are as follows:

CONDENSED BALANCE SHEETS

(in millions of Korean won)

| | Guaranteed principal or rate of return trusts | Non-guaranteed trusts ¹ | Property trusts | Total |
|---------------------------------------|-----------------------------------------------------|---------------------------------------|---------------------|---------------------|
| Cash assets | ₩ 46 | ₩ 558 | ₩ 15,036 | ₩ 15,640 |
| Marketable securities | 955,076 | 1,829,830 | 2,914,539 | 5,699,445 |
| Loans | 35,152 | 25,472 | - | 60,624 |
| Receivable in trust | - | - | 10,236,033 | 10,236,033 |
| Real estate in trust | - | - | 97,021 | 97,021 |
| Due from banking accounts | 104,140 | 115,706 | 97,408 | 317,254 |
| Others | 10,736 | 15,414 | 1,312 | 27,462 |
| Allowance for possible loan losses | (22,235) | (46) | - | (22,281) |
| Total in 2004 | <u>₩ 1,082,915</u> | <u>₩ 1,986,934</u> | <u>₩ 13,361,349</u> | <u>₩ 16,431,198</u> |
| Total in 2003 | <u>₩ 1,033,829</u> | <u>₩ 2,700,372</u> | <u>₩ 10,385,499</u> | <u>₩ 14,119,700</u> |
| Money and other trusts | 1,030,815 | 1,706,921 | 13,307,057 | 16,044,793 |
| Trust dividends payable | 13,076 | 276,723 | 53,403 | 343,202 |
| Provision for future trust losses | 7,397 | 14 | - | 7,411 |
| Others | 31,627 | 3,276 | 889 | 35,792 |
| Total in 2004 | <u>₩ 1,082,915</u> | <u>₩ 1,986,934</u> | <u>₩ 13,361,349</u> | <u>₩ 16,431,198</u> |
| Total in 2003 | <u>₩ 1,033,829</u> | <u>₩ 2,700,372</u> | <u>₩ 10,385,499</u> | <u>₩ 14,119,700</u> |

¹Guaranteed trusts organized before April 30, 1996, such as Installment money trusts(on performance basis), Corporation money trusts and Household money trusts, were included.

Notes to Financial Statements (Trust Accounts)

December 31, 2004 and 2003

CONDENSED STATEMENTS OF INCOME

(in millions of Korean won)

| | Guaranteed principal or rate of return trusts | | Non-guaranteed trusts ¹ | | Property trusts | Total | | |
|------------------------------------------------|-----------------------------------------------------|---------------|---------------------------------------|----------------|-----------------|-----------------|---|----------------|
| Revenue: | | | | | | | | |
| Interest on marketable securities | ₩ | 52,011 | ₩ | 106,428 | ₩ | 1,586 | ₩ | 160,025 |
| Interest on loans | | 1,860 | | 3,741 | | - | | 5,601 |
| Gains on securities | | 21,143 | | 11,561 | | - | | 32,704 |
| Interest on due from banking accounts | | 2,077 | | 4,597 | | 4,406 | | 11,080 |
| Reversal of allowance for possible loan losses | | 5,107 | | 1,033 | | - | | 6,140 |
| Other revenues | | 12,334 | | 9,857 | | 2,124 | | 24,315 |
| | | <u>94,532</u> | | <u>137,217</u> | | <u>8,116</u> | | <u>239,865</u> |
| Expenses: | | | | | | | | |
| Loss on securities | | 2,507 | | 7,580 | | - | | 10,087 |
| Trust fees to the Bank | | 14,153 | | 6,483 | | 5,613 | | 26,249 |
| Provisions for future trust losses | | 2,580 | | - | | - | | 2,580 |
| Allowance for possible loan losses | | 16,023 | | 14,889 | | - | | 30,912 |
| Other expenses | | 4,844 | | 3,491 | | 9,778 | | 18,113 |
| | | <u>40,107</u> | | <u>32,443</u> | | <u>15,391</u> | | <u>87,941</u> |
| Dividends of trust profit to beneficiaries | | | | | | | | |
| in 2004 | ₩ | 54,425 | ₩ | 104,774 | ₩ | (7,275) | ₩ | 151,924 |
| in 2003 | ₩ | 28,229 | ₩ | 304,918 | ₩ | 40,242 | ₩ | 373,389 |

¹Guaranteed trusts organized before April 30, 1996, such as Installment money trusts(on performance basis), Corporation money trusts and Household money trusts, were included.

Report of Independent Auditors

SAMIL PRICEWATERHOUSECOOPERS

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, 2004 and 2003, 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 five other consolidated subsidiaries, of which financial statements reflect total assets of ₩7,013,827 million as of December 31, 2004, and total revenues of ₩5,383,912 million for the year then ended. These statements were audited by other auditors whose reports have been furnished to us and our opinion, insofar as it relates to the amounts included for Daewoo Shipbuilding & Marine Engineering Co., Ltd. and five 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, 2004 and 2003, 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.

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

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, the Bank took over 64.28% of ownership of KDB Asset Management Co., Ltd. by participating in its capital increase. KDB Asset Management Co., Ltd. was newly included as one of the Bank's subsidiaries in the accompanying consolidated financial statements as of and for the year ended December 31, 2004. Seoul Debt Restructuring Fund, Arirang Restructuring Fund and Mukoonghwa Restructuring Fund were excluded from the Bank's subsidiaries as they are planned for liquidation in 2005. STX Pan Ocean Co., Ltd. (formerly Pan Ocean Shipping Co., Ltd.) was also excluded from the Bank's subsidiaries as the Bank disposed of 43.33% of its ownership during the year ended December 31, 2004.

Delta Info-Comm. Co., Ltd. was excluded from Daewoo Securities Co., Ltd.'s subsidiaries, which is one of the Bank's subsidiaries, as Daewoo Securities Co., Ltd. disposed of 68.12% of its ownership during the year ended December 31, 2004. DSEC Co., Ltd. received investment in kind from Daewoo Shipbuilding & Marine Engineering Co., Ltd., and was merged by Daedong engineering Co., Ltd., with DSEC Co., Ltd. as the surviving entity. Consequently, it is included as one of Daewoo Shipbuilding & Marine Engineering Co., Ltd.'s subsidiaries, whose financial performance is reflected on the accompanying consolidated financial statements as of and for the year ended December 31, 2004.

As discussed in Note 2 to the consolidated financial statements, in June 2001, the Bank determined the original reversal period of negative goodwill arising from the acquisition of stocks of Korea Electric Power Corporation ("KEPCO") as nine years using the information available during acquisition. During our audit for the year ended December 31, 2004, the Bank re-estimated the reversal period of negative goodwill to be 20 years based on a new information from KEPCO. Accordingly, this change is regarded as a change in accounting estimate, resulting from the acquisition of new information. As a result of this change, the reversal amount of negative goodwill for the year ended December 31, 2004 is lesser by ₩262 billion than the amount which would have been reported under the previous accounting estimate.

As discussed in Note 2 to the consolidated financial statements, relative to loans receivable disposal prior to January 1, 2004, the Bank computes for gain(loss) on disposal as the difference between the disposal price and book value of the loan at disposal date; while for cases of written off loans, the disposal price is adjusted to consider the provision for bad debts in cases of written off loans. Effective January 1, 2004, however, the Bank adopted to only consider the difference between the book value of the loans in the prior year end and the disposal price as the gain(loss) on disposal for all loans. This change resulted in an increase of ₩113 billion in losses in loan disposal, a decrease of ₩18.2 billion in gains in loan disposal, and a decrease of ₩131.2 billion in provision for loan losses.

The statement of income for the year ended December 31, 2003, presented herein for comparative purposes, has been restated, resulting in an increase of losses in loan disposal amounting to ₩33 billion, a decrease of gains in loan disposal amounting to ₩5.7 billion and a decrease of provision for loan losses amounting to ₩38.7 billion. Such changes do not affect net asset value, operating income and net income as of and for the year ended December 31, 2003.

Report of Independent Auditors

As discussed in Note 15 to the consolidated financial statements, 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.

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.



Seoul, Korea
March 16, 2005

This report is effective as of March 16, 2005, 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, 2004 and 2003

(in millions of Korean won)

| | 2004 | | 2003 | |
|---------------------------------------------------|------|--------------------|------|-------------------|
| Assets | | | | |
| Cash and due from banks (Note 3) | ₩ | 3,128,860 | ₩ | 3,425,748 |
| Securities (Note 4) | | 36,028,702 | | 30,107,534 |
| Loans receivable, net (Note 5) | | 46,354,206 | | 48,069,981 |
| Property and equipment, net (Note 6) | | 2,770,790 | | 3,280,030 |
| Intangible assets | | 117,982 | | 137,093 |
| Guarantee deposits | | 199,167 | | 200,495 |
| Derivative financial instruments | | 4,329,028 | | 1,641,321 |
| Trade accounts receivable, net | | 1,021,332 | | 867,963 |
| Prepaid expenses | | 228,661 | | 258,627 |
| Other assets (Note 7) | | 8,021,035 | | 10,395,904 |
| Total assets | ₩ | 102,199,763 | ₩ | 98,384,696 |
| Liabilities and Shareholder's Equity | | | | |
| Deposits (Note 8) | ₩ | 10,689,596 | ₩ | 12,768,797 |
| Borrowings (Note 9) | | 23,780,728 | | 24,364,130 |
| Debentures (Note 10) | | 40,438,496 | | 37,501,318 |
| Provision for possible guarantee losses (Note 12) | | 23,760 | | 41,155 |
| Accrued severance benefits | | 177,945 | | 209,187 |
| Other accounts payable | | 6,190,339 | | 8,742,326 |
| Accrued expenses | | 720,697 | | 940,859 |
| Derivative financial instruments | | 3,835,584 | | 1,402,430 |
| Unearned income | | 86,283 | | 114,341 |
| Trade accounts payable | | 396,994 | | 269,961 |
| Other liabilities (Note 11) | | 3,684,998 | | 2,719,787 |
| Total liabilities | | 90,025,420 | | 89,074,291 |
| Commitments and contingencies (Note 13) | | | | |
| Shareholder's equity (Note 15) | | | | |
| Capital stock | | 8,241,861 | | 7,241,861 |
| Capital surplus | | - | | 21,266 |
| Retained earnings | | 1,118,893 | | 62,007 |
| Capital adjustments | | 734,766 | | (111,836) |
| Minority interest in consolidated subsidiaries | | 2,078,823 | | 2,097,107 |
| Total equity | | 12,174,343 | | 9,310,405 |
| Total liabilities and Shareholder's equity | ₩ | 102,199,763 | ₩ | 98,384,696 |

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

Consolidated Statements of Income

Years Ended December 31, 2004 and 2003

(in millions of Korean won)

| | 2004 | | 2003 | |
|-----------------------------------------------------------|------|------------|------|------------|
| Interest income | | | | |
| Interest on loans receivable | ₩ | 2,195,686 | ₩ | 2,140,427 |
| Interest on due from banks | | 136,273 | | 155,949 |
| Interest on trading securities | | 165,244 | | 107,902 |
| Interest on available-for-sale securities | | 449,193 | | 426,840 |
| Interest on held-to-maturity securities | | 170,426 | | 217,431 |
| Other interest income | | 33,974 | | 42,910 |
| | | 3,150,796 | | 3,091,459 |
| Interest expenses | | | | |
| Interest on deposits | | 386,640 | | 406,307 |
| Interest on borrowings | | 575,097 | | 622,175 |
| Interest on bonds payable | | 1,726,232 | | 1,826,801 |
| Other interest expenses | | 16,638 | | 18,101 |
| | | 2,704,607 | | 2,873,384 |
| Net interest income | | 446,189 | | 218,075 |
| Provision for loan losses | | 307,664 | | 675,086 |
| Net interest income(loss) after provision for loan losses | | 138,525 | | (457,011) |
| Non-interest revenue | | | | |
| Fees and commissions | | 630,053 | | 680,547 |
| Gain from trading securities | | 258,418 | | 198,053 |
| Gain from available-for-sale securities | | 66,709 | | 30,082 |
| Gain from derivative financial instruments | | 9,610,332 | | 3,545,967 |
| Gain on foreign currency transactions | | 748,790 | | 998,996 |
| Sales from manufacturing activities | | 4,918,832 | | 6,400,161 |
| Others (Note 16) | | 321,277 | | 299,857 |
| | | 16,554,411 | | 12,153,663 |
| Non-interest expenses | | | | |
| Fees and commissions | | 49,141 | | 141,124 |
| Loss from trading securities | | 119,909 | | 155,523 |
| Loss from derivative financial instruments | | 8,721,092 | | 4,086,636 |
| Loss on foreign currency transactions | | 1,238,992 | | 429,685 |
| General and administrative expenses (Note 17) | | 910,597 | | 985,168 |
| Cost of sales from manufacturing activities | | 4,685,174 | | 5,727,047 |
| Others (Note 16) | | 201,626 | | 269,947 |
| | | 15,926,531 | | 11,795,130 |
| Operating income(loss) | | 766,405 | | (98,478) |

Continued;

Consolidated Statements of Income

Years Ended December 31, 2004 and 2003

(in millions of Korean won)

| | 2004 | 2003 |
|------------------------------------------------------------------------------------|--------------------|------------------|
| Non-operating income, net | 659,480 | 550,600 |
| Extraordinary income(loss), net | (3,147) | 4,497 |
| Income before income tax expense | 1,422,738 | 456,619 |
| Income tax expense (Note 18) | 249,385 | 241,317 |
| Net income before minority interest in earnings of consolidation subsidiaries, net | 1,173,353 | 215,302 |
| Minority interest in earnings of consolidated subsidiaries, net | (156,711) | (106,561) |
| Net income | ₩ 1,016,642 | ₩ 108,741 |

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

Consolidated Statements of Changes in Equity

Years Ended December 31, 2004 and 2003

(in millions of Korean won)

| | 2004 | | 2003 | |
|-------------------------------------------------------|------|-------------------|------|------------------|
| Capital stock | | | | |
| Balance, beginning of the year | ₩ | 7,241,861 | ₩ | 7,161,861 |
| Increase in paid-in capital | | - | | 80,000 |
| Issuance of capital stock for non-cash assets | | 1,000,000 | | - |
| Balance, end of the year | | 8,241,861 | | 7,241,861 |
| Capital surplus | | | | |
| Balance, beginning of the year | | 21,266 | | - |
| Changes in capital surplus of equity method investees | | 1,287 | | (494) |
| Changes in equity ownership ratio | | (22,553) | | 21,760 |
| Balance, end of the year | | - | | 21,266 |
| Retained earnings | | | | |
| Balance, beginning of the year | | 62,007 | | 118,394 |
| Net income | | 1,016,642 | | 108,741 |
| Changes in retained earnings of the Bank | | - | | (140,283) |
| Changes in retained earnings of subsidiaries | | 4,305 | | (25,774) |
| Changes in equity ownership ratio | | 32,418 | | - |
| Changes in subsidiaries | | 1,903 | | - |
| Others | | 1,618 | | 929 |
| Balance, end of the year | | 1,118,893 | | 62,007 |
| Capital adjustments | | | | |
| Balance, beginning of the year | | (111,836) | | (498,732) |
| Changes in equity ownership ratio | | - | | (27,604) |
| Changes in subsidiaries | | (384) | | - |
| Changes in capital surplus of equity method investees | | (1,287) | | 495 |
| Changes during the year | | 848,273 | | 414,005 |
| Balance, end of the year | | 734,766 | | (111,836) |
| Minority interest in consolidated subsidiaries | | | | |
| Balance, beginning of the year | | 2,097,107 | | 2,029,285 |
| Changes in subsidiaries | | (378,687) | | - |
| Changes during the year | | 360,403 | | 67,822 |
| Balance, end of the year | | 2,078,823 | | 2,097,107 |
| Total equity | ₩ | 12,174,343 | ₩ | 9,310,405 |

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

Consolidated Statements of Cash Flow

Years Ended December 31, 2004 and 2003

(in millions of Korean won)

| | 2004 | | 2003 | |
|----------------------------------------------------------------------------------|------|-------------|------|-------------|
| | ₩ | | ₩ | |
| Cash flows from operating activities | | | | |
| Net income | | 1,016,642 | | 108,741 |
| Adjustments to reconcile net income to net cash provided by operating activities | | | | |
| Loss on disposal of loans receivable, net | | 142,192 | | 19,208 |
| Gain on trading securities, net | | (134,073) | | (31,487) |
| Loss on available-for-sale securities, net | | 385,784 | | 322,300 |
| Gain on equity method securities | | (885,164) | | (1,002,605) |
| Provision for loan losses | | 307,664 | | 675,086 |
| Depreciation on property and equipment | | 70,170 | | 78,579 |
| Loss (gain) on foreign currency translation, net | | 614,952 | | (465,271) |
| Gain (loss) from derivative financial instruments, net | | (889,239) | | 540,669 |
| Others, net | | 206,515 | | 98,046 |
| | | (181,199) | | 234,525 |
| Changes in operating assets and liabilities | | | | |
| Decrease (increase) in other accounts receivable | | 2,677,319 | | (6,936,169) |
| Increase (decrease) in other accounts payable | | (2,549,189) | | 6,757,147 |
| Net decrease (increase) in derivative financial instruments | | 634,687 | | (158,643) |
| Decrease (increase) in prepaid expenses | | (23,239) | | 116,427 |
| Decrease in accrued expenses | | (180,410) | | (76,387) |
| Others, net | | 704,421 | | 119,895 |
| Net cash provided by operating activities | | 2,099,032 | | 165,536 |
| Cash flows from investing activities | | | | |
| Acquisition in trading securities, net | | (1,652,368) | | (647,380) |
| Disposal (acquisition) in due from banks, net | | 144,930 | | (236,219) |
| Acquisition in available-for-sale securities, net | | (2,347,375) | | (1,928,469) |
| Disposal in held-to-maturity securities, net | | 815,642 | | 1,315,481 |
| Acquisition in equity method securities, net | | (65,024) | | (212,515) |
| Disposal (acquisition) in loans receivable, net | | 810,245 | | (2,606,532) |
| Acquisition in property and equipment, net | | (95,556) | | (140,224) |
| Others, net | | (317,618) | | 118,288 |
| Net cash used in investing activities | | (2,707,124) | | (4,337,570) |

Continued;

Consolidated Statements of Cash Flow

Years Ended December 31, 2004 and 2003

(in millions of Korean won)

| | 2004 | 2003 |
|-------------------------------------------------------|------------------|------------------|
| Cash flows from financing activities | | |
| Decrease (increase) in deposits, net | (2,101,460) | 2,392,780 |
| Decrease in borrowings, net | (2,359,705) | (3,957,539) |
| Increase in bonds issued, net | 2,926,193 | 2,922,749 |
| Increase in paid-in capital | - | 80,000 |
| Others, net | 2,112,839 | 2,804,111 |
| Net cash provided by financing activities | 577,867 | 4,242,101 |
| Decrease in cash due to change in consolidation scope | 4 | - |
| Net (decrease) increase in cash | (30,229) | 70,067 |
| Cash and cash equivalents | | |
| Beginning of year | 134,785 | 64,718 |
| End of year | ₩ 104,556 | ₩ 134,785 |

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

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

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 36 local branches, five overseas branches, three overseas subsidiaries and two overseas offices as of December 31, 2004. 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, 2004 and 2003, is as follows:

(in millions of Korean won)

| Subsidiaries | Invested amount | | Percentage of ownership (%) as of Dec. 31, 2004 |
|----------------------------------------------------|--------------------|--------------------|-------------------------------------------------|
| | 2004 | 2003 | |
| Domestic | | | |
| KDB Capital Corporation | ₩ 754,052 | ₩ 754,052 | 97.49 |
| Daewoo Securities Co., Ltd. | 548,252 | 548,252 | 39.09 |
| Daewoo Shipbuilding & Marine Engineering Co., Ltd. | 288,383 | 288,383 | 31.10 |
| Korea Infrastructure Fund | 42,403 | 20,678 | 67.29 |
| KDB Asset Management Co., Ltd. | 47,378 | 17,350 | 93.52 |
| Samwon Industrial Co., Ltd. | 575 | 575 | 42.31 |
| DSEC Co., Ltd. | 6,224 | - | 70.11 |
| | ₩ 1,687,267 | ₩ 1,629,290 | |

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

(in thousands)

| Subsidiaries | Invested amount | | Percentage of ownership (%) as of Dec. 31, 2004 |
|----------------------------------------------|-----------------|-----------------|-------------------------------------------------|
| | 2004 | 2003 | |
| Foreign | | | |
| KDB Asia (HK) Ltd. | US\$ 70,000 | US\$ 70,000 | 100.00 |
| KDB Ireland Ltd. | US\$ 20,000 | US\$ 20,000 | 100.00 |
| KDB Bank (Hungary) Ltd. | US\$ 49,074 | US\$ 29,305 | 100.00 |
| Metropolitan Industrial Leasing Co., Ltd. | THB 50,000 | THB 50,000 | 25.00 |
| Vietnam International Leasing Co., Ltd. | US\$ 1,886 | US\$ 1,600 | 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 |
| Optimal Access Investment Limited and others | US\$ 20,750 | US\$ 14,551 | 100.00 |
| Daewoo Mangalia Heavy Industries | Lei 156,138,000 | Lei 156,138,000 | 51.00 |
| | THB 50,000 | THB 50,000 | |
| | US\$ 207,574 | US\$ 181,320 | |
| | Lei 156,138,000 | Lei 156,138,000 | |

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

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

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

| Subsidiaries | Incorporation date | Outstanding capital | | Major business |
|----------------------------------------------------|--------------------|---------------------|---------------|-------------------------------------------------------------------------------------------------------------------------------------------------------|
| | | 2004 | 2003 | |
| 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 | ₩ 63,019 | ₩ 37,460 | Investing and financing for companies operating social infrastructure. |
| KDB Asia (HK) Ltd. | January 1986 | US\$ 70,000 | US\$ 70,000 | Providing financing services to Korean companies. Investment in securities. Conducting international securities operations. |
| KDB Ireland Ltd. | June 1967 | US\$ 20,000 | US\$ 20,000 | Supporting to introduce commercial loans for Korean companies. Investing in securities. |
| KDB Bank (Hungary) Ltd. | February 1990 | HUF 8,826,800 | HUF 4,686,800 | Providing commercial banking service. |
| KDB Asset Management Co., Ltd. | May 1996 | ₩ 38,895 | ₩ - | Security investment management operation and investment consulting service. |
| Samwon Industrial Co., Ltd. | January 1971 | ₩ 1,250 | ₩ 1,250 | Manufacturing dye and interface activator |

The Bank took over 64.28% of ownership of KDB Asset Management Co., Ltd. by participating in its capital increase. KDB Asset Management Co., Ltd. was newly included as one of the Bank's subsidiaries in the accompanying consolidated financial statements as of and for the year ended December 31, 2004. Seoul Debt Restructuring Fund, Arirang Restructuring Fund and Mukoonghwa Restructuring Fund were excluded from the Bank's subsidiaries as they are planned for liquidation in 2005. STX Pan Ocean Co., Ltd. (formerly Pan Ocean Shipping Co., Ltd.) was also excluded from the Bank's subsidiaries as the Bank disposed of 43.33% of its ownership during the year ended December 31, 2004.

Delta Info-Comm. Co., Ltd. was excluded from Daewoo Securities Co., Ltd.'s subsidiaries, which is one of the Bank's subsidiaries, as Daewoo Securities Co., Ltd. disposed of 68.12% of its ownership during the year ended December 31, 2004. DSEC Co., Ltd. received investment in kind from Daewoo Shipbuilding & Marine Engineering Co., Ltd., and was merged by Daedong engineering Co., Ltd., with DSEC Co., Ltd. as the surviving entity. Consequently, it is included as one of Daewoo Shipbuilding & Marine Engineering Co., Ltd.'s subsidiaries, whose financial performance is reflected on the accompanying consolidated financial statements as of and for the year ended December 31, 2004.

Notes to Consolidated Financial Statements

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Affiliated Companies under the Equity Method

The investments in companies under the equity method included in the consolidated financial statements as of December 31, 2004, are as follows:

(in millions of Korean won)

| | Investor | Invested amount | Percentage of ownership (%) as of Dec. 31, 2004 | Major business |
|-----------------------------------------------------------------|----------------------------------------------------|-----------------|-------------------------------------------------|---------------------------------------------------------------------|
| Korea Electric Power Corporation | KDB | ₩ 4,491,411 | 29.99 | Generation of electricity |
| Daewoo Shipbuilding & Marine Engineering Co., Ltd. | KDB | 173,078 | 21.91 | Manufacture of machinery |
| LG Card Co., Ltd. | KDB | 326,943 | 26.02 | Providing card and financing service |
| GM Daewoo Auto & Technology Company | KDB | 213,206 | 29.93 | Manufacture of automobiles |
| STX Pan Ocean Co., Ltd. (formerly Pan Ocean Shipping Co., Ltd.) | KDB | 31,907 | 21.12 | Providing sea transportation service |
| Korea Asset Management Corporation | KDB | 40,000 | 28.57 | Management of public funds |
| Arirang Restructuring Fund | KDB | 80,190 | 43.73 | Investing and financing for the restructuring of domestic companies |
| Mukoonghwa Restructuring Fund | KDB | 71,602 | 43.71 | Investing and financing for the restructuring of domestic companies |
| Seoul Debt Restructuring Fund | KDB | 47,538 | 43.80 | Investing and financing for the restructuring of domestic companies |
| Hangang Restructuring Fund | KDB | 35,013 | 23.01 | Investing and financing for the restructuring of domestic companies |
| Daedeok Techno Valley Co., Ltd. | KDB | 7,500 | 15.00 | Construction of non-residential buildings |
| SSI | KDB | 7,931 | 15.21 | Manufacturing semiconductor and others |
| 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 |
| Seoul Ceramics Co., Ltd. | KDB Capital Corporation | 248 | 22.50 | Manufacture of tiles |
| Korea Marine Fund Corp. | Daewoo Shipbuilding & Marine Engineering Co., Ltd. | 2,000 | 27.40 | Marine transport business |

Notes to Consolidated Financial Statements

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Use of the Report of Other Auditors

The audited December 31, 2004 financial statements of Daewoo Shipbuilding & Marine Engineering Co., Ltd., KDB Asia (HK) Ltd., KDB Asset Management Co., Ltd., Korea Infrastructure Fund, KDB Ireland Ltd. and KDB Bank(Hungary) Ltd. issued by other auditors were used in the preparation of the December 31, 2004 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 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.

Financial statements as of and for the years ended December 31, 2004 and 2003, were used for the consolidation of KDB Capital Corporation, Daewoo Securities Co., Ltd., Seoul Debt Restructuring Fund, Arirang Restructuring Fund and Mukoonghwa Restructuring Fund, which have a fiscal year end of March 31.

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. Except for the adoption of these SKFAS, the same accounting policies are applied for the financial statements as of and for the year ended December 31, 2004 and as of and for the year ended December 31, 2003.

Principles of Consolidation

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

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

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

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

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

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, 2004, is ₩434,377 million (2003: ₩275,244 million).

Provision for Possible Loan Losses

The Bank and its subsidiaries provide for possible loan losses based on the borrowers' future debt servicing ability (forward looking criteria) as determined by a credit rating model developed by the Bank. This credit rating model includes the financial and non-financial factors of 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 | Provision Percentages |
|----------------------|-----------------------|
| Normal | 0.5% or more |
| Precautionary | 2% or more |
| Substandard | 20% or more |
| Doubtful | 50% or more |
| 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, 2004, are ₩351,364 million (2003: ₩467,777 million).

Investment securities which allow the Bank and its subsidiaries a 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 in which the Bank and its subsidiaries hold more than 15% and 20% of interest, respectively. However, the Bank does not apply the equity method for the following investments:

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- 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 differences between the initial purchase price and the Bank and its subsidiaries' initial proportionate ownership of 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.

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 by 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 by the gross average

method, except for the first-in, first-out method for raw materials and supplies and the specific identification method for raw materials-in-transit.

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 ceased 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 | 10~ 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 |
| Office equipment, furniture and fixtures | 3 ~ 10 years | Straight-Line, Declining-balance method ¹ |

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¹Daewoo Securities Co., Ltd., KDB Asia (HK) Ltd., Daewoo Shipbuilding & Marine Engineering Co., Ltd., and KDB Asset Management Co., Ltd. compute depreciation using the straight-line method.

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

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

Intangible Assets

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

Present Value Discounts

Receivables and payables arising from long-term installment transactions, long-term cash loans receivable (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, 2004, is ₩36,776 million (2003: ₩83,652 million).

Foreign Currency Translation

Assets and liabilities denominated in foreign currencies are translated into Korean won at the exchange rates (₩1,043.8 : US\$1 as of December 31, 2004; ₩1,197.8 : US\$1 as of December 31, 2003) in effect on the balance sheet date. The resulting exchange gains or losses are reflected in current operations.

Accrued Severance Benefits

Employees and directors with at least one year of service are entitled to receive a lump-sum payment upon termination of their employment with the Bank, based on their length of service and rate of pay at the time of termination. Accrued severance benefits represent the amount which would be payable assuming all eligible employees and directors were to terminate their employment as of the balance sheet date.

Actual payment of severance benefits of the Bank for the year ended December 31, 2004, is ₩4,737 million (2003: ₩3,121 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.

Provision for Possible Guarantee Losses

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

Deferred Income Taxes

The Bank and its subsidiaries record deferred income taxes which arise

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from temporary differences between the amount reported for financial reporting purposes and income tax purposes. Income tax expense comprise taxes payable for the period and the change in deferred income tax assets and liabilities for the period.

Bonds Purchased under Resale Agreements and Bonds Sold under Repurchase Agreements

Bonds purchased or sold under resale or repurchase agreements are included in loans receivable 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 subsidiaries are maintained in foreign currencies. For presentation in the accompanying consolidated financial statements, the financial statements of the overseas subsidiaries have been translated at the exchange rates as of the balance sheet date.

Derivative Financial Instruments

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

Derivative financial instruments for fair value hedges are stated at market value. The gains and losses on the hedging instruments, as well as the related losses or gains on the hedged items, are recognized in the 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 records the net cash inflows and outflows for loans receivable, deposits, trading securities and others due to their frequent turnover and short-term maturity.

Change in Accounting Estimate

In June 2001, the Bank determined the original reversal period of negative goodwill arising from the acquisition of stocks of Korea Electric Power Corporation ("KEPCO") as nine years using the information available during acquisition. During our audit for the year ended December 31, 2004, the Bank re-estimated the reversal period of negative goodwill to be 20 years based on a new information from KEPCO. Accordingly, this change is regarded as a change in accounting estimate, resulting from the acquisition of new information. As a result of this change, the reversal amount of negative goodwill for the year ended December 31, 2004, is lesser by ₩262 billion than the amount which would have been reported under the previous accounting estimate.

Restatement of Prior Year Financial Statements

Relative to loans receivable disposal prior to January 1, 2004, the Bank computes for gain(loss) on disposal as the difference between the disposal price and book value of the loan at disposal date; while for cases of written off loans, the disposal price is adjusted to consider the provision for bad debts in cases of written off loans. Effective January 1, 2004, however, the Bank adopted to only consider the difference between the book value of the loans in the prior year end and the disposal price as the gain(loss) on disposal for all loans. This change resulted in an increase of ₩113 billion in losses in loan disposal, a decrease of ₩18.2 billion in gains in loan disposal, and a decrease of ₩131.2 billion in provision for loan losses.

The statement of income for the year ended December 31, 2003, presented herein for comparative purposes, has been restated, resulting in an increase of losses in loan disposal amounting to ₩33 billion, a decrease of gains in loan disposal amounting to ₩5.7 billion and a decrease of provision for loan losses amounting to ₩38.7 billion. Such changes do not affect net asset value, operating income and net income as of and for the year ended December 31, 2003.

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

3. CASH AND DUE FROM BANKS

Cash and due from banks as of December 31, 2004 and 2003, are as follows:

| | Annual interest rates (%) as of Dec. 31, 2004 | (in millions of Korean won) | |
|------------------------------------|--------------------------------------------------|-----------------------------|--------------------|
| | | 2004 | 2003 |
| Cash on hand in local currency | - | ₩ 74,447 | ₩ 105,803 |
| Cash on hand in foreign currency | - | 30,109 | 28,982 |
| Due from banks in local currency | 0.00 - 5.95 | 2,402,805 | 2,264,411 |
| Due from banks in foreign currency | 0.00 - 2.63 | 621,499 | 1,026,552 |
| | | ₩ 3,128,860 | ₩ 3,425,748 |

Due from banks in local currency as of December 31, 2004 and 2003, are as follows:

| Bank | Annual interest rates (%) as of Dec. 31, 2004 | (in millions of Korean won) | |
|-------------------|--------------------------------------------------|-----------------------------|--------------------|
| | | 2004 | 2003 |
| The Bank of Korea | 5.95 | ₩ 226,778 | ₩ 208,487 |
| Others | 0.00 - 5.95 | 2,176,027 | 2,055,924 |
| | | ₩ 2,402,805 | ₩ 2,264,411 |

Due from banks in foreign currency as of December 31, 2004 and 2003, are as follows:

| Bank | Annual interest rates (%) as of Dec. 31, 2004 | (in millions of Korean won) | |
|---------------------|--------------------------------------------------|-----------------------------|--------------------|
| | | 2004 | 2003 |
| The Bank of Korea | - | ₩ 29,159 | ₩ 18,819 |
| Shinhan Bank | 2.63 | 15,657 | - |
| Hana Bank | 2.63 | 57,409 | 63,857 |
| Korea Exchange Bank | 0.60 - 2.63 | 56,615 | 86,660 |
| Chohung Bank | 1.00 - 2.63 | 57,447 | 37,937 |
| Woori Bank | 2.63 | 69,831 | 56,297 |
| Others | 0.00 - 2.63 | 335,381 | 762,982 |
| | | ₩ 621,499 | ₩ 1,026,552 |

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

Restricted deposits included in due from banks as of December 31, 2004, are as follows:

| | (in millions of Korean won) | |
|----------------------------------------------------------------|-----------------------------|----------------|
| Reserve deposits with the Bank of Korea | ₩ | 235,331 |
| Kookmin Bank | | 78,907 |
| Shinhan Bank | | 12,405 |
| Industrial & Commercial Bank of China (ICBC) - Shanghai, China | | 3,131 |
| | ₩ | 329,774 |

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.

The maturities of the amounts due from banks as of December 31, 2004, 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 |
| March 31, 2005 | ₩ | 1,678,807 | ₩ | 295,869 | ₩ 1,974,676 |
| June 30, 2005 | | 554,821 | | 106,714 | 661,535 |
| Dec. 31, 2005 | | 35,000 | | 134,650 | 169,650 |
| Dec. 31, 2006 | | 49,398 | | 68,609 | 118,007 |
| Dec. 31, 2007 | | - | | - | - |
| Dec. 31, 2008 | | 75 | | 15,657 | 15,732 |
| Dec. 31, 2009 | | - | | - | - |
| Thereafter | | 84,704 | | - | 84,704 |
| | ₩ | 2,402,805 | ₩ | 621,499 | ₩ 3,024,304 |

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

4. SECURITIES

Trading securities as of December 31, 2004 and 2003, are as follows:

(in millions of Korean won)

| | The Bank | | Subsidiaries | | Total | |
|----------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| Equity investments | ₩ 25,329 | ₩ 2,644 | ₩ 54,956 | ₩ 347,364 | ₩ 80,285 | ₩ 350,008 |
| Government and public bonds | 654,714 | 467,319 | 1,337,820 | 656,172 | 1,992,534 | 1,123,491 |
| Corporate bonds | 347,351 | 277,913 | 973,988 | 928,561 | 1,321,339 | 1,206,474 |
| Beneficiary certificates | 318,113 | 968 | 408,200 | 493,718 | 726,313 | 494,686 |
| Securities in foreign currencies | 896,074 | 475,977 | 14,828 | 32,930 | 910,902 | 508,907 |
| Others | 9,932 | - | 335,631 | 233,823 | 345,563 | 233,823 |
| | ₩ 2,251,513 | ₩ 1,224,821 | ₩ 3,125,423 | ₩ 2,692,568 | ₩ 5,376,936 | ₩ 3,917,389 |

Par value, acquisition cost and fair value of trading debt securities as of December 31, 2004 and 2003, are as follows:

(in millions of Korean won)

| | Par value | | Acquisition cost | | Fair value | |
|----------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| Government and public bonds | ₩ 1,982,144 | ₩ 1,142,866 | ₩ 1,989,250 | ₩ 1,124,302 | ₩ 1,992,534 | ₩ 1,123,491 |
| Corporate bonds | 1,341,109 | 1,038,633 | 1,338,466 | 1,212,476 | 1,321,339 | 1,206,474 |
| Securities in foreign currencies | 904,035 | 477,605 | 909,463 | 481,133 | 910,902 | 508,907 |
| | ₩ 4,227,288 | ₩ 2,659,104 | ₩ 4,237,179 | ₩ 2,817,911 | ₩ 4,224,775 | ₩ 2,838,872 |

Trading securities in each foreign currencies as of December 31, 2004 and 2003, are as follows:

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

| Foreign currencies | | | | Equivalent in Korean won | | | |
|--------------------|---------|------|---------|--------------------------|----------------|----------|----------------|
| 2004 | | 2003 | | 2004 | | 2003 | |
| USD | 433,132 | USD | 247,817 | ₩ | 452,090 | ₩ | 296,835 |
| EUR | 287,269 | EUR | 126,076 | | 408,773 | | 187,902 |
| AUD | 990 | AUD | 11,983 | | 812 | | 10,748 |
| JPY | 561,460 | JPY | 528,270 | | 5,682 | | 5,915 |
| HUF | 74,817 | HUF | 2,790 | | 16,443 | | 3,343 |
| GBP | 10,008 | GBP | 1,040 | | 18,096 | | 2,215 |
| CHF | 5,978 | CHF | 2,021 | | 5,510 | | 1,949 |
| SGD | 5,484 | SGD | - | | 3,496 | | - |
| | | | | ₩ | 910,902 | ₩ | 508,907 |

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Available-for-sale securities as of December 31, 2004 and 2003, are as follows:

(in millions of Korean won)

| | The Bank | | Subsidiaries | | Total | |
|----------------------------------------|---------------------|---------------------|------------------|------------------|---------------------|---------------------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| Equity investments | ₩ 8,019,224 | ₩ 7,150,234 | ₩ 293,090 | ₩ 290,380 | ₩ 8,312,314 | ₩ 7,440,614 |
| Government and public bonds | 732,734 | 422,964 | - | 117 | 732,734 | 423,081 |
| Corporate bonds | 7,142,491 | 5,771,881 | 35,420 | 114,575 | 7,177,911 | 5,886,456 |
| Beneficiary certificates | 823,250 | 325,137 | 681 | 3,064 | 823,931 | 328,201 |
| Other securities in local currency | - | 194,611 | 2,049 | 3,528 | 2,049 | 198,139 |
| Other securities in foreign currencies | 2,299,001 | 2,254,517 | 193,104 | 246,093 | 2,492,105 | 2,500,610 |
| | ₩ 19,016,700 | ₩ 16,119,344 | ₩ 524,344 | ₩ 657,757 | ₩ 19,541,044 | ₩ 16,777,101 |

Available-for-sale equity securities, not using the equity method, as of December 31, 2004, are as follows:

(in millions of Korean won, shares in thousands)

| | Number of shares | Percentage of ownership (%) as of Dec. 31, 2004 | Acquisition cost | Book value | Fair value or Net book value |
|----------------------------------|------------------|-------------------------------------------------|--------------------|--------------------|------------------------------|
| Korea Highway Corporation | 143,010 | 9.18 | ₩ 1,430,100 | ₩ 1,430,184 | ₩ 1,472,138 |
| Industrial Bank of Korea | 46,915 | - | 326,906 | 323,575 | 323,575 |
| GM Daewoo Motors Co., Ltd. | 108 | - | 261,375 | 281,255 | 281,255 |
| Samsung Life Insurance Co., Ltd. | 378 | 1.89 | 264,496 | 132,248 | 150,907 |
| Korea National Housing Corp. | - | 17.71 | 1,300,618 | 1,300,618 | 998,286 |
| Korea Land Development Corp. | - | 26.77 | 1,161,904 | 1,191,329 | 1,062,308 |
| Korea Water Resources Corp. | - | 10.57 | 976,307 | 976,307 | 899,791 |
| Others | - | - | 2,965,480 | 2,690,805 | 2,833,417 |
| | | | ₩ 8,687,186 | ₩ 8,326,321 | ₩ 8,021,677 |

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

Available-for-sale debt securities as of December 31, 2004 and 2003, are as follows:

(in millions of Korean won)

| | Par value | | Acquisition cost | | Book value | |
|---------------------------------------------|---------------------|--------------------|---------------------|--------------------|---------------------|--------------------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| Government and public bonds | ₩ 714,550 | ₩ 411,437 | ₩ 731,799 | ₩ 431,429 | ₩ 732,734 | ₩ 423,081 |
| Corporate bonds | 7,256,516 | 6,502,459 | 7,355,907 | 6,470,615 | 7,177,911 | 5,886,456 |
| Beneficiary certificates | 197,211 | 370,580 | 808,162 | 380,862 | 823,931 | 328,201 |
| Investment securities in local currency | 2,569 | 194,029 | 2,569 | 193,970 | 2,049 | 198,139 |
| Investment securities in foreign currencies | 2,499,324 | 2,498,458 | 2,497,006 | 2,473,314 | 2,478,098 | 2,460,127 |
| | ₩ 10,670,170 | ₩ 9,976,963 | ₩ 11,395,443 | ₩ 9,950,190 | ₩ 11,214,723 | ₩ 9,296,004 |

Held-to-maturity debt securities as of December 31, 2004 and 2003, are as follows:

(in millions of Korean won)

| | Par value | | Acquisition cost | | Carrying value | |
|--------------------------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| Government and public bonds | ₩ 1,660,991 | ₩ 1,844,995 | ₩ 1,596,660 | ₩ 1,740,296 | ₩ 1,597,339 | ₩ 1,742,723 |
| Corporate bonds | 443,489 | 495,900 | 435,612 | 487,615 | 395,843 | 431,229 |
| Investment debt securities in local currency | 1,055 | 16,584 | 1,037 | 16,563 | 1,045 | 16,570 |
| Investment debt securities in foreign currencies | 403,733 | 1,021,223 | 402,875 | 1,019,385 | 402,216 | 1,019,579 |
| | ₩ 2,509,268 | ₩ 3,378,702 | ₩ 2,436,184 | ₩ 3,263,859 | ₩ 2,396,443 | ₩ 3,210,101 |

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

Securities under the equity method as of December 31, 2004 and 2003, are as follows:

(in millions of Korean won)

| | Percentage of ownership (%) as of Dec. 31, 2004 | Acquisition cost | | Book value | | Fair value or net book value | |
|------------------------------------------|-------------------------------------------------|--------------------|--------------------|--------------------|--------------------|------------------------------|--------------------|
| | | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| | | | | | | | |
| Korea Electric Power Corporation | 29.99 | ₩ 4,491,411 | ₩ 3,265,468 | ₩ 7,353,545 | ₩ 5,394,029 | ₩ 11,209,749 | ₩ 8,103,319 |
| Daewoo Heavy Industries & Machinery Ltd. | 21.91 | 173,078 | 173,078 | 259,276 | 212,417 | 249,461 | 192,787 |
| GM Daewoo Auto & Technology Company | 29.93 | 213,206 | 213,206 | 231,240 | 196,209 | 578,435 | 576,159 |
| Korea Asset Management Corporation | 28.57 | 40,000 | 40,000 | 65,503 | 66,060 | 65,503 | 66,060 |
| Hankang Restructuring Fund | 23.01 | 35,013 | 73,186 | 30,187 | 74,897 | 30,187 | 74,897 |
| Others ¹ | - | 843,734 | 249,195 | 774,528 | 259,330 | 288,142 | 259,041 |
| | | ₩ 5,796,442 | ₩ 4,014,133 | ₩ 8,714,279 | ₩ 6,202,942 | ₩ 12,421,477 | ₩ 9,272,263 |

¹ For the year ended December 31, 2003, STX Pan Ocean Co., Ltd. (formerly Pan Ocean Shipping Co., Ltd.), Seoul Debt Restructuring Fund, Arirang Restructuring Fund and Mukoonghwa Restructuring Fund were not accounted for by the equity method of accounting because they were subject to the consolidation. However, unlike the previous year, the equity method of accounting has been applied to those companies for the year ended December 31, 2004 because shares of STX Pan Ocean Co., Ltd.'s stocks held by the Bank were disposed of in 2004, and Seoul Debt Restructuring Fund, Arirang Restructuring Fund and Mukoonghwa Restructuring Fund are planned to be liquidated in 2005.

Details of valuation on the securities using the equity method as of and for the year ended December 31, 2004, are as follows:

(in millions of Korean won)

| | Beginning book value | Changes in range of consolidation | Acquisition (disposal) | Dividends | Valuation gain (loss) | Capital adjustment | Ending book value |
|------------------------------------------|----------------------|-----------------------------------|------------------------|------------------|-----------------------|--------------------|--------------------|
| Korea Electric Power Corporation | ₩ 5,394,029 | ₩ - | ₩ 1,225,943 | ₩ 144,959 | ₩ 883,925 | ₩ (5,393) | ₩ 7,353,545 |
| Daewoo Heavy Industries & Machinery Ltd. | 212,417 | - | - | - | 42,944 | 3,915 | 259,276 |
| GM Daewoo Auto & Technology Company | 196,209 | - | - | - | (1,253) | 36,284 | 231,240 |
| Korea Asset Management Corporation | 66,060 | - | - | 2,400 | 5,807 | (3,964) | 65,503 |
| Hankang Restructuring Fund | 74,897 | - | (38,173) | - | (6,537) | - | 30,187 |
| Others | 259,330 | 356,629 | 220,703 | 10,141 | (39,722) | (12,271) | 774,528 |
| | ₩ 6,202,942 | ₩ 356,629 | ₩ 1,408,473 | ₩ 157,500 | ₩ 885,164 | ₩ 18,571 | ₩ 8,714,279 |

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

The equity method adjustments are calculated as the differences between the initial purchase price and the Bank's initial proportionate ownership of the net book value of investees at the time of purchase. Equity method adjustment debits are amortized over five years and equity method adjustment credits are 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, 2004, are as follows:

(in millions of Korean won, shares in thousands)

| | Number of shares | Percentage of ownership (%) as of Dec. 31, 2004 | Acquisition cost | Book value | Fair value or Net book value |
|---------------------------------------------------|------------------------|----------------------------------------------------------|---------------------|--------------------|------------------------------------|
| Korea National Housing Corp. ¹ | - | 17.71 | 1,300,618 | 1,300,618 | 998,286 |
| Korea Land Development Corp. ¹ | - | 26.77 | 1,161,904 | 1,191,329 | 1,062,308 |
| Korea National Tourism Organization. ¹ | 2,824 | 43.58 | 24,370 | 35,529 | 137,944 |
| Hyundai Engineering & Construction Co., Ltd. | 18,290 | 16.75 | 349,615 | 284,402 | 284,402 |
| Donghae Pulp Co., Ltd. | 4,900 | 51.36 | 24,500 | 12,250 | 12,250 |
| Hyundai Corporation | 3,894 | 16.96 | 15,248 | 13,395 | 13,395 |
| Others | | | 242,356 | 215,510 | 203,916 |
| | | | ₩ 3,118,611 | ₩ 3,053,033 | ₩ 2,712,501 |

¹Notwithstanding its over 15% ownership holdings of the investee companies presented above, the Bank is not considered to exercise a significant influence over the management of these companies because the aggregate ownership percentage held by the Korean government exceeds 50% of the ownership in these companies.

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

Investment securities denominated in foreign currencies as of December 31, 2004 and 2003, are as follows:

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

| Foreign currency | | | | Equivalent in Korean won | | | |
|--------------------------------------|------------|------|------------|--------------------------|------------------|------|------------------|
| 2004 | | 2003 | | 2004 | | 2003 | |
| Available-for-sale debt securities : | | | | | | | |
| USD | 1,992,929 | USD | 1,608,834 | ₩ | 2,080,222 | ₩ | 1,927,061 |
| JPY | 21,538,332 | JPY | 43,209,718 | | 217,983 | | 483,776 |
| EUR | 72,062 | EUR | 7,564 | | 102,542 | | 11,365 |
| GBP | 29,536 | GBP | 5,910 | | 59,338 | | 12,585 |
| HUF | 13,652 | HUF | 17,526 | | 14,250 | | 20,992 |
| CNY | 29,837 | CNY | 30,051 | | 3,763 | | 4,348 |
| | | | | ₩ | 2,478,098 | ₩ | 2,460,127 |
| USD | 400,901 | USD | 760,825 | ₩ | 373,918 | ₩ | 887,361 |
| JPY | - | JPY | 10,653,269 | | - | | 119,274 |
| EUR | - | EUR | 1,984 | | - | | 2,981 |
| HUF | 27,110 | HUF | 8,317 | | 28,298 | | 9,963 |
| | | | | ₩ | 402,216 | ₩ | 1,019,579 |

As of December 31, 2004, investment securities amounting to ₩485,000 million are pledged as collateral to KDB First Securitization Specialty Co., Ltd.

With regard to futures trading, 7,680,060 shares of Korea Electric Power Corporation and debt securities of Korea Deposit Insurance Corporation amounting to ₩20,000 million are pledged as a deposit money to Kookmin Futures Inc. and others as of December 31, 2004.

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

5. LOANS RECEIVABLE

Loans receivable as of December 31, 2004 and 2003, are as follows:

| | 2004 | | 2003 | |
|---------------------------------------------|------|-------------------|------|-------------------|
| | ₩ | | ₩ | |
| Loans receivable in local currency | ₩ | 17,884,789 | ₩ | 17,126,548 |
| Loans receivable in foreign currencies | | 13,423,674 | | 15,917,595 |
| Notes purchased | | 255 | | 1,295 |
| Bills purchased | | 1,912,123 | | 1,948,543 |
| Advances for customers | | 180,081 | | 194,162 |
| Bonds purchased under repurchase agreements | | 131,167 | | 144,326 |
| Call loans | | 634,452 | | 2,214,354 |
| Domestic import usance bills | | 2,823,961 | | 3,173,871 |
| Debentures accepted by private subscription | | 8,651,599 | | 7,911,416 |
| Others | | 1,965,407 | | 877,679 |
| | | 47,607,508 | | 49,509,789 |
| Less: Provision for possible loan losses | | (1,253,302) | | (1,439,808) |
| | ₩ | 46,354,206 | ₩ | 48,069,981 |

Loans receivable in local and foreign currencies as of December 31, 2004 and 2003, are as follows:

| | The Bank | | Subsidiaries | | Total | |
|----------------------------------------|---------------------|---------------------|------------------|------------------|---------------------|---------------------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| Loans receivable in local currency | | | | | | |
| Loans for working capital | ₩ 7,133,277 | ₩ 6,961,904 | ₩ 204,739 | ₩ 168,623 | ₩ 7,338,016 | ₩ 7,130,527 |
| Loans for facilities | 9,992,141 | 9,841,239 | 584,362 | 303,327 | 10,576,503 | 10,144,566 |
| Inter-company loans | (29,730) | (148,545) | - | - | (29,730) | (148,545) |
| | ₩ 17,095,688 | ₩ 16,654,598 | ₩ 789,101 | ₩ 471,950 | ₩ 17,884,789 | ₩ 17,126,548 |
| Loans receivable in foreign currencies | | | | | | |
| Loans for working capital | ₩ 2,291,045 | ₩ 2,410,666 | ₩ 457,677 | ₩ 572,590 | ₩ 2,748,722 | ₩ 2,983,256 |
| Loans for facilities | 11,213,061 | 13,462,092 | 175,623 | 79,254 | 11,388,684 | 13,541,346 |
| Inter-company loans | (713,732) | (607,007) | - | - | (713,732) | (607,007) |
| | ₩ 12,790,374 | ₩ 15,265,751 | ₩ 633,300 | ₩ 651,844 | ₩ 13,423,674 | ₩ 15,917,595 |

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

The maturity of loans receivable in local and foreign currencies as of December 31, 2004, are as follows:

(in millions of Korean won)

| Maturing on or before | Loans for working capital in local currency | Loans for facilities in local currency | Loans for working capital in foreign currencies | Loans for facilities in foreign currencies | Total |
|--------------------------------|---------------------------------------------|----------------------------------------|-------------------------------------------------|--------------------------------------------|---------------------|
| March 31, 2005 | ₩ 1,526,860 | ₩ 538,913 | ₩ 651,968 | ₩ 1,526,657 | ₩ 4,244,398 |
| June 30, 2005 | 808,513 | 467,282 | 464,490 | 342,179 | 2,082,464 |
| Dec. 31, 2005 | 1,869,238 | 852,442 | 972,059 | 948,410 | 4,642,149 |
| Dec. 31, 2006 | 857,558 | 1,689,661 | 262,812 | 2,019,232 | 4,829,263 |
| Dec. 31, 2007 | 1,228,424 | 1,832,395 | 183,755 | 1,692,080 | 4,936,654 |
| Dec. 31, 2008 | 476,549 | 1,533,503 | 45,364 | 1,494,074 | 3,549,490 |
| Dec. 31, 2009 | 479,085 | 1,243,731 | 116,836 | 1,026,796 | 2,866,448 |
| Thereafter | 91,789 | 2,418,576 | 51,438 | 2,339,256 | 4,901,059 |
| | ₩ 7,338,016 | ₩ 10,576,503 | ₩ 2,748,722 | ₩ 11,388,684 | ₩ 32,051,925 |
| Inter-company loans receivable | | | | | (743,462) |
| | | | | | ₩ 31,308,463 |

The Bank's restructured loans receivable as of December 31 2004 and 2003, due to court receivership, court mediation or other financial restructuring process are as follows:

(in millions of Korean won)

| | 2004 | 2003 |
|---------------------------------|------------------|------------------|
| Conversion to equity investment | ₩ 701,736 | ₩ 682,477 |
| Changes in contractual terms | - | 25,292 |
| Exemption | - | 25,245 |
| | ₩ 701,736 | ₩ 733,014 |

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.

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

6. PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2004 and 2003, are as follows:

(in millions of Korean won)

| | Acquisition cost or revaluation amount | | Accumulated depreciation | | Net book value | |
|------------------------------------------|----------------------------------------|--------------------|--------------------------|--------------------|--------------------|--------------------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| Land | ₩ 989,491 | ₩ 1,010,769 | ₩ - | ₩ - | ₩ 989,491 | ₩ 1,010,769 |
| Buildings | 1,029,920 | 966,401 | 164,056 | 140,330 | 865,864 | 826,071 |
| Structures | 438,151 | 422,534 | 92,775 | 81,927 | 345,376 | 340,607 |
| Machinery | 479,794 | 464,803 | 253,205 | 241,336 | 226,589 | 223,467 |
| Vehicles | 95,073 | 1,488 | 54,000 | 1,150 | 41,073 | 338 |
| Ships | 43,538 | 1,108,437 | 19,517 | 609,332 | 24,021 | 499,105 |
| Construction in progress | 155,131 | 181,359 | - | - | 155,131 | 181,359 |
| Office equipment, furniture and fixtures | 412,622 | 599,051 | 289,377 | 400,737 | 123,245 | 198,314 |
| | ₩ 3,643,720 | ₩ 4,754,842 | ₩ 872,930 | ₩ 1,474,812 | ₩ 2,770,790 | ₩ 3,280,030 |

The government-valued price of the Bank and its subsidiaries' land for the year ended December 31, 2004 is ₩811,202 million (2003: ₩719,952 million).

As of December 31, 2004, inventories, property and equipment, and other assets are insured against fire and other casualty losses up to approximately ₩2,365,266 million (2003: ₩4,793,622 million).

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

7. OTHER ASSETS

Other assets as of December 31, 2004 and 2003, are as follows:

(in millions of Korean won)

| | 2004 | | 2003 | |
|-------------------------------------|------|------------------|------|-------------------|
| Other accounts receivable | ₩ | 6,153,588 | ₩ | 8,837,137 |
| Accrued income | | 384,738 | | 505,139 |
| Deferred income tax assets | | 36,893 | | 201,415 |
| Inventory | | 545,460 | | 256,071 |
| Others | | 1,005,633 | | 781,420 |
| | | 8,126,312 | | 10,581,182 |
| | | (105,277) | | (185,278) |
| Less: Provision for possible losses | ₩ | 8,021,035 | ₩ | 10,395,904 |

8. DEPOSITS

Deposits as of December 31, 2004 and 2003, are as follows:

(in millions of Korean won)

| | Annual average interest rates (%) as of Dec. 31, 2004 | 2004 | | 2003 | |
|-------------------------------------|----------------------------------------------------------|------|-------------------|------|-------------------|
| Local currency deposits | | | | | |
| Demand deposits | 0.01 - 2.25 | ₩ | 2,060,691 | ₩ | 1,288,929 |
| Time and savings deposits | 2.16 - 9.17 | | 5,136,350 | | 7,045,428 |
| | | | 7,197,041 | | 8,334,357 |
| Foreign currency deposits | | | | | |
| Checking deposits | - | | 35,723 | | 19,617 |
| Passbook deposits | 0.55 | | 152,829 | | 210,809 |
| Time deposits | 0.70 - 10.05 | | 670,965 | | 626,069 |
| Temporary deposits | 0.44 | | 262 | | 124 |
| Others | 0.05 | | 56 | | 3 |
| | | | 859,835 | | 856,622 |
| Negotiable certificates of deposits | 3.29 | | 2,632,720 | | 3,577,818 |
| | | ₩ | 10,689,596 | ₩ | 12,768,797 |

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

9. BORROWINGS

Borrowings as of December 31, 2004 and 2003, are as follows:

| | | Annual average interest rates (%) as of Dec. 31, 2004 | | (in millions of Korean won) | |
|----------------------------------------|-------------|----------------------------------------------------------|-------------------|-----------------------------|-------------------|
| | | 2004 | | 2003 | |
| Borrowings in local currency | | | | | |
| Borrowings from the Korean government | 2.65 - 3.93 | ₩ | 2,476,205 | ₩ | 2,539,548 |
| Others | 0.50 - 7.80 | | 2,866,343 | | 2,238,481 |
| | | | 5,342,548 | | 4,778,029 |
| Borrowings in foreign currencies | | | | | |
| Borrowings from the Korean government | 2.07 - 2.20 | | 4,454,924 | | 5,873,382 |
| Off-shore borrowings | 1.69 - 1.78 | | 1,742,823 | | 1,206,203 |
| Others | 0.25 - 5.00 | | 5,076,563 | | 7,379,487 |
| | | | 11,274,310 | | 14,459,072 |
| Other borrowings | | | | | |
| Bonds sold under repurchase agreements | - | | 4,521,796 | | 3,934,894 |
| Notes sold | - | | 1,109 | | 4,793 |
| Call money | - | | 2,635,660 | | 1,181,586 |
| Others | - | | 5,305 | | 5,756 |
| | | | 7,163,870 | | 5,127,029 |
| | | ₩ | 23,780,728 | ₩ | 24,364,130 |

The subordinated debt included in borrowings from the Korean government as of December 31, 2004 and 2003, are as follows:

| Type | Annual interest rates (%) as of Dec. 31, 2004 | 2004 | | 2003 | | Condition of Borrowings |
|-------------------------------------------------------------------------------|-----------------------------------------------------|------|------------------|------|------------------|----------------------------|
| | | ₩ | | ₩ | | |
| Government fund | 3.93 | ₩ | 1,738,980 | ₩ | 1,923,090 | Installment reimbursement |
| Agency for International Development relending facilities | 2.01 | | 169 | | 236 | Installment reimbursement |
| Asian Development Bank relending facilities | 2.07 | | 1,043,800 | | 1,201,764 | Lump-sum reimbursement |
| International Bank for Reconstruction and Development relending facilities | 2.20 | | 3,411,124 | | 4,671,618 | Installment reimbursement |
| | | ₩ | 6,194,073 | ₩ | 7,796,708 | |

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

The maturities of borrowings in local and foreign currencies as of December 31, 2004, are as follows:

(in millions of Korean won)

| Maturity date | Borrowings in local currency | | Borrowings in foreign currencies | | Total | |
|----------------|---------------------------------|------------------|-------------------------------------|-------------------|-------|-------------------|
| March 31, 2005 | ₩ | 382,054 | ₩ | 4,055,610 | ₩ | 4,437,664 |
| June 30, 2005 | | 280,934 | | 1,456,755 | | 1,737,689 |
| Dec. 31, 2005 | | 395,193 | | 2,177,390 | | 2,572,583 |
| Dec. 31, 2006 | | 595,254 | | 1,041,222 | | 1,636,476 |
| Dec. 31, 2007 | | 610,160 | | 708,729 | | 1,318,889 |
| Dec. 31, 2008 | | 606,286 | | 504,039 | | 1,110,325 |
| Dec. 31, 2009 | | 662,066 | | 669,380 | | 1,331,446 |
| Thereafter | | 1,810,601 | | 661,185 | | 2,471,786 |
| | ₩ | 5,342,548 | ₩ | 11,274,310 | ₩ | 16,616,858 |

10. DEBENTURES

Debentures as of December 31, 2004 and 2003, are as follows:

(in millions of Korean won)

| | Annual interest rates (%) as of Dec. 31, 2004 | 2004 | | 2003 | |
|-------------------------------------|--------------------------------------------------|------|-------------------|------|-------------------|
| | | ₩ | | ₩ | |
| Industrial Finance Bonds ("IFB") in | | | | | |
| local currency | 5.41 | ₩ | 28,621,821 | ₩ | 25,150,468 |
| IFB in foreign currencies | 1.67 | | 10,110,114 | | 10,030,653 |
| Offshore IFB in foreign currencies | 1.71 | | 1,199,266 | | 1,591,519 |
| Others | 4.50 - 12.25 | | 514,895 | | 762,005 |
| | | | 40,446,096 | | 37,534,645 |
| Premiums on IFB | | | 34,534 | | 19,591 |
| Discounts on IFB | | | (42,134) | | (52,918) |
| | | ₩ | 40,438,496 | ₩ | 37,501,318 |

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 guarantees are executed, the limit is temporarily not suspended. The amount of issued bonds guaranteed by the Korean government for the year ended December 31, 2004 is ₩784 million (2003: ₩792 million).

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

The Bank acquired Industrial Finance Bonds amounting to ₩177,841 million (2003: ₩261,902 million) for the year ended December 31, 2004. The Treasury bonds are deducted from Industrial Finance Bonds.

The maturities of debentures as of December 31, 2004, are as follows:

(in millions of Korean won)

| Maturing on or before | Debentures in local currency | | Debentures in foreign currencies | | Total |
|-----------------------|------------------------------|-------------------|----------------------------------|-------------------|---------------------|
| March 31, 2005 | ₩ | 6,104,339 | ₩ | - | ₩ 6,104,339 |
| June 30, 2005 | | 4,014,505 | | 303,357 | 4,317,862 |
| Dec. 31, 2005 | | 6,830,082 | | 231,312 | 7,061,394 |
| Dec. 31, 2006 | | 4,893,636 | | 3,648,339 | 8,541,975 |
| Dec. 31, 2007 | | 5,283,639 | | 1,121,645 | 6,405,284 |
| Dec. 31, 2008 | | 607,615 | | 1,313,690 | 1,921,305 |
| Dec. 31, 2009 | | 856,986 | | 3,199,067 | 4,056,053 |
| Thereafter | | 518,728 | | 1,511,556 | 2,030,284 |
| | ₩ | 29,109,530 | ₩ | 11,328,966 | ₩ 40,438,496 |

11. OTHER LIABILITIES

Other liabilities as of December 31, 2004 and 2003, are as follows:

(in millions of Korean won)

| | 2004 | | 2003 | |
|--------------------------------------------------|------|------------------|------|------------------|
| Advances received | ₩ | 1,928,374 | ₩ | 1,195,817 |
| Withholding taxes | | 1,974 | | 34,754 |
| Deferred gain from foreign exchange transactions | | 229,864 | | 122,765 |
| Provisions for possible other losses | | 79,064 | | 235,847 |
| Advances received on IFB | | 4,607 | | 15,108 |
| Others | | 1,441,115 | | 1,115,496 |
| | ₩ | 3,684,998 | ₩ | 2,719,787 |

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

12. OUTSTANDING GUARANTEES

The Bank and its subsidiaries provide guarantees for their customers. Outstanding guarantees and the related provision for possible losses as of December 31, 2004 and 2003, are as follows:

(in millions of Korean won)

| | Outstanding guarantees | | Provision for possible loss | | Provision ratio (%) as of Dec. 31, 2004 |
|-----------------------------------------------------|------------------------|---------------------|-----------------------------|-----------------|--------------------------------------------|
| | 2004 | 2003 | 2004 | 2003 | |
| Acceptances | ₩ 750,102 | ₩ 730,216 | ₩ 17,720 | ₩ 3,265 | 2.36 |
| Guarantees on local borrowings | 267,045 | 1,252,048 | 4,950 | 36,397 | 1.85 |
| Guarantees on indebtedness in foreign currencies | 8,218,519 | 8,253,904 | 1,054 | 1,429 | 0.01 |
| Letters of guarantee for importers | 32,319 | 39,350 | 36 | 64 | 0.11 |
| | ₩ 9,267,985 | ₩ 10,275,518 | ₩ 23,760 | ₩ 41,155 | |

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 USD 124.6 million, EUR 4 million and JPY 2,164 million (equivalent to ₩157,648 million) and ₩116,570 million, of which USD 49 million, EUR 1 million and JPY 1,100 million (equivalent to ₩63,960 million) and ₩54,190 million have not been withdrawn by borrowers as of December 31, 2004.

In 1998, the Bank sold with recourse ₩3,084,141 million of non-performing loans receivable classified as substandard or below to the Korea Asset Management Corporation 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 receivable in 1998. As of December 31, 2004, the unsettled amount of such loans receivable amounted to ₩191,381 million, and the provision for possible losses from the disposal of unsettled loans receivable recorded as other liabilities amounted to ₩36,776 million.

Notes to Consolidated Financial Statements

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Loans receivable sold to KDB First Securitization Specialty Co., Ltd. and others in accordance with the Asset Securitization Plan as of December 31, 2004, are as follows:

(in millions of Korean won)

| | Disposal date | Book value | Selling price | Retained subordinated debt securities | Collateral ¹ |
|----------------|--------------------|--------------------|--------------------|---------------------------------------|-------------------------|
| KDB First SPC | June 8, 2000 | ₩ 950,627 | ₩ 600,000 | ₩ 201,800 | ₩ 120,000 |
| KDB Second SPC | November 8, 2000 | 914,764 | 423,600 | 143,600 | 80,000 |
| KDB Third SPC | September 20, 2001 | 1,793,546 | 949,900 | 349,900 | 185,000 |
| KDB Fifth SPC | December 13, 2001 | 765,358 | 528,400 | 238,400 | 100,000 |
| | | ₩ 4,424,295 | ₩ 2,501,900 | ₩ 933,700 | ₩ 485,000 |

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 ₩7,739,185 million, of which ₩168,026 million was withdrawn as of December 31, 2004.

The Bank still has the valid legal right to seek indemnity for a part of loan receivables written off as of December 31, 2004 in the amount of ₩1,462,902 million.

The Bank has outstanding loans receivable amounting to ₩2,377,792 million and securities amounting to ₩1,236,144 million as of December 31, 2004 of companies under workout, court receivership, court mediation and other restructuring process. The Bank recorded ₩604,754 million as provisions 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 receivable may differ from

the provisions recorded.

As of December 31, 2004, the Bank and its subsidiaries are either a defendant or a plaintiff in legal actions arising from the normal course of business. The aggregate amounts of cases as the defendant and the plaintiff amounted to approximately ₩168,384 million in 29 cases and ₩297,807 million in 25 cases, respectively. The Bank believes that although the outcome of these matters is uncertain, they would not result in a material ultimate loss for the Bank. Accordingly, no provision for potential losses arising from these claims is reflected in the accompanying consolidated financial statements.

Daewoo Securities Co., Ltd. has been named as a defendant as December 31, 2004 in legal actions by 13 financial institutions with respect to redemption requests of beneficiary certificates amounting to approximately ₩601 billion. Those financial institutions requested Daewoo Securities Co., Ltd. to redeem the beneficiary certificates, which they purchased through the sales agency of Daewoo Securities Co., Ltd., at the carrying value of the underlying assets at the time of the request, in accordance with a certain provision of the related Investment Trust Act. However, Daewoo Securities Co., Ltd. rejected the requests and offered that the redemption should be made based on the fair value of

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

the underlying assets because the fair value significantly declined as contrasted customers should bear losses from the beneficiary certificates. Daewoo Securities Co., Ltd. recognized ₩1,315 billion of loss, based on the result of the original judgments to the pending litigations initiated by 13 financial institutions as of December 31, 2003, and recognized provisions of ₩65 billion to the original pending litigations as of December 31, 2004.

However, as of the reporting date, Daewoo Securities Co., Ltd. continues to respond to each case, entering appeals as of the balance sheet date. The ultimate outcome of these litigations on the financial position of Daewoo Securities Co., Ltd. as of the reporting date cannot presently be determined, and no additional adjustments have been made to the consolidated financial statements related to such uncertainties.

After the 'Daewoo Group Bankruptcy' in 1999, Daewoo Securities Co., Ltd. repurchased beneficiary certificates related to Daewoo Group's bonds from customers, which amounted to ₩3,793 billion as of December 31, 2004. For the valuation of the beneficiary certificates, Daewoo Securities Co., Ltd. basically uses the prices which are announced by the investment trust management companies. In addition, in consideration of recoverable value of the commercial paper related to bonds of Daewoo issued by Seoul guarantee insurance, Daewoo Securities Co., Ltd. recognized an impairment of the carrying amounts of the beneficiary certificates as current assets in accordance with the Financial Accounting Standards of the Republic of Korea, as the management of Daewoo Securities Co., Ltd. believes that since the carrying value of beneficiary certificates were written down to their fair value, these would easily be convertible to cash.

However, the actual amount and timing of the recovery of those beneficiary certificates may have been affected by the unstable economic conditions in Korea and the normalization of companies formerly referred to as the Daewoo Business Group. As of the date of this report, the ultimate effect on the financial statements of these uncertainties cannot presently be determined. Accordingly, no adjustment has been made in the accompanying consolidated financial statements related to such uncertainties.

14. DERIVATIVE FINANCIAL INSTRUMENTS AND THE RELATED CONTRACTS

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

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

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

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

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

The unsettled contract amount of the Bank's derivatives and the related valuation gain(loss) as of and for the year ended December 31, 2004, are as follows:

(in millions of Korean won)

| | Unsettled Contract Amount | | | Valuation Gain/Loss (P/L) | | | Valuation Asset(Liability) (B/S) |
|------------------------------|---------------------------|--------------------|----------------------|---------------------------|--------------------|----------------|----------------------------------------|
| | Trading purpose | Hedging purpose | Total | Trading purpose | Hedging purpose | Total | |
| Interest rate | | | | | | | |
| Forward | ₩ 835,040 | ₩ - | ₩ 835,040 | ₩ (70) | ₩ - | ₩ (70) | ₩ (70) |
| Futures | 6,037,117 | - | 6,037,117 | (1,255) | - | (1,255) | - |
| Swap | 40,595,035 | 2,960,850 | 43,555,885 | (30,842) | 37,300 | 6,458 | 168,518 |
| Option | | | | | | | |
| Buy | 823,561 | - | 823,561 | 5,265 | - | 5,265 | 21,517 |
| Sell | 824,166 | - | 824,166 | (8,481) | - | (8,481) | (24,604) |
| | <u>49,114,919</u> | <u>2,960,850</u> | <u>52,075,769</u> | <u>(35,383)</u> | <u>37,300</u> | <u>1,917</u> | <u>165,361</u> |
| Currency | | | | | | | |
| Forward | 62,641,256 | - | 62,641,256 | (131,021) | - | (131,021) | (137,722) |
| Futures | 46,971 | - | 46,971 | - | - | - | - |
| Swap | 16,511,901 | 1,799,029 | 18,310,930 | 188,105 | 16,033 | 204,138 | 47,262 |
| Option | | | | | | | |
| Buy | 3,048,560 | - | 3,048,560 | 25,823 | - | 25,823 | 59,599 |
| Sell | 3,445,704 | - | 3,445,704 | (95,579) | - | (95,579) | (137,824) |
| | <u>85,694,392</u> | <u>1,799,029</u> | <u>87,493,421</u> | <u>(12,672)</u> | <u>16,033</u> | <u>3,361</u> | <u>(168,685)</u> |
| Stock price index | | | | | | | |
| Futures | 11,485 | - | 11,485 | 276 | - | 276 | - |
| Option | | | | | | | |
| Buy | 544,604 | - | 544,604 | (2,148) | - | (2,148) | 16,724 |
| Sell | 538,243 | - | 538,243 | 2,662 | - | 2,662 | (16,754) |
| | <u>1,094,332</u> | <u>-</u> | <u>1,094,332</u> | <u>790</u> | <u>-</u> | <u>790</u> | <u>(30)</u> |
| | ₩ 135,903,643 | ₩ 4,759,879 | ₩ 140,663,522 | ₩ (47,265) | ₩ 53,333 | ₩ 6,068 | ₩ (3,354) |

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

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 ₩10,000,000 million as of December 31, 2004. The total paid-in capital of the Bank outstanding as of December 31, 2004 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, 2004 and 2003, are as follows:

| | (in millions of Korean won) | |
|-------------------------------------------------------------------------------------|-----------------------------|-----------------|
| | 2004 | 2003 |
| Legal reserve | ₩ 623,531 | ₩ 294,103 |
| Retained earnings before appropriations (accumulated deficit before disposition) | 495,332 | (232,096) |
| | ₩ 1,118,893 | ₩ 62,007 |

The Korea Development Bank Act requires the Bank to appropriate net income as a legal reserve. This reserve can be transferred to paid-in capital or used to offset accumulated deficit.

Offsetting of Accumulated Deficit

In accordance with the Korea Development Bank Act, the Bank offsets accumulated deficit with reserves. If reserves are insufficient to eliminate the accumulated deficit, the Korean Government should complement the deficiency. The offset accumulated deficit with the approval of the Korean government since 2000 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 |

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

Capital Adjustments

Capital adjustments as of December 31, 2004 and 2003, are as follows:

| | 2004 | | 2003 | |
|-------------------------------------------------------------------------------------------------------------|------|----------------|------|-----------------------------|
| | | | | (in millions of Korean won) |
| The Bank's gain (loss) on valuation of available-for-sale securities and securities under the equity method | ₩ | 583,850 | ₩ | (126,905) |
| Bank's share of the capital adjustments of subsidiaries | | 150,916 | | 15,069 |
| | ₩ | 734,766 | ₩ | (111,836) |

16. OTHER NON-INTEREST REVENUES AND EXPENSES

Other non-interest revenues and expenses for the years ended December 31, 2004 and 2003, are as follows:

| | 2004 | | 2003 | |
|--------------------------------|------|----------------|------|-----------------------------|
| | | | | (in millions of Korean won) |
| Other non-interest revenue | | | | |
| Revenue from operating leases | ₩ | 49,458 | ₩ | 55,414 |
| Others | | 271,819 | | 244,443 |
| | ₩ | 321,277 | ₩ | 299,857 |
| Other non-interest expenses | | | | |
| Expenses from operating leases | ₩ | 15,184 | ₩ | 15,058 |
| Others | | 186,442 | | 254,889 |
| | ₩ | 201,626 | ₩ | 269,947 |

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

17. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the years ended December 31, 2004 and 2003, are as follows:

| | 2004 | | 2003 | |
|----------------------------------------|------------------|--|------------------|--|
| | ₩ | | ₩ | |
| Salaries | 328,974 | | 315,885 | |
| Retirement allowance | 41,445 | | 40,727 | |
| Welfare expenses | 87,661 | | 99,870 | |
| Rent | 35,936 | | 37,475 | |
| Depreciation on property and equipment | 70,170 | | 78,579 | |
| Amortization on intangible assets | 21,784 | | 25,699 | |
| Taxes and dues | 24,134 | | 20,735 | |
| Advertising expenses | 22,386 | | 17,801 | |
| Commission | 47,249 | | 114,747 | |
| Others | 230,858 | | 233,650 | |
| | ₩ 910,597 | | ₩ 985,168 | |

18. INCOME TAX EXPENSE

The statutory income tax rate applicable to the Bank and its domestic subsidiaries including resident tax surcharges, is approximately 29.7%. However, there was no income taxes payable during the years ended December 31, 2004 and 2003, due to an operating loss carried forward, except for income tax payable of the Bank's overseas branches.

Income tax expense of the Bank and its subsidiaries for the years ended December 31, 2004 and 2003, are as follows:

| | 2004 | | 2003 | |
|-----------------------------------------------|------------------|--|------------------|--|
| | ₩ | | ₩ | |
| Income tax expense of the Bank | | | | |
| Income taxes payable | - | | - | |
| Changes in deferred income taxes ¹ | 139,465 | | 7,244 | |
| Income taxes for overseas branches | 3,769 | | 281 | |
| | 143,234 | | 7,525 | |
| Income tax expense of subsidiaries | 106,151 | | 233,792 | |
| | ₩ 249,385 | | ₩ 241,317 | |

¹ All local deferred income taxes for the year ended December 31, 2004, are estimated to have no future benefits.

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

19. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

(in millions of Korean won ,USD in thousands)

| | Foreign currency ¹ | | Equivalent in Korean won | |
|-----------------------------------------------|-------------------------------|-------------------|--------------------------|-------------------|
| Assets | | | | |
| Cash | USD | 28,846 | ₩ | 30,109 |
| Due from banks | | 595,420 | | 621,499 |
| Trading securities | | 1,047,646 | | 1,093,533 |
| Investment securities (available-for-sale) | | 2,387,532 | | 2,492,105 |
| Investment securities (held-to-maturity) | | 385,354 | | 402,232 |
| Investment securities using the equity method | | 175,277 | | 182,954 |
| Bills purchased | | 1,831,887 | | 1,912,123 |
| Call loans | | 532,600 | | 555,928 |
| Loans receivable | | 12,860,389 | | 13,423,674 |
| Domestic import usance bills | | 2,705,462 | | 2,823,961 |
| Receivables | | 16,877 | | 17,616 |
| Other assets | | 5,304,428 | | 5,536,761 |
| | USD | 27,871,718 | ₩ | 29,092,495 |
| Liabilities | | | | |
| Deposits | USD | 1,697,366 | ₩ | 1,771,711 |
| Borrowings | | 10,931,039 | | 11,409,818 |
| Bonds sold under repurchase agreements | | 402,390 | | 420,015 |
| Call money | | 251,148 | | 262,148 |
| Bonds in foreign currency | | 9,705,985 | | 10,131,107 |
| Offshore IFB in foreign currency | | 1,147,595 | | 1,197,860 |
| Others | | 3,981,089 | | 4,155,461 |
| | USD | 28,116,612 | ₩ | 29,348,120 |

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, 2004.

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

20. INTERCOMPANY TRANSACTIONS AND ACCOUNT BALANCES

Significant transactions made in the ordinary course of business for the years ended December 31, 2004 and 2003 among the Bank and its subsidiaries, and the related account balances as of December 31, 2004 and 2003, which have been eliminated in the accompanying consolidated financial statements, are summarized as follows:

| | 2004 | | (in millions of Korean won) 2003 | |
|---------------------------------------------|------|-----------|-------------------------------------|---------|
| Inter-company interest income / expense | ₩ | 78,066 | ₩ | 79,052 |
| Inter-company loans receivable / borrowings | | 743,461 | | 755,551 |
| Inter-company deposits / due from banks | | 671,939 | | 848,977 |
| Others | | 1,167,827 | | 666,790 |

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

21. INDUSTRY SEGMENT REPORTING

The consolidated balance sheets summarized by industry segment as of December 31, 2004 and 2003, are as follows

(in millions of Korean won)

| | Finance & insurance | | Non-finance & insurance ¹ | |
|---------------------------------------------------|---------------------|---------------------|--------------------------------------|--------------------|
| | 2004 | 2003 | 2004 | 2003 |
| Assets | | | | |
| Cash and due from banks | ₩ 2,405,683 | ₩ 2,818,969 | ₩ 977,085 | ₩ 722,833 |
| Trading securities | 36,516,938 | 30,660,191 | 131,498 | 63,462 |
| Loans receivable, net | 46,587,353 | 48,456,904 | 91,602 | 152,004 |
| Property and equipment | 989,796 | 1,049,983 | 1,878,850 | 2,353,310 |
| Others | 11,419,161 | 11,808,921 | 2,493,992 | 1,605,088 |
| Total assets | ₩ 97,918,931 | ₩ 94,794,968 | ₩ 5,573,027 | ₩ 4,896,697 |
| Liabilities and shareholder's equity | | | | |
| Liabilities | | | | |
| Deposits | ₩ 11,009,161 | ₩ 12,962,235 | ₩ - | ₩ - |
| Borrowings | 23,470,844 | 23,840,834 | 636,265 | 1,047,404 |
| Debentures | 40,484,496 | 37,509,318 | - | 17,368 |
| Other liabilities | 12,008,522 | 12,238,508 | 3,156,350 | 2,177,181 |
| Total liabilities | 86,973,023 | 86,550,895 | ₩ 3,792,615 | 3,241,953 |
| Shareholder's equity | | | | |
| Capital stock | 8,241,861 | 7,241,861 | 961,954 | 1,113,502 |
| Capital surplus | - | - | 18,112 | 90,432 |
| Retained earnings | 1,113,728 | 86,518 | 856,424 | 668,559 |
| Capital adjustments | 745,084 | (111,733) | (77,981) | (234,412) |
| Minority interest | 845,235 | 1,027,427 | 21,903 | 16,663 |
| Total equity | 10,945,908 | 8,244,073 | 1,780,412 | 1,654,744 |
| Total liabilities and shareholder's equity | ₩ 97,918,931 | ₩ 94,794,968 | ₩ 5,573,027 | ₩ 4,896,697 |

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

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

The consolidated statements of income summarized by the industry segment for the years ended December 31, 2004 and 2003, are as follows:

(in millions of Korean won)

| | Finance & insurance | | Non-finance & insurance ¹ | |
|---------------------------------------------------------------------------------|---------------------|------------------|--------------------------------------|------------------|
| | 2004 | 2003 | 2004 | 2003 |
| Interest income | ₩ 3,127,092 | ₩ 3,066,206 | ₩ 50,199 | ₩ 49,813 |
| Interest expense | 2,713,542 | 2,862,489 | 17,560 | 36,650 |
| Net interest income | 413,550 | 203,717 | 32,639 | 13,163 |
| Provision for possible loan losses | 306,122 | 717,050 | - | - |
| Net interest income (loss) after provision for possible loan losses | 107,428 | (513,333) | 32,639 | 13,163 |
| Non-interest revenue | 11,400,451 | 5,776,001 | 5,251,668 | 6,472,885 |
| Non-interest expenses | 11,042,541 | 5,796,582 | 4,962,775 | 6,074,154 |
| Operating income (loss) | 465,338 | (533,914) | 321,532 | 411,894 |
| Non-operating income, net | 687,279 | 719,748 | 26,629 | 20,875 |
| Extraordinary income (loss), net | (3,147) | 4,497 | - | - |
| Income before income tax expense | 1,149,470 | 190,331 | 348,161 | 432,769 |
| Income tax expense | 147,095 | 105,741 | 102,289 | 135,576 |
| Net income before minority interest in earnings of consolidated subsidiaries | 1,002,375 | 84,590 | 245,872 | 297,193 |
| Minority interest in losses(earnings) of consolidated subsidiaries, net | 13,653 | 87,150 | (3,050) | (3,229) |
| Net income | ₩ 1,016,028 | ₩ 171,740 | ₩ 242,822 | ₩ 293,964 |

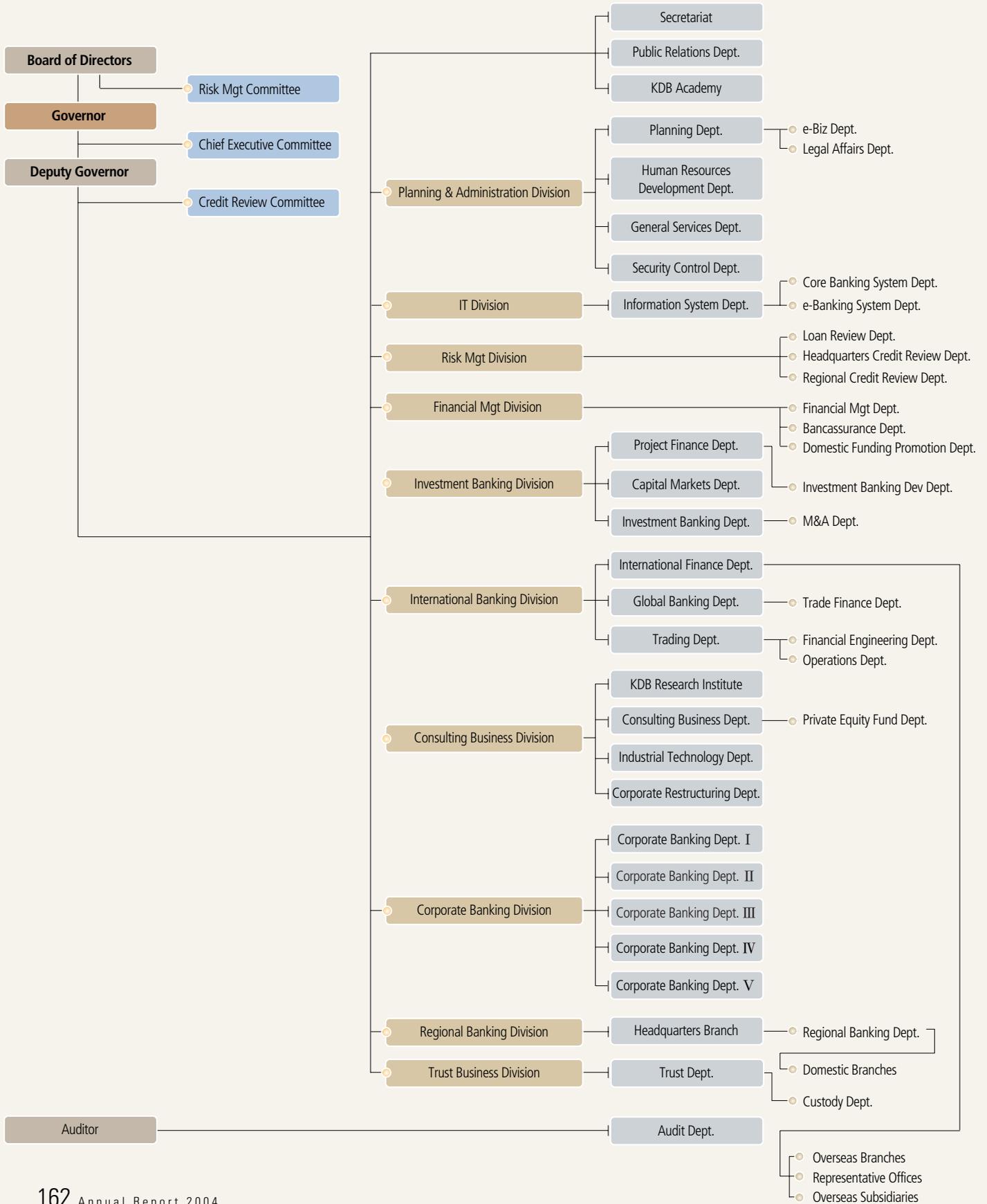
¹ Financial information from the non-finance & insurance segment is provided using the total amount before consolidated adjustments.

Financial information summarized by industry segment as of and for the year ended December 31, 2004, is as follows:

(in millions of Korean won)

| | Finance | Manufacturing | Others | Adjustment | After Adjustment |
|---------------------------|--------------|---------------|-----------|-------------|---------------------|
| Operating revenues (loss) | ₩ 13,786,804 | ₩ 5,302,103 | ₩ 822,413 | ₩ (206,112) | ₩ 19,705,208 |
| Operating income (loss) | 320,291 | 321,533 | 129,087 | (4,506) | 766,405 |
| Total assets | 96,544,606 | 5,573,027 | 4,626,432 | (4,544,302) | 102,199,763 |

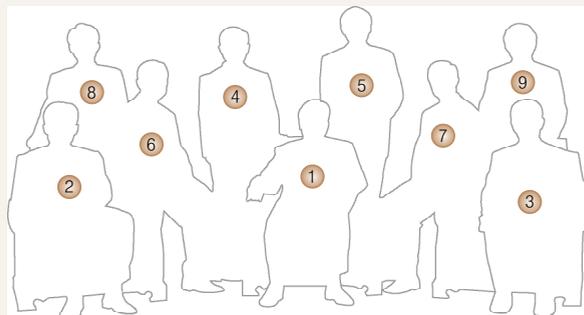
ORGANIZATION CHART



BOARD OF DIRECTORS AND MANAGEMENT



- ① **Jichang Yoo** | Governor
- ② **Yun-Woo Lee** | Deputy Governor
- ③ **Chang-Mo Moon** | Auditor
- ④ **Jong Bae Kim** | Executive Director
- ⑤ **Chong Gyu Laah** | Executive Director
- ⑥ **In-Chul Kim** | Executive Director
- ⑦ **Ho In** | Executive Director
- ⑧ **Young Chan Kim** | Executive Director
- ⑨ **Sang Kwon Lee** | Executive Director



● **Cheul Park** | Non-executive Director ● **Kang Ryung Lee** | Non-executive Director

● **Dae Shik Shin** | Director ● **Hee Dall Lee** | Director ● **Sung Joon Rhee** | Director ● **Byoung Soo Kim** | Director

NETWORK DIRECTORY

HEADQUARTERS

16-3 Yeouido-dong, Yeongdeungpo-gu, Seoul 150-973, Korea
Tel : 82-2-787-4000/5000/6000/7000 Swift : KODBKRE Telex : KODBANK K27463
Internet Homepage : www.kdb.co.kr

OVERSEAS NETWORK

BRANCHES

● NEW YORK

32nd Fl., Mutual of America
Life Insurance Bldg., 320 Park Avenue
New York, N.Y. 10022, U.S.A.
Tel : 1-212-688-7686
Fax : 1-212-421-5028

● LONDON

99 Bishopsgate(16Fl.) London
EC2M 3XD United Kingdom
Tel : 44-20-7426-3550
Fax : 44-20-7426-3567

● TOKYO

Rm. 305, Fuji Bldg
2-3 Marunouchi 3-chome
Chiyoda-ku, Tokyo, Japan 100-0005
Tel : 81-3-3214-4541
Fax : 81-3-3214-6933

● SINGAPORE

8 Shenton Way #07-01
Temasek Tower, Singapore 068811
Tel : 65-6224-8188
Fax : 65-6225-6540

● SHANGHAI

Room 2801, Pos-Plaza Building
480 Pudian Road, Pudong New Area
Shanghai 200122, China
Tel : 86-21-6875-1234
Fax : 86-21-6875-1177

SUBSIDIARIES

● KDB ASIA LTD.

Suite 2005-8, 20th Floor
Two International Finance Center
8 Finance Street, Central, Hong Kong
Tel : 852-2524-7011
Fax : 852-2810-4447

● KDB IRELAND LTD.

Ground Floor, Russell House Stokes Place
St. Stephen's Green Dublin 2, Ireland
Tel : 353-1-4753-644
Fax : 353-1-4753-658

● KDB BANK (HUNGARY) LTD.

Bajcsy-Zsilinszky ut. 42-46
Budapest, Hungary
Tel : 36-1-374-9903
Fax : 36-1-374-9999

REPRESENTATIVE OFFICES

● BEIJING

1601 China World Tower No.1
Jian Guo Men Wai Avenue
Beijing 100004, China
Tel : 86-10-6505-4901
Fax : 86-10-6505-4903

● FRANKFURT

Hochstrasse 29, 60313
Frankfurt am Main, Germany
Tel : 49-69-920713-00
Fax : 49-69-920713-99

DOMESTIC SUBSIDIARIES

● KDB CAPITAL CORPORATION

16 Yeouido-dong, Yeongdeungpo-gu
Seoul 150-873, Korea
Tel : 82-2-6330-0114
Fax : 82-2-6330-0776

● DAEWOO SECURITIES CO., LTD.

34-3 Yeouido-dong, Yeongdeungpo-gu
Seoul 150-716, Korea
Tel : 82-2-768-3355
Fax : 82-2-768-2119

● KDB ASSET MANAGEMENT CO., LTD.

23-6 Yeouido-dong, Yeongdeungpo-gu
Seoul 150-724, Korea
Tel : 82-2-3774-8000
Fax : 82-2-785-5012

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