

CERTAIN DEFINED TERMS AND CONVENTIONS

All references to the “Bank”, “we”, “our” or “us” mean The Korea Development Bank. All references to “Korea” or the “Republic” contained in this prospectus mean The Republic of Korea. All references to the “Government” mean the government of Korea.

Unless otherwise indicated, all references to “won”, “Won” or “₩” contained in this prospectus are to the currency of Korea, references to “U.S. dollars”, “Dollars”, “\$”, “USD” or “US\$” are to the currency of the United States of America, references to “Euro”, “EUR” or “€” are to the currency of the European Union, references to “Japanese yen”, “JPY” or “¥” are to the currency of Japan, references to “Singapore dollar” or “SGD” are to the currency of Singapore, references to “Swiss franc” or “CHF” are to the currency of Switzerland, references to “pound sterling”, “GBP” or “£” are to the currency of the United Kingdom, references to “Chinese yuan” or “CNY” are to the currency of the People’s Republic of China, references to “Hong Kong dollar” or “HKD” are to the currency of Hong Kong, S.A.R., references to “Malaysian ringgit” or “MYR” are to the currency of Malaysia, references to “Brazilian real” or “BRL” are to the currency of the Federative Republic of Brazil, and references to “Baht” or “THB” are to the currency of the Kingdom of Thailand.

All discrepancies in any table between totals and the sums of the amounts listed are due to rounding.

Our principal financial statements are our non-consolidated financial statements. Unless specified otherwise, our financial and other information is presented on a non-consolidated basis and does not include such information with respect to our subsidiaries.

RISK FACTORS

Risk Factors

The Bank believes that the following factors may affect its ability to fulfill its obligations under the Bonds. All of these factors are contingencies which may or may not occur and the Bank is not in a position to express a view on the likelihood of any such contingency occurring.

The Bank believes that the factors described below represent the principal risks inherent in investing in the Bonds, but the inability of the Bank to pay interest, principal or other amounts on or in connection with the Bonds may occur for other reasons and the Bank does not represent that the statements below regarding the risks of holding any Bonds are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this document and reach their own views prior to making any investment decision.

1. Risks related to the Bank

Set out below is a brief description of certain risks relating to the Bank:

(a) Essential characteristics and privatisation of the Bank

According to Article 44 of the KDB Act, the Government is responsible for the operations of the Bank and is legally obligated to replenish any deficit that arises if the Bank's legal reserve is insufficient to cover any of its annual net losses, as stipulated in Article 44, which provides that "the annual net losses of the Bank shall be offset each year by the legal reserve, and if the legal reserve be insufficient, the deficit shall be replenished by the Government". In light of the provision of Article 44, if the Bank had insufficient funds to make any payment under any of its obligations, including the Bonds, the Government would take appropriate steps (by making a capital contribution, by allocation of funds or by taking other action) to enable the Bank to make such payment when due. The provisions of Article 44 do not, however, constitute a direct guarantee by the Government of the obligations of the Bank under the Bonds and the provisions of the KDB Act, including Article 44, may be amended at any time by action of the Korea National Assembly.

In addition, in May 2009, the KDB Act was amended to implement the Government's privatisation plans of the Bank by removing the requirement under the KDB Act that 100.0 per cent of the Bank's equity capital must be owned by the Government. The Government is expected to commence the initial sale of its shares in KDBFG (an entity through which the Government indirectly holds shares in the Bank) within 5 years from 1 June 2009. Investors must be aware that once the Government ceases to own, directly or indirectly, more than 50.0 per cent of the Bank's equity capital, the responsibility of the Government for the operation of, or to provide financial support to, the Bank as mentioned in the above paragraph may also cease. However, upon the Government or corporations in which the Government has a stake of 50.0 per cent or more in their share capital ceasing to hold more than 50.0 per cent of the share capital of KDBFG, the Government will take measures to repeal the KDB Act within one month thereafter.

(b) No third party guarantees

The Bonds will be issued in a name registered form on an unsubordinated and unsecured basis. Investors should be aware that no guarantee is given in relation to the Bonds by the direct and indirect shareholders of the Bank, i.e. KoFC, KDBFG, the Government, or any other person.

However, pursuant to Article 18-2 of the KDB Act, the Government will guarantee the payment

of the principal of and interest on the KDB's foreign currency debt with a maturity of one year or more at the time of issuance outstanding as of the date of initial sale of its direct or indirect equity interest in KDBFG. And, under the Article 18-2 of the KDB Act, the Government's guarantee is subject to the limitation on the total amount of the Government guarantee to be approved by the National Assembly prior to the provision of such guarantee. Furthermore, the Government must obtain prior approval from the National Assembly in order to actually provide such financial guarantee under the National Finance Act.

(c) Enforcement of civil liabilities against the Bank

The Bank is a financial institution established under the laws of Korea. Substantially all of the officers of the Bank and certain directors and other persons named herein reside in Korea, and substantially all or a significant portion of the assets of the Bank are located in Korea. As a result, it may not be possible for investors to (i) effect service of process outside Korea upon the Bank or those persons (ii) institute any legal proceeding against the Bank or those persons in any jurisdiction outside Korea or (iii) enforce against them or against the Bank in any jurisdiction outside Korea judgments predicated upon the civil liability provisions of the laws of Thailand. There is doubt as to the enforceability in Korea, either in original actions or in actions for enforcement of judgments of Thai courts, of civil liabilities predicated on the laws of Thailand.

2. Risks related to the Bonds generally

Set out below is a brief description of certain risks relating to the Bonds generally:

(a) Modification and waivers

The Terms and Conditions of the Bonds contain provisions for calling meetings of Bondholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Bondholders including Bondholders who did not attend and vote at the relevant meeting and Bondholders who voted in a manner contrary to the majority.

(b) Change of law

The Terms and Conditions of the Bonds are based on Thai law (including laws relating to taxation) in effect as at the date of this document. No assurance can be given as to the impact of any possible judicial decision or change to Thai law or administrative practice after the date of this document.

(c) Early repayment of Bonds may expose an investor to reinvestment risk

Under the Terms and Conditions of the Bonds, the Issuer has the right to redeem the Bonds prior to their maturity date in the event of certain changes in tax laws of Korea.

Upon an investor's receipt of the redemption proceeds for his Bonds, the investor may not be able to reinvest those proceeds in an investment with a comparable yield to the Bonds or in an investment of similar or better credit quality.

(d) Risk of fluctuations in value of the Bonds

The value of the Bonds can be volatile and such value may be subject to considerable fluctuations and other risks inherent in investing in securities. In particular, any downgrading of the rating of the Bank or the Bonds by one or more of the credit rating agencies could result in a reduction in the value of the Bonds.

Prospective investors should also note that there can be no assurance that any such rating will not be revised by the relevant rating agency in the future. If prospective investors would like to find out about the most recent credit ratings of the Issuer or the Bonds, or whether any of the credit ratings of the Issuer or the Bonds is under review for possible downgrading, they should contact their investment adviser.

3. Risks related to the market generally

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

(a) The secondary market generally

The Bonds may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. The Bonds are subject to transfer restrictions such that they may only be transferred to institutional investors or high net worth investors (please see “Transfer Restriction” in 3.2). These transfer restrictions may hinder the development of a trading market or, if a trading market does develop, affect the liquidity of that market. Therefore, investors may not be able to sell their Bonds easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market.

(b) Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Bonds in Baht. This presents certain risks relating to currency conversions if an investor’s financial activities are denominated principally in a currency or currency unit (the Investor’s Currency) other than Baht. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Baht or revaluation of the Investor’s Currency) and the risk that authorities with jurisdiction over the Investor’s Currency may impose or modify exchange controls. An appreciation in the value of the Investor’s Currency relative to Baht would decrease (i) the Investor’s Currency-equivalent yield on the Bonds, (ii) the Investor’s Currency-equivalent value of the principal payable on the Bonds and (iii) the Investor’s Currency-equivalent market value of the Bonds.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate or the timely payment of principal and interest. As a result, investors may receive less interest or principal than expected, or no interest or principal.

(c) Interest rate risks

Investment in the Bonds involves the risk that subsequent changes in market interest rates may adversely affect the value of the Bonds.

(d) Credit ratings may not reflect all risks

Moody’s Investors Services, Standard & Poor’s and Fitch Ratings have assigned credit ratings to the Bonds. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Bonds. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. If any credit rating of the Issuer and the Bonds

falls as a result of the Issuer's operating performance or capital structure, or for any other reason, this could affect the market price and liquidity of the Bonds.

4. Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) the Bonds are legal investments for it, (ii) the Bonds can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of the Bonds. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Bonds under any applicable risk-based capital or similar rules.

5. The Bonds may not be a suitable investment for all investor

The purchase of Bonds involves certain risks including market risk, credit risk and liquidity risk. Prospective investors should ensure that they understand the nature of all these risks before making a decision to invest in the Bonds. This document is not and does not purport to be investment advice. Prospective investors should conduct such independent investigation and analysis as they deem appropriate to evaluate the merits and risks of any investments in the Bonds. Prospective investors should consider carefully whether the Bonds are suitable for them in light of their experience, objectives, financial position and other relevant circumstances. Prospective investors should make an investment only after they have determined that such investment is suitable for their financial investment objectives. If prospective investors are in doubt, they should seek professional advice.

USE OF PROCEEDS

We will use the net proceeds from the sale of the Bonds for our general corporate purposes, including extending foreign currency loans and repayment for our maturing debt and other obligations.

THE KOREA DEVELOPMENT BANK

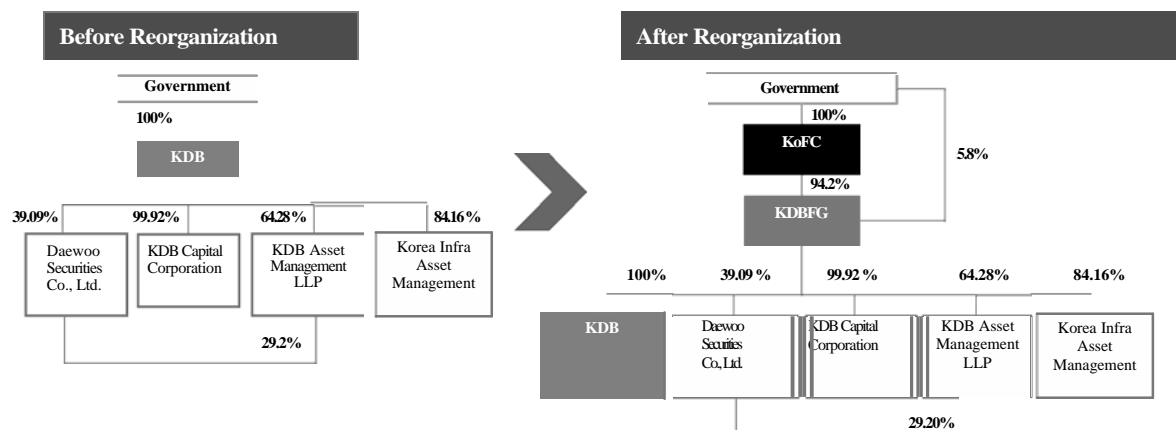
Overview

We were established in 1954 as a government-owned financial institution pursuant to The Korea Development Bank Act, as amended (the “KDB Act”). Since our establishment, we have been the leading bank in the Republic with respect to the provision of long-term financing for projects designed to assist the nation’s economic growth and development. The Government indirectly owns all of our paid-in capital. Our registered office is located at 16-3 Youido-dong, Youngdeungpo-gu, Seoul, The Republic of Korea.

In June 2008, the Financial Services Commission announced the Government’s preliminary plan for our privatization and, in May 2009, the KDB Act was amended to facilitate our privatization. The preliminary plan reflected the Government’s intention to nurture a more competitive corporate and investment banking sector and trigger reorganization and further advancement of the Korean financial industry.

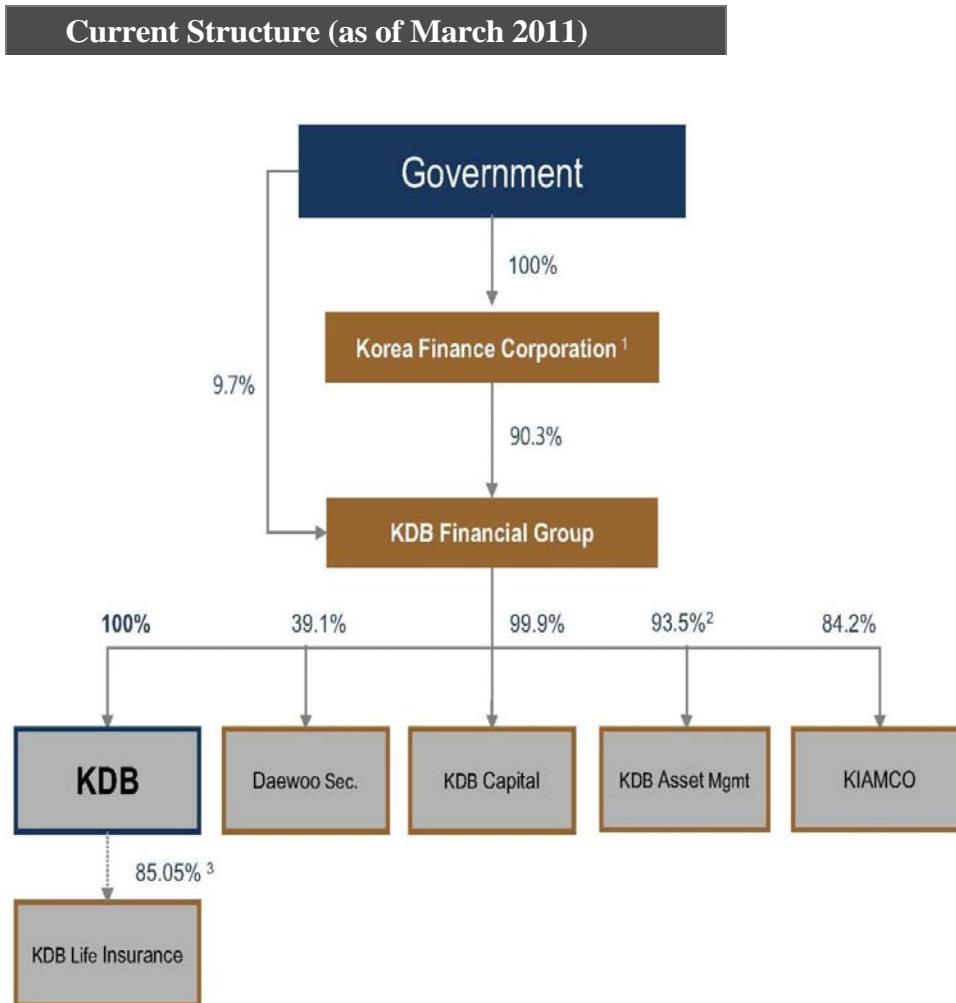
As a first step in implementing our privatization, the Government established KDB Financial Group, or KDBFG, a financial holding company, and Korea Finance Corporation, or KoFC, a public policy financing vehicle, in October 2009, by spinning off a portion of our assets, liabilities and shareholders’ equity. In the spin-off, our interests in Daewoo Securities Co., Ltd., KDB Asset Management Co., Ltd. and KDB Capital Corp. were transferred to KDBFG, and our equity holdings in certain government-controlled companies, including Korea Electric Power Corporation, or KEPCO, and certain companies under restructuring programs, including Hyundai Engineering & Construction Co., Ltd., were transferred to KoFC. For more information on the assets, liabilities and shareholders’ equity transferred in the spin-off, see “—Selected Financial Statement Data—Spin-off of KDB.” The Government transferred its ownership interest in us to KDBFG in exchange for all of KDBFG’s share capital on November 24, 2009 and contributed 94.27% of KDBFG’s shares to KoFC as a capital contribution on December 30, 2009. In March 2010, the Government made a further capital contribution of ₩10.0 billion in cash to KDBFG. As a result, as of the date of this prospectus, KoFC, which is wholly owned by the Government, owns 94.2% of KDBFG’s share capital and the Government directly owns the remaining 5.8% of KDBFG’s share capital. KDBFG owns 100.0% of our share capital.

The following diagram shows our ownership structure before and after the spin-off and the share transfer.



Under the KDB Act, as amended in May 2009, the sale of KDBFG’s shares directly or indirectly owned by the Government is to commence by May 2014, and the Government will guarantee the payment of the principal of and interest on our foreign currency debt with a maturity of one year or more at the time of issuance (“mid-to-long term foreign currency debt”) outstanding (including the notes offered hereby) as of the date of the initial sale of its direct or indirect equity interest in KDBFG, subject to the authorization by the National Assembly of the Government guarantee amount. Pursuant to the KDB Act and the Enforcement Decree of the KDB Act (the “KDB Decree”), the Government may also directly or indirectly guarantee, within the limit and

The following diagram shows our current ownership structure.



¹ Ownership through any entity in which the Government holds more than 50% of its voting rights, construed as ownership by the Government.

² Includes the 29.2% stake held by Daewoo Securities in KDB Asset Management

³ Consists of the 60.35% stake held by SPC and the 24.70% stake held by PEF

scope determined by the Government and subject to the authorization by the National Assembly, the payment of the principal of and interest on our mid-to-long term foreign currency debt incurred during the period when the Government directly or indirectly owns more than 50% of KDBFG to refinance our foreign currency debt referred to in the preceding sentence, in the event that (i) the repayment of our outstanding foreign currency debt would be difficult unless the Government provides a guarantee, (ii) the terms and conditions of our newly incurred foreign currency debt would become notably unfavorable unless the Government provides a guarantee or (iii) any other circumstances equivalent to (i) or (ii) above exist, as determined by the Minister of Strategy and Finance. In addition, the Government's financial support to us stipulated by Article 44 of the KDB Act is expected to remain effective for so long as the Government owns, directly or indirectly, a majority of our share capital. For more information on the Government's financial support under the KDB Act, see “—Business—Government Support and Supervision.”

We expect that both we and KoFC will perform policy bank roles until the Government through KoFC transfers a controlling stake in KDBFG to unrelated third parties and ceases to hold a majority ownership interest in us. Under the KDB Act, as amended in May 2009, if the Government ceases to be our controlling shareholder, the Government's financial support to us stipulated by Article 44 of the KDB Act is expected to cease to be provided.

However, the implementation of the Government's privatization plan may be delayed or changed depending on a variety of factors, such as domestic and international economic conditions, and the timing discussed above is only preliminary and is subject to change. There can be no assurance that such privatization plan will be implemented as contemplated or that the contemplated privatization will be implemented at all. In addition, the Government's financial support to us under the KDB Act may be discontinued in connection with the privatization and the Government may decide not to provide direct guarantees for the notes offered hereby or otherwise protect our creditworthiness.

Our primary purpose, as stated in the KDB Act, the KDB Decree and our Articles of Incorporation, is to “furnish funds in order to expedite the development of the national economy.” We make loans available to major industries for equipment, capital investment and the development of high technology, as well as for working capital.

As of December 31, 2009, we had ₩76,211.4 billion of loans outstanding (including loans, call loans, domestic usance, bills of exchange bought, local letters of credit negotiation and loan-type suspense accounts pursuant to the applicable guidelines without adjusting for allowance for possible loan losses, present value discounts and deferred loan fees), total assets of ₩122,333.4 billion and total shareholders' equity of ₩15,110.7 billion, as compared to ₩77,113.5 billion of loans outstanding, ₩157,612.7 billion of total assets and ₩15,715.3 billion of total shareholders' equity as of December 31, 2008. In 2009, we recorded interest income of ₩5,374.5 billion, interest expense of ₩4,476.9 billion and net income of ₩761.1 billion, as compared to ₩5,800.9 billion of interest income, ₩4,997.1 billion of interest expense and ₩350.3 billion of net income in 2008. See “—Selected Financial Statement Data.”

Currently, the Government indirectly holds all of our paid-in capital. In addition to contributions to our capital, the Government provides direct financial support for our financing activities, in the form of loans or guarantees. The Government, through KDBFG, our sole shareholder, has the power to elect or dismiss our Chairman and Chief Executive Officer, members of our Board of Directors and Auditor. Pursuant to the KDB Act, the Financial Services Commission has supervisory power and authority over matters relating to our general business including, but not limited to, capital adequacy and managerial soundness.

The Government supports our operations pursuant to Article 44 of the KDB Act. Article 44 provides that “the annual net losses of the Korea Development Bank shall be offset each year by the reserve, and if the reserve be insufficient, the deficit shall be replenished by the Government.” As a result of the KDB Act, the Government is generally responsible for our operations and is legally obligated to replenish any deficit that arises if our reserve, consisting of our surplus and capital surplus items, is insufficient to cover our annual net losses. In light

of the above, if we had insufficient funds to make any payment under any of our obligations, including the debt securities and guarantees covered by this prospectus, the Government would take appropriate steps, such as by making a capital contribution, by allocating funds or by taking other action, to enable us to make such payment when due. The provisions of Article 44 do not, however, constitute a direct guarantee by the Government of our obligations under the debt securities or the guarantees, and the provisions of the KDB Act, including Article 44, may be amended at any time by action of the National Assembly. If the Government ceases to be our controlling shareholder as a result of our privatization, the Government's financial support to us stipulated by Article 44 of the KDB Act is expected to cease to be provided.

In January 1998, the Government amended the KDB Act to:

- subordinate our borrowings from the Government to other indebtedness incurred in our operations;
- allow the Government to offset any deficit that arises if our reserve fails to cover our annual net losses by transferring Government-owned property, including securities held by the Government, to us; and
- allow direct injections of capital by the Government without prior National Assembly approval.

The Government amended the KDB Act in May 1999 and the KDB Decree in March 2000, to allow the Financial Services Commission to supervise and regulate us in terms of capital adequacy and managerial soundness.

In March 2002, the Government amended the KDB Act to enable us, among other things, to:

- obtain low-cost funds from The Bank of Korea and from the issuance of debt securities (in addition to already permitted Industrial Finance Bonds), which funds may be used for increased levels of lending to small and medium size enterprises;
- broaden the scope of borrowers to which we may extend working capital loans to include companies in the manufacturing industry, enterprises which are "closely related" to enhancing the corporate competitiveness of the manufacturing industry and leading-edge high-tech companies; and
- extend credits to mergers and acquisitions projects intended to facilitate corporate restructuring efforts.

In July 2005 and May 2009, the Government amended Article 43 of the KDB Act. The revised Article 43 provides that:

- (1) our annual net profit, after adequate allowances are made for depreciation in assets, shall be distributed as follows:
 - (i) forty percent or more of the net profit shall be credited to reserve, until the reserve amounts equal the total amount of paid-in capital; and
 - (ii) any net profit remaining following the apportionment required under subparagraph (i) above shall be distributed in accordance with the resolution of our Board of Directors and the approval of our shareholders;
- (2) accumulated amounts in reserve may be capitalized; and
- (3) any distributions made in accordance with paragraph (1)(ii) above may be in the form of cash dividends or dividends in kind, provided that any distributions of dividends in kind must be made in accordance with applicable provisions of the KDB Decree.

In February 2008, the Government further amended the KDB Act, primarily to transfer most of the Government's supervisory authority over us from the Ministry of Strategy and Finance (formerly the Ministry of Finance and Economy) to the Financial Services Commission.

In May 2009, the Government amended the KDB Act to facilitate our privatization. The amendment provided for, among others:

- the preparation for the transformation of us from a special statutory entity into a corporation, including the application of the Banking Act as applicable;
- the expansion of our operation scope that enables us to engage in commercial banking activities, including retail banking;
- the provision of government guarantees for our mid-to-long term foreign currency debt outstanding at the time of initial sale of the Government's stake in KDBFG (subject to the National Assembly's authorization of the Government guarantee amount) and possible guarantees for our foreign currency debt incurred for the refinancing of such mid-to-long term foreign currency debt with the government guarantee during the period when the Government owns more than 50% of our shares; and
- the establishment of KDBFG and KoFC and application of the Financial Holding Company Act to KDBFG.

The revised KDB Act, which was filed as an exhibit to the registration statement of which this prospectus forms a part, became effective as of June 1, 2009.

The Minister of Strategy and Finance of the Republic has, on behalf of the Republic, signed the registration statement of which this prospectus forms a part.

Capitalization

As of December 31, 2009, our authorized capital was ₩15,000 billion and capitalization was as follows:

	December 31, 2009 ⁽¹⁾
	(billions of won) (unaudited)
Long-term debt:	
Won currency borrowings.....	₩ 3,556.2
Industrial finance bonds	32,942.6
Foreign currency borrowings	3,315.4
Total long-term debt	39,814.2 ⁽²⁾⁽³⁾
Capital:	
Paid-in capital	9,241.9
Capital surplus	52.2
Capital adjustment	(1.2)
Retained earnings	5,070.9
Accumulated other comprehensive income	747.0
Total capital	15,110.8
Total capitalization	₩54,925.0

- (1) Except as disclosed in this prospectus, there has been no material adverse change in our capitalization since December 31, 2009.
- (2) We have translated borrowings in foreign currencies into Won at the rate of ₩1,167.6 to US\$1.00, which was the market average exchange rate, as announced by the Seoul Monetary Brokerage Services Ltd., on December 31, 2009.
- (3) As of December 31, 2009, we had contingent liabilities totaling ₩14,329.0 billion under outstanding guarantees issued on behalf of our clients.

Business

Purpose and Authority

Since our establishment, we have been the leading bank in the Republic in providing long-term financing for projects designed to assist the nation's economic growth and development.

Under the KDB Act, the KDB Decree and our Articles of Incorporation, our primary purpose is to “furnish funds for the expansion of the national economy.” Since we serve the public policy objectives of the Government, we do not seek to maximize profits. We do, however, strive to maintain a level of profitability to strengthen our equity base and support growth in the volume of our business.

Under the KDB Act, we may:

- carry out activities necessary to accomplish the expansion of the national economy, subject to the approval of the Financial Services Commission;
- provide loans or discount notes;
- subscribe to, underwrite or invest in securities;
- guarantee or assume indebtedness;
- raise funds by accepting demand deposits and time and savings deposits from the general public, issuing securities, borrowing from the Government, The Bank of Korea or other financial institutions, and borrowing from overseas;
- execute foreign exchange transactions, including currency and interest swap transactions;
- provide planning, management, research and other support services at the request of the Government, public bodies, financial institutions or enterprises; and
- carry out other businesses incidental to the foregoing.

Government Support and Supervision

The Government owns indirectly all of our paid-in capital. On February 20, 2000, the Government contributed ₩100 billion in cash to our capital. On December 29, 2000, we reduced our paid-in capital by ₩959.8 billion to offset our expected net loss for the year. To compensate for the resulting deficit under the KDB Act, on June 20, 2001, the Government contributed ₩3 trillion in the form of shares of common stock of KEPCO to our capital. On December 29, 2001, the Government contributed ₩50 billion in cash to our capital. On August 13, 2003, the Government contributed ₩80 billion in cash to our capital to support our existing fund for facilitating the Republic's regional economies. On April 30, 2004, the Government contributed ₩1 trillion in the form of shares of common stock of KEPCO and Korea Water Resources Corporation to our capital to support our lending to small-and medium-sized companies and to compensate for our contribution to LG Card Ltd. in the form of loans, cash injections and debt-for-equity swaps. On December 19, 2008, the Government contributed ₩500 billion in the form of shares of common stock of Korea Expressway Corporation to our capital and, in January 2009, the Government contributed ₩900 billion in cash to our capital, in each case to bolster our capital base in order to stabilize the Korean financial market by supporting small and medium-sized enterprises and providing increased liquidity to corporations. In October 2009, our paid-in capital decreased by ₩400.0 billion in connection with the establishment by the Government of KDBFG and KoFC by spinning off a portion of our assets, liabilities and shareholders' equity (including paid-in capital) as described under the heading “Overview” and “Selected Financial Statement Data” in this prospectus. Taking into account these capital contributions and reduction, as of December 31, 2009, our total paid-in capital was ₩9,241.9 billion. See “—Financial Statements and the Auditors—Notes to Non-Consolidated Financial Statements of December 31, 2009 and 2008—Note 17.” In March 2010, the Government, through KDBFG, made a further capital contribution of ₩10.0 billion in cash to our capital.

In addition to capital contributions, the Government directly supports our financing activities by:

- lending us funds to on-lend;
- allowing us to administer Government loans made from a range of special Government funds;
- allowing us to administer some of The Bank of Korea's surplus foreign exchange holdings; and
- allowing us to receive credit from The Bank of Korea.

The Government also supports our operations pursuant to Articles 43 and 44 of the KDB Act. Article 43 provides that "40% or more of the annual net profit of the Korea Development Bank shall be transferred to reserve, until the reserve amounts equal the total amount of paid-in capital" and that accumulated amounts in reserve may be capitalized. Article 44 provides that "the net losses of the Korea Development Bank shall be offset each fiscal year by the reserve, and if the reserve be insufficient, the deficit shall be replenished by the Government."

As a result of the KDB Act, the Government is generally responsible for our operations and is legally obligated to replenish any deficit that arises if our reserve, consisting of our surplus and capital surplus items, is insufficient to cover our annual net losses. In light of the above, if we had insufficient funds to make any payment under any of our obligations, including the debt securities and the guarantees covered by this prospectus, the Government would take appropriate steps, such as by making a capital contribution, by allocating funds or by taking other action, to enable us to make such payment when due. The provisions of Article 44 do not, however, constitute a direct guarantee by the Government of our obligations under the debt securities or the guarantees, and the provisions of the KDB Act, including Article 44, may be amended at any time by action of the National Assembly. If the Government ceases to be our controlling shareholder as a result of our privatization, the Government's financial support to us stipulated by Article 44 of the KDB Act is expected to cease to be provided.

When the initial sale by the Government of its equity interest in KDBFG is made by May 2014 in accordance with the KDB Act, as amended in May 2009, the Government will guarantee the payment of the principal of and interest on our mid-to-long term foreign currency debt outstanding (including the notes offered hereby) as of the date of the initial sale of its equity interest in KDBFG, subject to the authorization by the National Assembly of the Government guarantee amount, pursuant to Article 18-2 of the KDB Act. In addition, under Article 18-2 of the KDB Act, the Government may directly or indirectly guarantee, within the limit and scope determined by the Government and subject to the authorization by the National Assembly, the repayment of the principal of and interest on our mid-to-long term foreign currency debt incurred during the period when the Government directly or indirectly owns more than 50% of KDBFG to refinance our foreign currency debt referred to in the preceding sentence, in the event that (i) the repayment of our outstanding foreign currency debt would be difficult unless the Government provides a guarantee, (ii) the terms and conditions of our newly incurred foreign currency debt would become notably unfavorable unless the Government provides a guarantee or (iii) any other circumstances equivalent to (i) or (ii) above exist, as determined by the Minister of Strategy and Finance.

The Government closely supervises our operations in the following ways:

- the Government, through KDBFG, our sole shareholder, has the power to elect or dismiss our Chairman and Chief Executive Officer, members of our Board of Directors and Auditor;
- within three months after the end of each fiscal year, we must submit our financial statements for the fiscal year to the Financial Services Commission;
- the Financial Services Commission has broad authority to require reports from us on any matter and to examine our books, records and other documents. On the basis of the reports and examinations, the Financial Services Commission may issue any orders deemed necessary to enforce the KDB Act;
- the Financial Services Commission must approve our operating manual, which sets out the guidelines for all principal operating matters;

- the Financial Services Commission may supervise our operations to ensure managerial soundness based upon the KDB Decree and the Bank Supervisory Regulations of the Financial Services Commission and may issue orders deemed necessary for such supervision; and
- we may amend our Articles of Incorporation only with the approval of the Financial Services Commission.

In addition, the conditions of the IMF aid package stated that domestic banks in the Republic, including us, should undergo external audits from internationally recognized accounting firms. Accordingly, we have had our annual financial statements for years commencing 1998 audited by an external auditor. See “—Financial Statements and the Auditors” and “Experts.”

Pursuant to our most recently approved program of operations, we expect to support the reform and restructuring of the Republic’s economic and industrial structure, including financing of promising small and medium sized enterprises, providing export finance and encouraging investments in infrastructure necessary to promote consumer demand and industrial reorganization.

Selected Financial Statement Data

Spin-off of KDB

In October 2009, the Government established KDBFG and KoFC by spinning off a portion of our assets, liabilities and shareholders’ equity as described under the heading “—Overview” above. The following balance sheet data show our assets, liabilities and shareholders’ equity before and after the spin-off, as well as assets, liabilities and shareholders’ equity transferred to KDBFG and KoFC.

	KDB	KDB	KDBFG	KoFC
	Before Spin-off	After Spin-off		
	As of	As of	As of	As of
	October 27, 2009	October 27, 2009	October 27, 2009	October 27, 2009
	(billions of won)			
	(unaudited)			
Balance Sheet Data				
Assets				
Cash and due from banks.....	1,778.3	1,200.6	72.8	504.9
Securities ⁽¹⁾	54,556.8	33,791.4	1,579.6	19,185.8
Loans receivable (net of provision for possible loan losses and present value discounts)	79,328.0	75,315.7	—	4,012.4
Property and equipment	625.5	547.5	0.3	77.7
Other assets	15,446.8	15,399.3	14.4	33.1
Total assets	151,735.4	126,254.4	1,667.1	23,813.9
Liabilities and Shareholders' Equity				
Deposits	14,073.8	14,073.8	—	—
Borrowings ⁽²⁾	102,380.6	82,289.7	450.0	19,640.9
Other liabilities	16,464.8	15,224.7	67.1	1,173.0
Total liabilities	132,919.2	111,588.2	517.1	20,813.9
Paid-in capital	9,641.9	9,241.9	300.0	100.0
Capital surplus	60.7	47.1	13.6	—
Capital adjustments	(38.5)	(34.6)	(0.2)	(3.7)
Accumulated other comprehensive income (loss)	1,101.3	185.6	(14.6)	930.3
Retained Earnings	8,050.9	5,226.3	851.2	1,973.4
Total shareholders' equity	18,816.2	14,666.2	1,150.0	3,000.0
Total liabilities and shareholders' equity	151,735.4	126,254.4	1,667.1	23,813.9

(1) Includes equity securities and debt securities. The following table shows details of equity securities that have been transferred to KDBFG and KoFC in the spin-off.

(a) Equity securities transferred to KDBFG from KDB

Classification	As of October 27, 2009	
	Ownership	Book value
	(billions of won, except percentage)	
Daewoo Securities Co., Ltd .	39.1%	1,043.0
KDB Capital Corp.	99.9%	485.3
KDB Asset Management LLP	64.3%	42.4
Korea Infra Asset Management	84.2%	8.9
Total		1,579.6

(b) Equity securities transferred to KoFC from KDB

Classification	As of October 27, 2009	
	Ownership	Book value
	(billions of won, except percentage)	
Korea Electric Power Corporation	29.9%	8,981.7
Korea Expressway Corporation	8.8%	1,930.2
Korea Land & Housing Corporation	15.3%	2,491.9
Korea Water Resources Corporation	9.3%	976.4
The Export-Import Bank of Korea	3.1 %	200.0
Korea Tourism Organization	43.6%	165.9
Korea Asset Management Corporation	8.1 %	146.3
Korea Appraisal Board	30.6%	13.9
Korea Resources Corporation	0.5%	3.2
Seoul Newspaper Co., Ltd.	0.02%	0.03
Industrial Bank of Korea	10.6%	620.2
Hyundai Engineering & Construction Co., Ltd	11.2%	744.4
Hynix Semiconductor Inc .	5.5%	587.0
Korea Aerospace Industries, Ltd .	30.1 %	171.9
SK Networks Co., Ltd .	8.2%	246.1
Daewoo International Corporation	5.3%	153.0
Total		17,432.1

(2) Borrowings include borrowings and industrial finance bonds.

As of October 27, 2009, our total assets after the spin-off decreased by 16.8% to ₩126,254.4 billion from ₩151,735.4 billion before the spin-off, primarily due to a 38.1% decrease in securities to ₩33,791.4 billion from ₩54,556.8 billion, which was attributable to the transfer of ₩17,432.1 billion of equity securities and ₩1,753.7 billion of debt securities to KoFC and ₩1,579.6 billion of equity securities to KDBFG in connection with the spin-off.

As of October 27, 2009, our total liabilities after the spin-off decreased by 16.0% to ₩111,588.2 billion from ₩132,919.2 billion before the spin-off, primarily due to a 19.6% decrease in borrowings to ₩82,289.7 billion from ₩102,380.6 billion, which was attributable to the transfer of ₩19,640.9 billion of borrowings (including ₩16,795.0 billion of industrial finance bonds) to KoFC and ₩450.0 billion of borrowings to KDBFG in connection with the spin-off.

As of October 27, 2009, our total shareholders' equity after the spin-off decreased by 22.1 % to ₩14,666.2 billion from ₩18,816.2 billion before the spin-off, primarily due to a decrease in retained earnings by ₩2,824.6 billion, which was mainly attributable to the transfer of ₩1,973.4 billion of retained earnings to KoFC and ₩851.2 billion of retained earnings to KDBFG in connection with the spin-off.

The following income statement data show our income and expenses for the period from January 1, 2009 to October 27, 2009 before the spin-off but do not reflect any effect on our income and expenses resulting from the spin-off.

	Period beginning on January 1, 2009 and ending on October 27, 2009 (Before Spin-off)
	(billions of won) (unaudited)
Income Statement Data	
Total Interest Income	4,441.8
Total Interest Expenses	3,918.5
Net Interest Income	523.3
Operating Revenues	24,519.9
Operating Expenses.....	24,308.6
Net Income	866.4

From January 1, 2009 to October 27, 2009, we recorded net income of ₩866.4 billion before the spin-off. Principal factors for the net income for such period include (a) net gain on disposal of available-for-sale securities of ₩601.7 billion, primarily due to gains from the sale of our equity interest in Doosan Heavy Industries & Construction, Hyundai Engineering & Construction and SK Networks, (b) net valuation gain on equity method investments of ₩525.8 billion, primarily due to gain from our investment in KEPCO and (c) net interest income of ₩523.3 billion, primarily due to income from interest on loans. The above factors were partially offset by provision for loan losses of ₩575.5 billion during such period.

Results of Operation

You should read the following financial statement data together with the financial statements and notes included in this prospectus:

Income Statement Data

	Year Ended December 31,				
	2005	2006	2007	2008	2009
	(billions of won) (audited)				
Total Interest Income	3,029.2	3,650.5	4,479.0	5,800.9	5,374.5
Total Interest Expenses	2,598.2	3,294.3	4,238.4	4,997.1	4,476.9
Net Interest Income	431.0	356.2	240.7	803.8	897.6
Operating Revenues	10,730.4	11,806.4	12,578.7	44,131.0	27,682.3
Operating Expenses	10,503.7	11,230.5	11,437.0	43,240.9	27,676.5
Net Income	2,421.7	2,100.8	2,047.6	350.3	761.1

Balance Sheet Data

	As of December 31,				
	2005	2006	2007	2008	2009
	(billions of won) (audited)				
Total Loans ¹⁾	50,490.3	51,392.9	57,842.2	77,113.5	76,211.4
Total Borrowings ²⁾	75,304.1	81,158.2	93,954.4	117,253.5	94,623.7
Total Assets	96,510.7	104,523.3	122,615.9	157,612.7	122,333.4
Total Liabilities	81,765.7	88,017.1	104,029.2	141,897.4	107,222.7
Shareholder's Equity	14,745.0	16,506.2	18,586.7	15,715.3	15,110.7

- (1) Gross amount, which includes equipment capital loans, working capital loans and other loans (including call loans, domestic usance, bills of exchange bought, debentures accepted by private subscription, bonds purchased, inter-bank loans, local letters of credit negotiation, loan-type suspense accounts pursuant to the applicable guidelines and other loans) without adjusting for allowance for loan losses, present value discounts and deferred loan fees.
- (2) Total Borrowings include deposits, call money, borrowings, bonds sold under repurchase agreements, bills sold and industrial finance bonds.

2009

We had net income of ~~₩~~761.1 billion in 2009 compared to net income of ~~₩~~350.3 billion in 2008.

Principal factors for the increase in net income in 2009 compared to 2008 included:

- net valuation gain on equity method investments of ~~₩~~619.9 billion in 2009 compared to net valuation loss of ~~₩~~509.9 billion in 2008; the net valuation gain of ~~₩~~619.9 billion in 2009 reflected principally the gain from our investment in KEPCO and the net valuation loss of ~~₩~~509.9 billion in 2008 reflected principally losses from our investments in KEPCO and GM Daewoo Auto & Technology Company; and
- an increase in net interest income to ~~₩~~897.6 billion in 2009 from ~~₩~~803.8 billion in 2008, primarily due to a decrease in interest expenses resulting from the transfer of interest-bearing liabilities, including Won-denominated industrial finance bonds, to KoFC in connection with the spin-off in October 2009, which more than offset a decrease in interest income resulting from the transfer of interest-bearing assets to KoFC in connection with the spin-off in October 2009.

The above factors were partially offset by an increase in provision for loan losses to ~~₩~~918.6 billion in 2009 from ~~₩~~328.1 billion in 2008, primarily due to an increase in non-performing loans resulting from corporate restructurings of borrowers in the construction, shipbuilding and shipping industries and Kumho Asiana Group's debt work-out.

2008

We had net income of ~~₩~~350.3 billion in 2008 compared to net income of ~~₩~~2,047.6 billion in 2007.

Principal factors for the decrease in net income in 2008 compared to 2007 included:

- net valuation loss on equity method investments of ~~₩~~509.9 billion in 2008 compared to net valuation gain on equity method investments of ~~₩~~1,468.6 billion in 2007, primarily due to losses from investments in KEPCO and GM Daewoo Auto & Technology Company; and
- a decrease in gains on disposal of equity method investments to ~~₩~~32.8 billion in 2008 from ~~₩~~896.5 billion in 2007; the ~~₩~~32.8 billion gain in 2008 reflected principally the sale of our equity interest in Tongmyung Mottrol Co., Ltd. and the ~~₩~~896.5 billion gain in 2007 reflected principally the sale of our equity interest in LG Card.

The above factors were partially offset by an increase in net interest income to ~~₩~~803.8 billion in 2008 from ~~₩~~240.7 billion in 2007.

Provisions for Possible Loan Losses and Loans in Arrears

We establish provisions for possible losses from problem loans, including guarantees and other extensions of credit, based on the length of the delinquent periods and the nature of the loans, including guarantees and other extensions of credit. As of December 31, 2009, we established provisions of ~~₩~~1,393.5 billion for possible loan losses and bad debt securities, 36.1% higher than the provisions as of December 31, 2008, and ~~₩~~268.7 billion for doubtful accounts relating to foreign exchange, guarantees and other assets, representing a 188.3% increase from December 31, 2008. As of December 31, 2008, we established provisions of ~~₩~~1,023.7 billion for possible loan losses and bad debt securities, 31.2% higher than the provisions as of December 31, 2007, and ~~₩~~93.2 billion for doubtful accounts relating to foreign exchange, guarantees and other assets, representing a 58.1 % increase from December 31, 2007.

Certain of our customers have restructured loans with their creditor banks. As of December 31, 2009, we have provided loans of ~~₩~~3,551.0 billion for companies under workout, court receivership, court mediation and other restructuring procedures. In addition, as of such date, we held equity securities of such companies in the

amount of ~~W~~63.2 billion following debt-equity swaps. As of December 31, 2009, we had established provisions of ~~W~~501.4 billion for possible loan losses. We cannot assure you that actual results of the credit loss from the loans to these customers will not exceed the provisions reserved.

Financial Services Commission guidelines classify loans into five categories; provisions are made in accordance with ratios applicable to each category. Effective December 31, 2007, the Financial Services Commission adopted more stringent definitions for the relevant loan categories which more closely follow international standards. Under the revised definitions, loans are categorized as follows:

- Normal** Credits extended to customers which, in consideration of their business and operations, financial conditions and future cash flows, do not raise concerns regarding their ability to repay the credits. 0.85% or more reserves required (0.9% for companies in certain industries).
- Precautionary** Credits extended to customers (1) which, in consideration of their business and operations, financial conditions and future cash flows, are judged to have potential risks with respect to their ability to repay the credits in the future, although there have not occurred any immediate risks of default in repayment; or (2) which are in arrears for one month or more but less than three months. 7.0% or more reserves required.
- Substandard** (1) Credits extended to customers, which in consideration of their business and operations, financial conditions and future cash flows, are judged to have incurred considerable risks for default in repayment as the customers' ability to repay has deteriorated; or (2) that portion which is expected to be collected of total credits (a) extended to customers which have been in arrears for three months or more, (b) extended to customers which are judged to have incurred serious risks due to the occurrence of final refusal to pay their promissory notes, liquidation or bankruptcy proceedings, or closure of their businesses or (c) of "Doubtful Customers" or "Expected-loss Customers" (each as defined below). 20.0% or more reserves required.
- Doubtful** That portion of credits in excess of the amount expected to be collected of total credits extended to (1) customers ("Doubtful Customers") which, in consideration of their business and operations, financial conditions and future cash flows, are judged to have incurred serious risks of default in repayment due to noticeable deterioration in their ability to repay; or (2) customers which have been in arrears for three months or more but less than twelve months. 50.0% or more reserves required.
- Expected Loss** That portion of credits in excess of the amount expected to be collected of total credits extended to (1) customers ("Expected-loss Customers"), which, in consideration of their business and operations, financial conditions and future cash flows, are judged to have to be accounted as a loss as the inability to repay became certain due to serious deterioration in their ability to repay; (2) customers which have been in arrears for twelve months or more; or (3) customers which are judged to have incurred serious risks of default in repayment due to the occurrence of final refusal to pay their promissory notes, liquidation or bankruptcy proceedings, or closure of their businesses. 100.0% reserves required.

The following table provides information on our loan loss provisions.

	As of December 31, 2007 ¹			As of December 31, 2008 ¹			As of December 31, 2009 ¹		
	Loan Amount	Minimum Provisioning Ratio	Loan Loss Provisions	Loan Amount	Minimum Provisioning Ratio	Loan Loss Provisions	Loan Amount	Minimum Provisioning Ratio	Loan Loss Provisions
(in billions of won, except percentages)									
Normal	₩48,833.0	0.85-0.9%	₩437.3	₩66,003.8	0.85-0.9%	₩ 595.6	₩66,797.0	0.85-0.9%	₩ 719.6
Precautionary	436.8	7.0%	60.3	449.1	7.0%	56.5	1,343.2	7.0%	190.2
Substandard	619.3	20.0%	254.1	912.7	20.0%	223.6	1,580.4	20.0%	418.9
Doubtful	3.4	50.0%	2.1	10.3	50.0%	5.3	37.6	50.0%	22.8
Expected Loss	26.2	100.0%	26.2	142.7	100.0%	142.7	42.0	100.0%	42.0
Others ⁽²⁾	7,893.1	—	—	9,570.9	—	—	6,411.2	—	—
Total	₩57,811.8		780.0	₩77,089.5		₩1,023.7	₩76,211.4		₩1,393.5

- (1) These figures include loans, domestic usance, bills of exchange bought, local letters of credit negotiation and loan-type suspense accounts pursuant to the applicable guidelines.
(2) Includes loans guaranteed by the Government.

As of December 31, 2009, our delinquent loans totaled ₩ 1,660.0 billion, representing 2.2% of our outstanding loans as of such date. On December 31, 2009, our legal reserve was ₩4,353.4 billion, representing 5.7% of our outstanding loans as of such date.

Loans to Financially Troubled Companies

We have credit exposure (including loans, guarantees and equity investments) to a number of financially troubled Korean companies including Kumho Tires Co., Inc., SLS Shipbuilding Co., Ltd., Ssangyong Motor Company, Amuty Shinchon Securitization Specialty Co., Ltd. and 21 st Century Shipbuilding Co., Ltd. As of December 31, 2009, our credit extended to these companies totaled ₩1,474.3 billion, accounting for 1.2% of our total assets as of such date.

We downgraded the classification of our exposure to Kumho Tires Co., Inc. from normal to substandard in January 2010. As of December 31, 2009, our exposure (including loans classified as substandard or below and equity investment classified as estimated loss or below) to Kumho Tires was ₩583.0 billion. We downgraded the classification of our exposure to SLS Shipbuilding Co., Ltd. from precautionary to substandard in January 2010. As of December 31, 2009, our exposure to SLS Shipbuilding was ₩341.3 billion. We downgraded the classification of our exposure to Ssangyong Motor Company from normal to expected loss retroactively as of December 31, 2008, following its application for debtor rehabilitation process in January 2009. As of December 31, 2009, our exposure to Ssangyong Motor Company was ₩318.2 billion. We downgraded the classification of our exposure to Amuty Shinchon Securitization Specialty Co., Ltd. from normal to substandard, following our evaluation of its financial condition and operating results in February 2009. As of December 31, 2009, our exposure to Amuty Shinchon Securitization Specialty was ₩149.1 billion. We downgraded the classification of our exposure to 21 st Century Shipbuilding Co., Ltd. from precautionary to substandard in January 2010. As of December 31, 2009, our exposure to 21 st Century Shipbuilding was ₩82.8 billion.

As of December 31, 2009, we established provisions of ₩164.4 billion for our exposure to Kumho Tires, ₩153.6 billion for SLS Shipbuilding, ₩63.6 billion for Ssangyong Motor Company, ₩29.8 billion for Amuty Shinchon Securitization Specialty and ₩37.2 billion for 21 st Century Shipbuilding.

In 2009, we did not sell any non-performing loans to the Korea Asset Management Corporation, or KAMCO.

In January 2010, Kumho Tires Co., Inc. and Kumho Industrial Co., Ltd. agreed with their creditors, including us, to begin an out-of-court debt restructuring program under the Corporate Restructuring Promotion Act. In March and May 2010, the creditors of these companies agreed on work-out plans, which included

debt-to-equity swaps and extensions of additional credit. In connection with these work-out plans, we provided emergency loans of ₩100.0 billion and ₩280.0 billion to Kumho Tires and Kumho Industrial, respectively, which are currently classified as substandard and below. We and other creditors of Kumho Tires and Kumho Industrial decided to freeze the repayment of both companies' debt until December 31, 2014. In addition, we and other creditors of Kumho Petrochemical Co., Ltd. and Asiana Airlines decided to freeze the repayment of both companies' debt until December 31, 2011. These four companies are members of Kumho Asiana Group, which is undergoing financial difficulties resulting from its heavily leveraged purchase of Daewoo Engineering & Construction Co., Ltd. ("Daewoo E&C") in 2006. We, as the main creditor of Kumho Asiana Group, are under negotiations with the Kumho Asiana Group and the financial investors in Daewoo E&C to purchase a controlling stake in Daewoo E&C from Kumho Asiana Group through a private-equity fund.

Based on our unaudited internal management accounts, as of December 31, 2009, our exposure to Kumho Tires, Kumho Industrial, Kumho Petrochemical and Asiana Airlines was ₩863.5 billion, ₩113.5 billion, ₩835.7 billion and ₩847.7 billion, respectively. Based on our unaudited internal management accounts, as of December 31, 2009, we established provisions of ₩130.7 billion, ₩3.2 billion, ₩6.9 billion and ₩6.6 billion for our exposure to Kumho Tires, Kumho Industrial, Kumho Petrochemical and Asiana Airlines, respectively.

Operations

Loan Operations

We mainly provide equipment capital loans and working capital loans to private Korean enterprises that undertake major industrial projects. The loans generally cover over 50%, and in some cases as much as 100%, of the total project cost. Equipment capital loans include loans to major industries for development of high technology and for acquisition, improvement or repair of machinery and equipment. We disburse loan proceeds in installments to ensure that the borrower uses the loan for its intended purpose.

Before approving a loan, we consider:

- the economic benefits of the project to the Republic;
- the extent to which the project serves priorities established by the Government's industrial policy;
- the project's operational feasibility;
- the loan's and the project's profitability; and
- the quality of the borrower's management.

We charge, on average, interest of 3.75% over our prime rate, although we provide a discount between 0.3% and 0.8% to small- and medium-sized companies. We adjust the prime rate monthly. The spread depends on the purpose of the loan, maturity date and the borrower's credit ratings. Certain loans bear interest at below market rates. Equipment capital loans generally have original maturities of five to ten years, although we occasionally make equipment capital loans with longer maturities. Working capital loans usually mature within two years.

We generally obtain collateral valued in excess of the original loan from large companies and up to the value of the loan from small- and medium-sized companies. Depending on the type of borrower and loan, the collateral may be equipment purchased with the loan proceeds, industrial plants, real estate and marketable securities. We appraise the value of our collateral at least once a year.

The following table sets out, by currency and category of loan, our total outstanding loans:

Loans⁽¹⁾

	December 31,		
	2007	2008	2009
	(billions of won)		
Equipment Capital Loans:			
Domestic Currency	14,669.3	19,787.1	24,695.2
Foreign Currency ⁽²⁾	12,037.8	18,035.1	15,544.1
	26,707.1	37,822.2	40,239.3
Working Capital Loans:			
Domestic Currency	9,895.3	15,114.1	12,114.4
Foreign Currency ⁽²⁾	2,756.9	3,144.8	2,410.9
	12,652.2	18,258.9	14,525.3
Other Loans ⁽³⁾	18,482.9	21,032.4	21,446.8
Total Loans	57,842.2	77,113.5	76,211.4

(1) Includes loans extended to affiliates.

(2) Includes loans disbursed and repayable in Won, the amounts of which are based upon an equivalent amount of foreign currency. This type of loan totaled ₩3,130.5 billion as of December 31, 2007, ₩4,254.4 billion as of December 31, 2008 and ₩3,297.2 billion as of December 31, 2009. See “—Operations—Loan Operations—Loans by Categories—Local Currency Loans Denominated in Foreign Currencies.”

(3) Includes call loans, domestic usance, bills of exchange bought, debentures accepted by private subscription, bonds purchased, inter-bank loans, local letters of credit negotiation, loan-type suspense accounts pursuant to the applicable guidelines and other loans.

As of December 31, 2009, we had ₩76,211.4 billion in outstanding loans, representing a 1.2% decrease from December 31, 2008, primarily as a result of the transfer of loans to KoFC in connection with the spin-off of KoFC. See “Selected Financial Statement Data—Spin-off of KDB.”

Maturities of Outstanding Loans

The following table categorizes our outstanding equipment capital and working capital loans by their remaining maturities:

Outstanding Equipment Capital and Working Capital Loans by Remaining Maturities⁽¹⁾

	December 31,			As % of December 31, 2009 Total
	2007	2008	2009	
	(billions of won, except percentages)			
Loans with Remaining Maturities of One Year or Less	12,228.1	18,729.0	19,078.8	34.8%
Loans with Remaining Maturities of More Than One Year	27,131.3	37,352.1	35,685.8	65.2%
Total	39,359.4	56,081.1	54,764.6	100.0%

(1) Includes loans extended to affiliates.

Loans by Industrial Sector

The following table sets out the total amount of our outstanding equipment capital and working capital loans, categorized by industry sector:

Outstanding Equipment Capital and Working Capital Loans by Industry Sector⁽¹⁾

	December 31,			As % of
	2007	2008	2009	December 31, 2009 Total
	(billions of won, except percentages)			
Manufacturing	22,807.1	32,068.7	32,172.2	58.7%
Banking and Insurance	2,878.5	4,157.0	3,331.5	6.1%
Transportation and Communication	4,136.2	5,981.8	5,567.7	10.2%
Public Administration	1,807.3	2,050.7	1,629.7	3.0%
Electric, Gas and Water Supply Industry	2,561.3	2,976.6	2,983.6	5.4%
Others	5,168.9	8,846.3	9,079.9	16.6%
Total.....	39,359.3	56,081.1	54,764.6	100.0%
Percentage increase (decrease) from previous period	16.3%	42.5%	(2.3)%	

(1) Includes loans extended to affiliates.

The manufacturing sector accounted for 58.7% of our outstanding equipment capital and working capital loans as of December 31, 2009. As of December 31, 2009, loans to the metal-related manufacturing businesses and chemical and plastic manufacturing businesses accounted for 23.6% and 21.2%, respectively, of our outstanding equipment capital and working capital loans to the manufacturing sector.

The Small & Medium Business Corp. was our single largest borrower as of December 31, 2009, accounting for 2.4% of our outstanding equipment capital and working capital loans. As of December 31, 2009, our five largest borrowers accounted for 9.9% of our outstanding equipment capital and working capital loans and the 20 largest borrowers for 23.2%. The following table breaks down the equipment capital and working capital loans to our 20 largest borrowers outstanding as of December 31, 2009 by industry sector:

20 Largest Borrowers by Industry Sector

	As% of December 31, 2009 Total Outstanding Equipment Capital and Working Capital Loans
Manufacturing	56.3%
Transportation and Communication	13.5%
Electricity and Waterworks	11.5%
Public Administration and National Defense	10.3%
Financing, Insurance and Business Services	3.7%
Science and Technology / Others	4.7%
Total	<u>100.0%</u>

The following table categorizes the new loans made by us by industry sector:

New Loans by Industry Sector

	Year Ended December 31,			As% of Year Ended December 31, 2009 Total
	2007	2008	2009	
	(billions of won, except percentages)			
Manufacturing	9,915.6	13,863.4	18,801.3	55.4%
Transportation and Communication	1,500.0	1,911.9	2,687.1	7.9%
Electricity and Waterworks	1,479.7	373.9	557.9	1.6%
Financing, Insurance and Business Services	1,807.4	2,071.8	5,357.6	15.8%
Others	1,768.9	3,011.4	6,560.0	19.2%
Total	16,471.6	21,232.4	33,963.9	100.0%
Percentage increase (decrease) from previous period	25.9%	28.9%	59.9%	

Loans by Categories

In addition to dividing our loans into equipment capital and working capital loans, we classify loans into several groupings, the most important being:

- industrial fund loans;
- foreign currency loans;
- local currency loans denominated in foreign currencies;
- offshore loans in foreign countries; and
- government fund loans.

See “—Financial Statements and the Auditors—Notes to Non-Consolidated Financial Statements of December 31, 2009 and 2008—Note 5” for more information on the types of credit extended by us and the amounts of each type outstanding as of December 31, 2009.

The following table sets out equipment capital and working capital loans by categories as of December 31, 2009:

	Equipment Capital Loans ⁽¹⁾		Capital Loans ⁽¹⁾	
	December 31, 2009	% Working	December 31, 2009	%
	(billions of won, except percentages)			
Industrial fund loans	21,173.6	52.6%	10,522.3	72.4%
Foreign currency loans	10,549.2	26.2%	2,407.6	16.6%
Offshore loans in foreign currencies	3,418.9	8.5%	—	—
Government fund loans	789.8	2.0%	0.4	0.0%
IBRD loans	1,417.8	3.5%	—	—
Overdraft	—	—	407.5	2.8%
Others	2,890.0	7.2%	1,187.5	8.2%
Total	40,239.3	100.0%	14,525.3	100.0%

(1) Includes loans extended to affiliates.

Industrial Fund Loans. Industrial fund loans are equipment capital and working capital loans denominated in Won to borrowers in major industries to finance equipment and facilities.

We currently make equipment capital industrial fund loans at floating or fixed rates for terms of up to 10 years and for up to 100% of the equipment cost being financed. We make working capital industrial fund loans at floating or fixed rates and in amounts constituting up to 40% of the borrower's estimated annual sales.

Foreign Currency Loans. We extend loans denominated in U.S. dollars, Japanese yen or other foreign currencies principally to finance the purchase of industrial equipment from abroad or the implementation of overseas industrial development projects by Korean companies. We make these loans at floating interest rates with original maturities, in the case of equipment capital foreign currency loans, of up to 10 years and, in the case of working capital foreign currency loans, of up to three years.

Local Currency Loans Denominated in Foreign Currencies. We make local currency loans denominated in foreign currencies for the same purposes, and to the same borrowers, as foreign currency loans. Although we denominate the loans in foreign currency, the borrower receives and repays the loans in Won based on foreign exchange rates at the time of receipt and repayment. We currently make loans of this type at floating interest rates, with original maturities, in the case of equipment capital loans, of up to 10 years and, in the case of working capital loans, of up to three years.

Offshore Loans in Foreign Currencies. We extend offshore loans in foreign currencies to finance:

- the purchase of industrial equipment and the implementation of overseas industrial projects by overseas subsidiaries and branches of Korean companies; and
- the overseas industrial development projects of foreign government entities, international organizations and foreign companies.

We make these loans at floating interest rates with original maturities, in the form of equipment capital foreign currency loans, of up to 10 years.

Government Fund Loans. We make government fund loans primarily to finance:

- water supply and drainage facilities;
- the Seoul and Busan subway systems;
- small tourist facilities;
- rural and coastal electricity facilities;
- hospitals; and
- other facilities.

Government fund loans require approval by the appropriate Government ministry. We currently make government fund loans in Won at fixed interest rates with original maturities, in the case of equipment capital loans, of eight to 20 years and, in the case of working capital loans, of up to five years.

Other Loans. We also make special purpose fund loans for particular industries or projects using funds lent to us by the Government and foreign financial institutions. The Government funds that finance these loans include, among others:

- the Tourism Promotion Fund (hotel and resort projects);
- the Rational Use of Energy Fund (energy conservation projects and collective energy supply projects); and
- the Small- and Medium-sized Enterprises Promotion Fund (small- and medium-sized enterprises),

We also make special purpose fund loans from money received from the World Bank, the ADB, other multinational agencies and foreign financial institutions. For further information relating to such loans, see “—Sources of Funds” and “—Financial Statements and the Auditors—Notes to Non-Consolidated Financial Statements of December 31, 2009 and 2008—Note 5.”

Guarantee Operations

We extend guarantees to our clients to facilitate their other borrowings and to finance major industrial projects. We guarantee Won-denominated corporate debentures, local currency loans, and other Won liabilities and foreign currency loans from domestic and overseas Korean financial institutions and from foreign institutions. The KDB Act and our Articles of Incorporation limit the aggregate amount of our industrial finance bond obligations and guarantee obligations. See “—Sources of Funds.”

We generally obtain collateral valued in excess of the original guarantee. We appraise the value of our collateral at least once a year. Depending on the borrower, the collateral may be industrial plants, real estate and/or marketable securities.

The following table shows our outstanding guarantees:

Guarantees Outstanding

	As of December 31,		
	2007	2008	2009
	(billions of won)		
Acceptances	275.7	725.8	1,231.9
Guarantees on local borrowing	384.1	441.0	370.6
Guarantees on foreign borrowing	11,330.6	16,910.4	12,686.1
Letter of guarantee for importers	39.3	29.8	40.3
Total	12,029.7	18,107.0	14,329.0

On November 13, 2002, we entered into a guarantee agreement with KEPCO with respect to certain of KEPCO’s debt securities in connection with KEPCO’s restructuring and privatization. Pursuant to the guarantee agreement, we issued in February 2003 our guarantee to holders of KEPCO’s Yankee and Global debt securities with final maturities ranging from 2003 to 2096 (although our guarantee obligations only run through 2016) in an aggregate principal amount of approximately ₩3.3 trillion, based on exchange rates prevailing on the guarantee issuance date, February 25, 2003, and we issued in April 2003 our guarantee to holders of KEPCO’s Eurobonds with final maturities ranging from 2004 to 2007 in an aggregate principal amount of approximately ₩0.9 trillion, based on exchange rates prevailing on the guarantee issuance date, April 29, 2003. The guarantees described above constitute full, irrevocable and unconditional guarantees, on an unsecured and unsubordinated basis, in respect of the principal, interest and other payments due with respect to those debt obligations. KEPCO paid and will continue to pay us an annual guarantee fee of 0.05% of (i) the aggregate outstanding principal amount of all issues of debt securities that will be covered by the benefit of our guarantee and (ii) the sum of all interest payments due on such debt securities from the date of calculation until the earlier of their maturity or their stated redemption date.

KoFC, which indirectly owns 94.2% of our paid-in capital, currently owns approximately 30.0% of the outstanding shares of common stock of KEPCO, and the Government, which indirectly owns all of our paid-in capital, owns an additional 21.1 % of such shares of KEPCO.

Investments

We invest in a range of Korean private and Government-owned enterprises but we will not take a controlling interest in a company unless the Government specifically instructs us to do so. Although generally a

long-term investor, we sell investments from time to time. In recent years, sales resulted principally from the Government's privatization program, and we expect to continue such sales in the future. The Government plans to sell its direct or indirect interest in certain private sector companies acquired during previous restructuring programs, including Daewoo International Corp., Daewoo Electronics Corp., Daewoo Shipbuilding & Marine Engineering Co. Ltd. and Hynix Semiconductor Inc. In accordance with such plan, we expect to sell our equity holdings in certain private sector companies if favorable opportunities for sale arise. Our equity investments decreased to ₩5,617.8 billion as of December 31, 2009 from ₩22,917.1 billion as of December 31, 2008, primarily as a result of the transfer of our equity interest in certain companies, including KEPCO and Daewoo Securities Co., Ltd., to KoFC in connection with the spin-off in October 2009. See "Selected Financial Statement Data—Spin-off of KDB." Our equity investments decreased to ₩22,917.1 billion as of December 31, 2008 from ₩26,944.1 billion as of December 31, 2007, principally as a result of valuation losses on capital stock of KEPCO and GM Daewoo Auto & Technology.

To support the Government's policy of helping credit-constrained small- and medium-sized companies, we allocated ₩400 billion for each of 2008 and 2009 for investment in promising small- and medium-sized companies and invested ₩227.7 billion and ₩158.4 billion in 112 and 74 companies in 2008 and 2009, respectively.

The KDB Act and our Articles of Incorporation provide that the cost basis of our total equity investments may not exceed twice the sum of our paid-in capital and our reserve from profit. In addition, pursuant to the KDB Decree, we may not acquire equity securities of a single company in excess of 15% of its entire voting shares. The 15% limit, however, does not apply to certain investments, including those in the companies financed by capital contributions from the Government. As of December 31, 2009, the cost basis of our equity investments subject to restriction under the KDB Act and our Articles of Incorporation totaled ₩5,617.8 billion, equal to 20.7% of our equity investment ceiling. For a discussion of Korean accounting principles relating to our equity investments, see "—Financial Statements and the Auditors."

The following table sets out our equity investments by industry sector on a book value basis as of December 31, 2009:

Equity Investments	
	Book Value as of December 31, 2009
	(billions of won)
Electricity & Waterworks	59.2
Construction	11.3
Finance and Insurance	2,010.8
Real Estate Business	94.4
Manufacturing	1,668.7
Transportation	450.8
Others	1,322.6
Total	5,617.8

As of December 31, 2009, we held total equity investments, on a book value basis, of ₩286.5 billion in one of our five largest borrowers and ₩339.5 billion in three of our 20 largest borrowers. We have not established a policy addressing loans to enterprises in which we hold equity interests or equity interests in enterprises to which we have extended loans.

When possible, we use the prevailing market price of a security to determine the value of our interest. However, if no readily ascertainable market value exists for our holdings, we record these investments at the cost of acquisition. With respect to our equity interests in enterprises in which we hold more than 15% of interest, we value these investments annually, with certain exceptions, on a net asset value basis when the investee company releases its financial statements. As of December 31, 2009, the aggregate value of our equity investments accounted for approximately 137.8% of their aggregate cost basis.

As part of our investment activities, we underwrite straight and convertible bond issuances in Won for domestic corporations. We also invest in municipal bonds, extending funds to municipalities at subsidized interest rates, mostly to finance water supply and drainage infrastructure projects.

Other Activities

We engage in a range of industrial development activities in addition to providing loans and guarantees, including:

- conducting economic and industrial research;
- performing engineering surveys;
- providing business analyses and managerial assistance; and
- offering trust services.

As of December 31, 2009, we held in trust cash and other assets totaling ₩20,746.9 billion, and we generated in 2009 trust fee income equaling ₩15.2 billion. As of December 31, 2008, we held in trust cash and other assets totaling ₩12,344.9 billion, and we generated in 2008 trust fee income equaling ₩6.9 billion. Pursuant to Korean law, we segregate trust assets from our other assets; trust assets are not available to satisfy claims of our depositors or other creditors. Accordingly, we account for our trust accounts separately from our banking accounts. However, if our trust operations fail to preserve the principal of our clients' trust assets, we are responsible for covering the deficit either from previously established provisions in our trust accounts or by a transfer from our banking accounts. In 2007, 2008 and 2009, we did not transfer any funds from our banking accounts to cover deficits in our trust accounts. Surplus funds generated by the trust assets may be deposited into the clients' accounts and earn interest. We reflect trust fees earned by us on our trust account management services as other operating revenues in the income statement of the banking accounts.

Sources of Funds

In addition to our capital and reserves, we obtain funds primarily from:

- borrowings from the Government;
- issuances of bonds in the domestic and international capital markets;
- borrowings from international borrowings from The Bank of Korea; and
- deposits.

All of our borrowings are unsecured.

Borrowings from the Government

We borrow from the Government's general purpose funds and its special purpose funds. General purpose loans generally are in Won and have fixed interest rates and maturities ranging from five to 20 years. We incur special purpose loans, principally from the Tourism Promotion Fund, the Rational Use of Energy Fund and the Small- and Medium-sized Enterprises Promotion Fund, in connection with specific projects we finance. The Government links the interest rate and maturity of each special purpose borrowing to the terms of the financing we provide for the specific project.

The following table sets out our Government borrowings as of December 31, 2009:

<u>Type of Funds Borrowed</u>	<u>As of December 31, 2009 (billions of won)</u>
General Purpose	848.7
Special Purpose	3,808.5
Total.....	<u>4,657.2</u>

Domestic and International Capital Markets

We issue industrial finance bonds both in Korea and abroad, some of which the Government directly guarantees. We generally issue domestic bonds at fixed interest rates with original maturities of one to ten years.

The following table sets out the outstanding balance of our industrial finance bonds as of December 31, 2009:

<u>Outstanding Balance</u>	<u>As of December 31, 2009 (billions of won)</u>
Denominated in Won	35,060.9
Denominated in Other Currencies	15,818.3
Total	<u>50,879.2</u>

The KDB Act provides that the aggregate outstanding principal amount of our industrial finance bonds, other than those directly guaranteed or purchased by the Government, plus the aggregate outstanding amount of our on-balance sheet and off-balance sheet guarantee obligations, other than those excepted by statute, may not exceed 30 times the sum of our paid-in capital and our reserve from profit. As of December 31, 2009, the aggregate amount of our industrial finance bonds and guarantee obligations (including guarantee obligations relating to loans that had not been borrowed as of December 31, 2009) was ₩66,380.6 billion, equal to 15.5% of our authorized amount under the KDB Act, which was ₩429,383.6 billion.

Foreign Currency Borrowings

We borrow money from institutions, principally syndicates of commercial banks, outside the Republic in foreign currencies. We frequently enter into related interest rate and currency swap transactions. The loans generally have original maturities of five to ten years. We also borrow from the World Bank, the ADB and other similar supranational institutions to fund special projects, with terms linked to the related loans we extend. As of December 31, 2009, the outstanding amount of our foreign currency borrowings was US\$11.2 billion.

Our long term and short term foreign currency borrowings decreased to ₩13,087.5 billion as of December 31, 2009 from ₩16,468.2 billion as of December 31, 2008.

Deposits

We take demand deposits and time and savings deposits from the general public. Time and savings deposits generally have maturities shorter than three years and bear interest at fixed rates. As of December 31, 2009, demand deposits held by us totaled ₩521.8 billion and time and savings deposits held by us totaled ₩9,829.3 billion.

Debt

Debt Repayment Schedule

The following table sets out our principal repayment schedule as of December 31, 2009:

Debt Principal Repayment Schedule

Currency ^{(1),(2)}	Maturing on or before December 31,				
	2010	2011	2012	2013	Thereafter
	(billions of won)				
Won	15,332.2	8,298.6	5,412.4	2,867.1	7,807.8
Foreign	14,385.9	4,622.5	3,759.5	2,680.1	3,377.9
Total Won Equivalent	29,718.2	12,921.1	9,171.8	5,547.2	11,185.7

- (1) Borrowings in foreign currencies have been translated into Won at the market average exchange rates on December 31, 2009, as announced by the Seoul Money Brokerage Services Ltd.
- (2) We categorize debt with respect to which we have entered into currency swap agreements by our repayment currency under such agreements.

Internal and External Debt of the Bank

The following table summarizes, as of December 31 of the years indicated, the outstanding direct internal debt of the Bank:

Direct Internal Debt of the Bank

	(billions of Won)
2005	41,971.7
2006	47,054.7
2007	48,419.6
2008	62,956.7
2009	49,035.8

The following table sets out, by currency and the equivalent amount in U.S. Dollars, the outstanding direct external debt of the Bank as of December 31, 2009:

Direct External Debt of the Bank

	Amount in Original Currency	Equivalent Amount in U.S. Dollars ⁽¹⁾
	(billions)	
US\$	US\$ 10.9	US\$10.9
Japanese yen (¥).....	¥ 374.3	4.1
Euro(EUR)	EUR 2.2	3.1
Singapore dollar (SGD)	SGD 0.6	0.4
Hong Kong dollar (HKD)	HKD 3.2	0.4
Pound sterling (GBP)	GBP 0.2	0.2
Swiss franc (CHF)	CHF 0.7	0.6
Brazilian real (BRL)	BRL 0.2	0.0
Chinese yuan (CNY)	CNY 0.8	0.1
Total		US\$ 20.0

- (1) Amounts expressed in currencies other than US\$ are converted to US\$ at the exchange rate announced by the Seoul Money Brokerage Services, Ltd. in effect on December 31, 2009.

The following table summarizes, as of December 31 of the years indicated, the outstanding direct external debt of the Bank:

Direct External Debt of the Bank

	(billions of Won)
2005	22,010.3
2006	24,198.7
2007	35,951.3
2008	37,556.4
2009	31,763.8

For further information on the outstanding indebtedness of the Bank, see “—Tables and Supplementary Information.”

Debt Record

We have never defaulted in the payment of principal or interest on any of our obligations.

Overseas Operations

We operate overseas subsidiaries in Hong Kong, Dublin, Budapest, Sao Paulo and Tashkent. The subsidiaries engage in a variety of banking and merchant banking services, including:

- managing and underwriting new securities issues;
- syndicating medium and long-term loans;
- trading securities;
- trading in the money market; and
- providing investment management and advisory services.

We currently maintain branches in Tokyo, Shanghai, Singapore, New York, London, Beijing and Guangzhou and two overseas representative offices in Frankfurt and Shenyang.

Property

Our head office is located at 16-3 Youido-dong, Youngdeungpo-gu, Seoul, Korea, a 35,996 square meter building completed in July 2001 and owned by us. In addition to the head office, we maintain 44 branches in major cities throughout the Republic, including 10 in Seoul. We generally own our domestic office space and lease our overseas offices under long-term leases.

Directors and Management; Employees

Our Board of Directors has ultimate responsibility for management of our affairs. Under the KDB Act and our Articles of Incorporation, our Board of Directors is to consist of not more than nine directors, including our Chief Executive Officer and Chairman of the Board of Directors. Under the KDB Act, as amended in May 2009, we elect our directors, including our Chief Executive Officer and Chairman of the Board of Directors, at a

general meeting of shareholders. Our executive directors serve for three-year terms and our independent non-executive directors serve for one-year terms, and they may be re-appointed. Currently, the members of our Board of Directors are:

Position	Name	Expiration of Term
Chief Executive Officer and Chairman of the Board of Directors:	Man Soo Kang	March 10, 2014
Executive Directors:	Young Kee Kim	May 5, 2012
	Han Chul Kim	February 3, 2013
Independent Non-executive Directors	Jean Gon Cheong	November 25, 2012
	Chon Pyo Lee	January 6, 2013

As of December 31, 2009, we employed 2,443 persons with 1,638 located in our Seoul head office.

Tables and Supplementary Information

A. External Debt of the Bank

(1) External Bonds of the Bank

Currency	Original Principal	Interest Rate (%)	Issue Date	Maturity Date	Principal Amount Outstanding as of
	Amount				December 31, 2009
USD	450,000,000	5.5	November 13, 2002	November 13, 2012	450,000,000
USD	150,000,000	5.5	January 30, 2003	November 13, 2012	150,000,000
USD	750,000,000	5.75	September 10, 2003	September 10, 2013	750,000,000
USD	750,000,000	4.625	September 16, 2005	September 16, 2010	750,000,000
USD	500,000,000	3M USD Libor + 0.28	November 22, 2005	November 22, 2012	500,000,000
USD	300,000,000	3M USD Libor + 0.2	September 12, 2006	September 12, 2011	300,000,000
USD	300,000,000	3M USD Libor + 0.14	April 3, 2007	April 3, 2010	300,000,000
USD	1,000,000,000	5.3	January 17, 2008	January 17, 2013	1,000,000,000
USD	25,000,000	4.03	May 23, 2008	May 23, 2010	25,000,000
USD	1,700,000,000	8	January 23, 2009	January 23, 2014	1,700,000,000
USD	17,000,000	5.3	February 17, 2009	February 17, 2010	17,000,000
USD	14,500,000	5.16	February 18, 2009	February 11, 2010	14,500,000
USD	40,000,000	5.85	March 13, 2009	March 10, 2010	40,000,000
USD	35,500,000	5.1	April 2, 2009	March 22, 2010	35,500,000
USD	38,950,000	4.65	April 27, 2009	April 27, 2010	38,950,000
USD	100,000,000	4.48	May 13, 2009	May 13, 2010	100,000,000
USD	19,000,000	5.7	May 12, 2009	April 9, 2012	19,000,000
USD	15,000,000	5.46	May 15, 2009	April 9, 2012	15,000,000
USD	10,000,000	3.68	May 22, 2009	May 19, 2010	10,000,000
USD	50,000,000	3M USD Libor + 1.3	October 30, 2009	October 30, 2011	50,000,000
USD	10,000,000	3M USD Libor + 1.3	November 9, 2009	October 30, 2011	10,000,000
USD	500,000,000	3M USD Libor + 0.18	December 7, 2006	December 7, 2011	500,000,000
USD	200,000,000	3M USD Libor + 0.17	August 31, 2007	August 31, 2010	200,000,000
USD	28,400,000	6M USD Libor + 0.3	December 28, 2007	December 30, 2012	28,400,000
USD	28,600,000	6M USD Libor + 0.3	December 28, 2007	June 30, 2010	28,600,000
USD	28,600,000	6M USD Libor + 0.3	December 28, 2007	December 30, 2010	28,600,000
USD	28,600,000	6M USD Libor + 0.3	December 28, 2007	June 30, 2011	28,600,000
USD	28,600,000	6M USD Libor + 0.3	December 28, 2007	December 30, 2011	28,600,000
USD	28,600,000	6M USD Libor + 0.3	December 28, 2007	June 30, 2012	28,600,000
USD	50,000,000	6M USD Libor + 0.95	April 28, 2008	April 28, 2011	50,000,000
USD	50,000,000	6M USD Libor + 0.95	May 30, 2008	May 30, 2011	50,000,000
USD	200,000,000	3M USD Libor + 3.8	July 16, 2009	July 16, 2014	200,000,000
USD	100,000,000	3M USD Libor + 1.7	July 30, 2009	July 30, 2010	100,000,000
USD	50,000,000	3M USD Libor + 1.18	October 30, 2009	October 31, 2011	50,000,000

Currency	Original Principal Amount	Interest Rate (%)	Issue Date	Maturity Date	Principal Amount Outstanding as of December 31, 2009
USD ...	300,000,000	3M USD Libor + 0.14	April 3, 2007	April 3, 2010	300,000,000
USD ...	300,000,000	6M USD Libor + 0.35	October 4, 2007	October 4, 2012	300,000,000
USD ...	150,000,000	3M USD Libor + 0.7	February 27, 2008	February 27, 2011	150,000,000
USD ...	20,000,000	3M USD Libor + 3.5	January 23, 2009	January 22, 2010	20,000,000
USD ...	300,000,000	8	January 23, 2009	January 23, 2014	300,000,000
USD ...	125,000,000	5.15	February 2, 2009	February 2, 2010	125,000,000
USD ...	200,000,000	5.75	May 13, 2009	May 13, 2012	200,000,000
USD ...	50,000,000	3M USD Libor + 4.3	May 13, 2009	May 13, 2016	50,000,000
USD ...	20,000,000	4.53	May 20, 2009	May 18, 2011	20,000,000
USD ...	25,000,000	3M USD Libor + 0.95	November 20, 2009	November 20, 2010	25,000,000
USD ...	50,000,000	6M USD Libor + 0.25	May 31, 2005	May 30, 2010	50,000,000
USD ...	40,000,000	6M USD Libor + 0.7	March 12, 2008	March 12, 2011	40,000,000
USD ...	40,000,000	6M USD Libor + 0.6	March 14, 2008	March 14, 2010	40,000,000
USD ...	40,000,000	6M USD Libor + 0.725	April 23, 2008	April 23, 2010	40,000,000
USD ...	50,000,000	3M USD Libor + 1.3	September 30, 2009	September 30, 2012	50,000,000
USD ...	50,000,000	3M USD Libor + 1.18	November 20, 2009	November 20, 2011	50,000,000
Subtotal in Original Currency					USD 9,356,350,000
Subtotal in Equivalent Amount of Won ⁽¹⁾					₩ 10,924,474,260,000
SGD ...	300,000,000	5.68	January 16, 2009	January 16, 2010	300,000,000
SGD ...	50,000,000	5.2	April 29, 2009	April 29, 2011	50,000,000
SGD ...	30,000,000	5.65	May 18, 2009	May 18, 2014	30,000,000
SGD ...	40,000,000	5.65	May 18, 2009	May 18, 2014	40,000,000
SGD ...	15,000,000	5.02	May 29, 2009	May 29, 2014	15,000,000
SGD ...	50,000,000	5.5	January 2, 2009	January 2, 2010	50,000,000
SGD ...	50,000,000	5.55	January 22, 2009	January 22, 2010	50,000,000
SGD ...	68,000,000	2.44	November 25, 2009	May 25, 2012	68,000,000
Subtotal in Original Currency					SGD 603,000,000
Subtotal in Equivalent Amount of Won ⁽²⁾					₩ 501,255,810,000
JPY .	30,000,000,000	0.87	June 28, 2005	June 28, 2010	30,000,000,000
JPY .	30,000,000,000	1.74	June 7, 2006	June 7, 2011	30,000,000,000
JPY .	30,000,000,000	1.64	June 1, 2007	June 1, 2012	30,000,000,000
JPY .	20,000,000,000	6M ¥ Libor + 0.18	June 1, 2007	June 1, 2012	20,000,000,000
JPY .	5,000,000,000	3M ¥ Libor + 0.23	September 20, 2007	September 20, 2012	5,000,000,000
JPY .	27,000,000,000	1.66	October 12, 2007	October 12, 2010	27,000,000,000
JPY .	5,000,000,000	3M ¥ Libor + 0.45	November 1, 2007	November 1, 2012	5,000,000,000
JPY .	5,000,000,000	3M ¥ Libor + 0.6	December 21, 2007	December 21, 2012	5,000,000,000
JPY .	15,000,000,000	3.22	May 30, 2008	May 30, 2018	15,000,000,000
JPY .	19,000,000,000	3M ¥ Libor + 1.38	August 13, 2008	August 13, 2010	19,000,000,000
JPY .	2,000,000,000	1.96	August 11, 2009	August 12, 2010	2,000,000,000
JPY .	34,000,000,000	3M ¥ Libor + 0.25	October 31, 2007	October 31, 2010	34,000,000,000
JPY .	711,050,000	6M ¥ Libor + 0.8125	December 4, 2009	December 2, 2011	711,050,000
JPY .	11,345,294,000	1.435	December 22, 2009	December 8, 2014	11,345,294,000
JPY .	1,179,700,000	1.435	December 28, 2009	December 8, 2014	1,179,700,000
JPY .	33,000,000,000	1.94	October 12, 2007	October 12, 2012	33,000,000,000
JPY .	5,000,000,000	3M ¥ Libor + 0.45	November 15, 2007	November 15, 2012	5,000,000,000
JPY .	3,000,000,000	2.07	April 8, 2008	April 8, 2013	3,000,000,000
JPY .	13,000,000,000	2.43	August 13, 2008	August 13, 2010	13,000,000,000
JPY .	12,100,000,000	2.51	September 14, 2009	September 14, 2011	12,100,000,000
JPY .	10,900,000,000	2.67	September 14, 2009	September 14, 2012	10,900,000,000
JPY .	7,000,000,000	2.97	September 14, 2009	September 12, 2014	7,000,000,000
JPY .	15,000,000,000	3M ¥ Libor + 0.6	February 28, 2008	February 28, 2011	15,000,000,000
Subtotal in Original Currency					JPY 334,236,044,000
Subtotal in Equivalent Amount of Won ⁽³⁾					₩ 4,220,799,610,841

Currency	Original Principal Amount	Interest Rate (%)	Issue Date	Maturity Date	Principal Amount Outstanding as of December 31, 2009
HKD	150,000,000	5	November 20, 2007	November 20, 2017	150,000,000
HKD	80,000,000	4.77	November 21, 2007	November 21, 2012	80,000,000
HKD	80,000,000	4.37	November 22, 2007	November 22, 2010	80,000,000
HKD	150,000,000	3M Hibor + 0.3	November 23, 2007	November 23, 2010	150,000,000
HKD	100,000,000	3M Hibor + 0.3	November 23, 2007	November 23, 2010	100,000,000
HKD	330,000,000	3M Hibor + 0.4	November 30, 2007	November 30, 2010	330,000,000
HKD	200,000,000	3M Hibor + 0.4	December 6, 2007	December 6, 2010	200,000,000
HKD	80,000,000	4.71	December 18, 2007	December 18, 2017	80,000,000
HKD	100,000,000	5.28	April 27, 2009	April 27, 2011	100,000,000
HKD	150,000,000	3M Hibor + 0.22	May 30, 2006	May 30, 2011	150,000,000
HKD	280,000,000	3M Hibor + 0.35	October 12, 2007	October 12, 2010	280,000,000
HKD	230,000,000	3M Hibor + 0.32	October 25, 2007	October 25, 2010	230,000,000
HKD	78,000,000	3M Hibor + 0.33	November 20, 2007	November 20, 2010	78,000,000
HKD	150,000,000	3.075	January 23, 2008	January 24, 2011	150,000,000
HKD	200,000,000	5.75	January 15, 2009	January 15, 2010	200,000,000
HKD	200,000,000	3M Hibor + 1.5	August 14, 2009	August 14, 2010	200,000,000
HKD	150,000,000	3.2	August 19, 2009	August 19, 2011	150,000,000
HKD	100,000,000	3M Hibor + 1.5	August 24, 2009	August 24, 2010	100,000,000
HKD	100,000,000	3M Hibor + 1.45	August 26, 2009	August 28, 2010	100,000,000
HKD	240,000,000	3M Hibor + 1.03	November 16, 2009	November 16, 2011	240,000,000
Subtotal in Original Currency					HKD 3,148,000,000
Subtotal in Equivalent Amount of Won ⁽⁴⁾					₩ 473,962,880,000
GBP	150,000,000	3M £ Libor + 0.2	April 26, 2006	April 26, 2011	150,000,000
Subtotal in Original Currency					GBP 150,000,000
Subtotal in Equivalent Amount of Won ⁽⁵⁾					₩ 281,659,500,000
EUR	500,000,000	3M Euribor + 0.32	February 7, 2005	February 8, 2010	500,000,000
EUR	500,000,000	3M Euribor + 0.2	March 9, 2006	March 9, 2011	500,000,000
EUR	300,000,000	3M Euribor + 0.24	April 3, 2007	April 3, 2014	300,000,000
EUR	100,000,000	6M Euribor + 0.55	January 9, 2008	January 9, 2011	100,000,000
EUR	30,000,000	6M Euribor + 0.8	May 21, 2008	May 21, 2011	30,000,000
EUR	70,000,000	6M Euribor + 0.85	July 4, 2008	July 4, 2011	70,000,000
EUR	30,000,000	6M Euribor + 0.91	July 29, 2008	July 29, 2011	30,000,000
Subtotal in Original Currency					EUR 1,530,000,000
Subtotal in Equivalent Amount of Won ⁽⁶⁾					₩ 2,561,648,400,000
CHF	250,000,000	3	June 23, 2006	June 23, 2011	250,000,000
CHF	50,000,000	3	December 28, 2007	June 23, 2011	50,000,000
CHF	50,000,000	4.125	May 16, 2008	May 16, 2013	50,000,000
CHF	200,000,000	4.204	May 16, 2008	May 16, 2013	200,000,000
CHF	100,000,000	4.198	May 16, 2008	May 16, 2013	100,000,000
Subtotal in Original Currency					CHF 650,000,000
Subtotal in Equivalent Amount of Won ⁽⁷⁾					₩ 732,179,500,000
BRL	170,960,000	CDI*102%	December 14, 2009	December 14, 2010	170,960,000
Subtotal in Original Currency					BRL 170,960,000
Subtotal in Equivalent Amount of Won ⁽⁸⁾					₩ 114,581,836,960
Total External Bonds of the Bank in Equivalent Amount of Won					₩ 19,810,561,797,801

(1) U.S. dollar amounts are converted to Won amounts at the rate of US\$1.00 to Won 1,167.6, the market average exchange rate in effect on December 31, 2009, as announced by Seoul Money Brokerage Services, Ltd.

- (2) Singapore dollar amounts are converted to Won amounts at the rate of SGD1.00 to Won 831.3, the market average exchange rate in effect on December 31, 2009, as announced by Seoul Money Brokerage Services, Ltd.
- (3) Japanese yen amounts are converted to Won amounts at the rate of JPY100.00 to Won 1,262.8, the market average exchange rate in effect on December 31, 2009, as announced by Seoul Money Brokerage Services, Ltd.
- (4) Hong Kong dollar amounts are converted to Won amounts at the rate of HKD1.00 to Won 150.6, the market average exchange rate in effect on December 31, 2009, as announced by Seoul Money Brokerage Services, Ltd.
- (5) Pound sterling amounts are converted to Won amounts at the rate of GBP1.00 to Won 1,877.7, the market average exchange rate in effect on December 31, 2009, as announced by Seoul Money Brokerage Services, Ltd.
- (6) Euro amounts are converted to Won amounts at the rate of EUR1.00 to Won 1,674.3, the market average exchange rate in effect on December 31, 2009, as announced by Seoul Money Brokerage Services, Ltd.
- (7) Swiss franc amounts are converted to Won amounts at the rate of CHF1.00 to Won 1,126.4, the market average exchange rate in effect on December 31, 2009, as announced by Seoul Money Brokerage Services, Ltd.
- (8) Brazilian real amounts are converted to Won amounts at the rate of BRL1.00 to Won 670.2, the prevailing market rate on December 31, 2009.

(2) External Borrowings of the Bank

Lender	Classifications	Range of Interest Rates	Range of Years of Issue	Range of Years of Maturity	Principal Amount Outstanding as of December 31, 2009 ¹⁾ (millions of Won)
		(%)			
JBIC	Borrowings from JBIC	1.4~6M Libor + 0.8	2009	2011~2014	₩ 167,147
International Bank for Reconstruction and Development (“IBRD”)	Borrowings from IBRD	6M Libor + 0.8	1998	2013	1,481,451
Mizuho and others	Borrowings from foreign banks	3M~6M Libor + 0.1~0.6	2006~2009	2010~2014	2,139,699
DBS Bank and others	Off-shore short-term borrowings	2.2~5.5	2009	2010	194,766
		3M~1Y Libor + 0.3~4.0	2009	2010	252,938
					<u>447,704</u>
Nippon Life Insurance Company and others	Off-shore long-term borrowings	3M~6M Libor/ 6M Euribor + 0.3~1.9	2005~2009	2010~2012	721,393

Lender	Classifications	Range of Interest Rates (%)	Range of Years of Issue	Range of Years of Maturity	Principal Amount Outstanding as of December 31, 2009, ⁽¹⁾ (millions of Won)
Others.....	Short-term borrowings in foreign currency	1.0~9.2/3M~1Y Libor0.3+4.0	2008~2009	2009~2010	6,819,271
Long-term borrowings in foreign currency.....		1.0~5.9	2007~2009	2010~2012	1,310,876
Total External Borrowings of the Bank					₩13,087,541

(1) Converted to Won amounts at the relevant market average exchange rates in effect on December 31, 2009 as announced by Seoul Money Brokerage Services, Ltd.

B. Internal Debt of the Bank

Title	Range of Interest Rates (%)	Range of Years of Issue	Range of Years of Original Maturity	Principal Amounts Outstanding as of December 31, 2009 (millions of Won)
1. Bonds				
Short-term Industrial Finance Bonds	2.84~4.52	2009	2010	₩ 1,446,686
Long-term Industrial Finance Bonds	2.28~10.0	2000~2009	2010~2028	33,567,712
Total Bonds	2.28~10.0	2000~2009	2010~2028	35,014,398
2. Borrowings				
Borrowings from the Ministry of Strategy and Finance	3.4~6.0.	1990~2009	2010~2029	₩ 848,647
Borrowings from Industrial Bank of Korea	1.5~4.5	2002~2009	2010~2023	144,713
Borrowings from Small Business Corp.	2.0~4.2	2001~2009	2010~2019	557,702
Borrowings from the Ministry of Culture and Tourism	1.4~4.5	2001~2009	2010~2018	1,150,502
Borrowings from Korea Energy Management Corporation	0.3~4.5	1993~2009	2010~2029	923,453
Borrowings from Local Governments	1.5~6.0	2002~2009	2010~2017	135,381
Others	0.0~4.7	1993~2009	2009~2024	896,766
Total Borrowings ⁽¹⁾				4,657,164
3. Other Debt⁽²⁾				9,364,201
Total Internal Floating Debt ⁽³⁾				11,341,219
Total Internal Funded Debt ⁽⁴⁾				37,694,544
Total Internal Debt				49,035,763

(1) Consist of short term borrowings in the amount of ₩530,332 million and longterm borrowings in the amount of ₩4,126,832 million.

(2) Other debt includes bonds sold under repurchase agreements and call money.

(3) Floating debt is debt that has a maturity at issuance of less than one year.

(4) Funded debt is debt that has a maturity at issuance of one year or more.

Financial Statements and the Auditors

The Government, through KDBFG, our sole shareholder, elects our Auditor who is responsible for examining our financial operations and auditing our financial statements and records. The present Auditor is Sung Moon Lee, who was appointed by the Financial Services Commission for a three-year term on April 11, 2008.

We prepare our financial statements annually for submission to the Financial Services Commission, accompanied by an opinion of the Auditor. Although we are not legally required to have financial statements audited by external independent auditors, an independent public accounting firm has audited our non-consolidated and consolidated financial statements commencing with such financial statements as of and for the year ended December 31, 1998. As of the date of this prospectus, our external independent auditor is Ernst & Young Han Young, located at Taeyoung Bldg., #10-2, Yeouido-dong, Yeongdeungpo-gu, Seoul, Korea, which has audited our non-consolidated financial statements as of and for the year ended December 31, 2009 included in this prospectus. Shinhan Accounting Corporation, located at 5th Floor, Samhwan Camus Building, #17-3 Yeouido-Dong, Yeongdeungpo-gu, Seoul, Korea, has audited our non-consolidated financial statements as of and for the year ended December 31, 2008 included in this prospectus.

Our non-consolidated financial statements appearing in this prospectus were prepared in conformity with generally accepted accounting principles in the Republic, summarized in “—Financial Statements and the Auditors—Notes to Non-Consolidated Financial Statements of December 31, 2009 and 2008—Note 2.” These principles and procedures differ in certain material respects from generally accepted accounting principles in the United States (“US GAAP”).

We generally record our trading portfolio of marketable equity securities and other equity investments at the cost of acquisition (including incidental expenses related to purchase), computed on the moving average method. However, if the aggregate market value of the trading portfolio of marketable securities as of the balance sheet date differs from their purchase cost, we record the securities at market value. If the market value of equity investments, except for those of companies in which we hold more than 15% of interest (“affiliated companies”), differs from their purchase cost, we record the investment at market value. Starting in April 1999, we record our equity investments in affiliated companies by using the equity method, pursuant to which we account for adjustments in the value of our investments resulting from changes to the affiliated companies’ net asset values. However, we do not apply the equity method for the following investments: (1) total assets of investees are less than ₩10,000 million; (2) investees which are owned by the Korean Government and Government invested companies; (3) investees under court receivership or bankruptcy; and (4) investees in the process of being sold.

We generally record our debt securities investments, except for our trading portfolio of marketable debt securities, at the cost of acquisition (including incidental expenses related to purchase), computed on the specific identification method. We record our trading portfolio of marketable debt securities at market value. Starting in April 1999, we record all our debt securities investments at market value except for debt securities invested with the intention of holding until maturity, which we record at the cost of acquisition or amortized cost.

We record the value of our premises and equipment on our balance sheet on the basis of a revaluation conducted as of July 1, 1998. The Minister of Strategy and Finance approved the revaluation in accordance with applicable Korean law. We value additions to premises and equipment since such date at cost.

Independent auditors' report

The Board of Directors and Stockholder
Korea Development Bank

We have audited the accompanying non-consolidated statement of financial position of Korea Development Bank (the "Bank") as of December 31, 2009, and the related non-consolidated statements of income, appropriation of retained earnings, changes in equity and cash flows for the year then ended. These non-consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these non-consolidated financial statements based on our audits. We did not audit the financial statements of Daewoo Shipbuilding & Marine Engineering Co., Ltd., the Bank's investment in which is reflected in the accompanying non-consolidated financial statements using the equity method of accounting. The Bank's income derived from its investment in Daewoo Shipbuilding & Marine Engineering Co., Ltd. represents 22% of the Bank's non-consolidated income before income taxes for the year ended December 31, 2009. The financial statements of Daewoo Shipbuilding & Marine Engineering Co., Ltd. were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Daewoo Shipbuilding & Marine Engineering Co., Ltd., is based solely on the report of other auditors. The financial statements of the Bank as of December 31, 2008, presented for comparative purposes, were audited by Shinhan Accounting Corporation whose report dated January 23, 2009, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the non-consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the non-consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall non-consolidated financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the non-consolidated financial statements referred to above present fairly, in all material respects, the non-consolidated financial position of the Bank as of December 31, 2009, and the non-consolidated results of its operations, its changes in retained earnings and equity and its cash flows for the year then ended in conformity with accounting principles generally accepted in the Republic of Korea.

Accounting principles and auditing standards and their application in practice vary among countries. The accompanying non-consolidated financial statements are not intended to present the financial position, results of operations, changes in retained earnings and equity, and cash flows in accordance with accounting principles and practices generally accepted in countries other than the Republic of Korea. In addition, the procedures and practices utilized 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 non-consolidated financial statements are for use by those who are knowledgeable about Korean accounting principles and auditing standards and their application in practice.

March 12, 2010
/s/ Ernst & Young Han Young
Ernst & Young Han Young

Korea Development Bank
Non-consolidated statements of financial position
As of December 31, 2009 and 2008

<i>(Korean won in millions)</i>	2009	2008
Assets		
Cash and due from banks (Notes 3 and 14)	₩ 2,965,356	₩ 4,437,123
Securities (Notes 4, 14):		
Trading securities	615,365	425,691
Available-for-sale securities	26,696,990	37,087,395
Held-to-maturity securities	1,775,932	3,119,932
Equity method investments	2,575,916	12,769,975
	31,664,203	53,402,993
Loans receivable, less allowance for possible losses of ₩1,413,400 million at December 31, 2009 (₩1,046,134 million at December 31, 2008) and less deferred loan fees of ₩12,499 million at December 31, 2009 (₩1,569 million at December 31, 2008) (Notes 5 and 14)	74,785,455	76,065,772
Property and equipment (Note 6)	542,190	636,565
Other assets:		
Allowance for possible losses for other assets (Note 5)	(52,244)	(3,050)
Intangible assets (Note 7)	40,580	29,182
Guarantee deposits	119,275	111,357
Accounts receivable	2,765,603	4,433,295
Accrued income.....	514,662	619,502
Prepaid expenses	53,065	203,269
Deferred income tax assets (Note 19)	30,115	42,048
Derivative assets (Note 16)	7,675,978	16,739,420
Miscellaneous assets (Note 7)	1,229,208	895,225
	12,376,242	23,070,248
Total assets	₩122,333,446	₩157,612,701

Korea Development Bank
Non-consolidated statements of financial position—(Continued)
As of December 31, 2009 and 2008

(Korean won in millions)

	2009	2008
Liabilities and equity		
Liabilities:		
Deposits (Notes 8 and 14)	₩ 13,935,926	₩ 16,768,529
Borrowing liabilities (Notes 9 and 14)	80,687,788	100,485,008
Other liabilities:		
Severance and retirement benefits, less deposits for severance and retirement of ₩43,881 million at December 31, 2009 (₩33,007 million at December 31, 2008) (Note 10)	19,084	87,244
Allowance for possible losses on acceptances and guarantees (Note 11)	243,561	113,669
Allowance for possible losses on unused loan commitments (Note 12)	188,922	102,960
Due to trust accounts	455,424	421,700
Exchange payable	11,188	19,994
Accounts payable	2,845,307	4,618,238
Accrued expenses	935,665	1,123,981
Unearned revenues	58,107	78,152
Deposits for letter of guarantees	106,185	52,133
Deferred income tax liabilities (Note 19)	110,411	730,145
Derivative liabilities (Note 16)	6,644,753	15,748,415
Miscellaneous liabilities (Note 13)	980,418	1,547,199
	12,599,025	24,643,830
Total liabilities	107,222,739	141,897,367
Equity:		
Paid-in capital (Note 17)	9,241,861	8,741,861
Capital surplus (Note 17)	52,168	44,373
Capital adjustment (Note 17)	(1,229)	—
Accumulated other comprehensive income (loss) (Notes 4 and 21)	746,980	(249,015)
Retained earnings (Note 17):		
Legal reserve	4,353,488	6,796,703
Unappropriated retained earnings	717,439	381,412
	5,070,927	7,178,115
Total equity	15,110,707	15,715,334
Total liabilities and equity	₩122,333,446	₩157,612,701

Korea Development Bank
Non-consolidated statements of income
For the years ended December 31, 2009 and 2008

(Korean won in millions)

	2009	2008
Operating revenue:		
Interest income:		
Interest on due from banks	₩ 107,448	₩ 118,035
Interest on securities	1,513,383	1,965,309
Interest on loans receivable	3,728,081	3,693,332
Others	25,587	24,203
	5,374,499	5,800,879
Gain on valuation and disposal of securities:		
Gain on disposal of trading securities	37,919	39,647
Gain on valuation of trading securities	1,492	10,842
Gain on disposal of available-for-sale securities	729,754	418,060
Gain on disposal of equity method investments	3,761	32,813
Reversal of impairment loss on available-for-sale securities	17,041	14,529
	789,967	515,891
Gain on disposal of loans receivable	101,382	18,646
Gain on foreign currency transactions	2,739,820	3,125,976
Fees and commission income	395,894	318,629
Dividends income	431,746	292,062
Other operating income:		
Fees and commission from trust accounts	15,176	13,356
Gain from derivatives transactions	13,004,609	17,045,658
Gain from derivatives valuation (Note 16)	3,968,136	16,797,894
Gain on valuation of hedged items (Note 16)	856,218	199,508
Others	4,879	2,492
	17,849,018	34,058,908
Total operating revenue	27,682,326	44,130,991
Operating expenses:		
Interest expense:		
Interest on deposits	499,228	581,471
Interest on borrowings	901,820	1,323,066
Interest on debentures	3,048,193	3,062,445
Others	27,674	30,097
	4,476,915	4,997,079

Korea Development Bank
Non-consolidated statements of income—(Continued)
For the years ended December 31, 2009 and 2008

(Korean won in millions)

	2009	2008
Loss on valuation or disposal of securities:		
Loss on disposal of trading securities	₩ 34,251	₩ 58,418
Loss on valuation of trading securities	2,436	1,561
Loss on disposal of available-for-sale securities	80,108	43,307
Loss on disposal of equity method investments	1,025	778
Impairment loss on available-for-sale securities	375,372	89,615
Impairment loss on equity method investments	2786	—
	495,978	193,679
Provision of allowance for possible loan losses (Note 5)	918,586	328,059
Loss on disposal of loans receivable	119,294	1,966
Loss on foreign currency transactions	3,207,092	1,763,487
Fees and commission expenses	24,481	34,942
General and administrative expenses (Note 18)	415,482	432,208
Other operating expenses:		
Provision of allowance for possible losses on acceptances and guarantees (Note 11)	130,183	37,633
Provision of allowances for unused loan commitments (Note 12)	86,817	31,294
Provision of allowances for possible losses	3,249	—
Loss from derivatives transactions	13,402,609	16,427,192
Loss from derivatives valuation (Note 16)	4,087,998	16,043,908
Loss on valuation of hedged items (Note 16)	131,584	2,798,330
Contributions to credit management fund	93,018	77,217
Others	83,215	73,914
	18,018,673	35,489,488
Total operating expenses	27,676,501	43,240,908
Operating income	5,825	890,083
Non-operating income (expense):		
Gain (loss) on disposal of property and equipment, net	40	(2,306)
Impairment losses of property and equipment	(10,389)	—
Rental income	1,732	1,868
Gain (loss) on valuation of equity method investments, net (Note 4)	619,941	(509,882)
Others, net	181,700	(7,118)
	793,024	(517,438)
Income before income taxes	798,849	372,645
Income tax expense (Note 19)	37,737	22,316
Net income	₩ 761,112	₩ 350,329

The Korea Development Bank
Non-consolidated statements of appropriations of retained earnings
For the years ended December 31, 2009 and 2008

(Korean won in millions)

	2009	2008
Retained earnings before appropriations:		
Retained earnings adjustment arising from equity method investments.....	₩ (43,673)	₩ 31,083
Net income for the year	761,112	350,329
	717,439	381,412
Appropriations (2009 proposed):		
Legal reserve	304,539	381,412
Unappropriated retained earnings to be carried forward to the next year	₩ 412,900	₩ —

Korea Development Bank
Non-consolidated statements of changes in equity
For the years ended December 31, 2009 and 2008

	Paid-in capital	Capital surplus	Capital adjustment	Accumulated other comprehensive income	Retained earnings	Total
<i>(Korean won in millions)</i>						
As of January 1, 2008	₩8,241,861	₩ 44,373	₩ —	₩ 3,203,747	₩ 7,096,703	₩18,586,684
Increase in paid-in capital via investment in-kind	500,000	—	—	—	—	500,000
Cash dividends	—	—	—	—	(300,000)	(300,000)
Net income	—	—	—	—	350,329	350,329
Changes in loss on available-for-sale securities	—	—	—	(3,110,858)	—	(3,110,858)
Changes in unrealized gain on valuation of equity method investments (Note 4)	—	—	—	(27,446)	—	(27,446)
Changes in unrealized loss on valuation of equity method investments (Note 4)	—	—	—	(314,457)	—	(314,457)
Changes in retained earnings on valuation of equity method investments	—	—	—	—	31,083	31,083
As of December 31, 2008	₩8,741,861	₩ 44,373	₩ —	₩ (249,014)	₩ 7,178,115	₩15,715,335
As of January 1, 2009	₩8,741,861	₩ 44,373	₩ —	₩ (249,014)	₩ 7,178,115	₩15,715,335
Injection of paid-in capital	900,000	—	—	—	—	900,000
Net income	—	—	—	—	761,112	761,112
Changes in gain on available-for-sale securities	—	—	—	1,366,850	—	1,366,850
Changes in unrealized gain on valuation of equity method investments (Note 4)	—	—	—	216,981	—	216,981
Changes in unrealized loss on valuation of equity method investments (Note 4)	—	—	—	334,419	—	334,419
Changes in retained earnings on valuation of equity method investments	—	—	—	—	(43,673)	(43,673)
Others	—	21,359	(5,111)	(6,566)	—	9,682
Spin-off	(400,000)	(13,564)	3,882	(915,690)	(2,824,627)	(4,149,999)
As of December 31, 2009	₩9,241,861	₩ 52,168	₩ (1,229)	₩ 746,980	₩ 5,070,927	₩15,110,707

Korea Development Bank
Non-consolidated statements of cash flows
For the years ended December 31, 2009 and 2008

(Korean won in millions)

	2009	2008
Cash flows from operating activities:		
Net income	₩ 761,112	₩ 350,329
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	13,901	21,154
Amortization of intangible assets	10,951	11,649
Provision of allowance for possible loan losses	967,780	328,059
Provision for severance and retirement benefits	28,240	31,008
Loss (gain) on valuation of trading securities, net	944	(9,281)
Impairment losses on available-for-sale securities, net	358,331	75,086
Loss (gain) on valuation of equity method investments, net	(619,941)	509,882
Loss (gain) on foreign exchange translations, net	497,573	(1,267,148)
Loss (gain) on disposal of property and equipment, net	(40)	2,306
Loss (gain) on valuation of derivative instruments, net	119,862	(753,986)
Loss (gain) on fair value hedged items, net	(724,634)	2,598,822
Provision of allowance for possible losses acceptances and guarantees losses	130,183	37,633
Provision of allowance for possible losses on unused credit lines and cash advance commitments	86,817	31,294
Others, net	(35,903)	23,904
Changes in operating assets and liabilities:		
Trading securities	(190,618)	566,099
Available-for-sale securities	596,194	(4,144,447)
Held-to-maturity securities	1,344,000	(423,895)
Equity method investments	697,318	(355,083)
Loans receivable	(4,144,097)	(18,090,030)
Accounts receivable	1,654,226	(2,292,138)
Accrued income	80,603	(95,102)
Prepaid expenses	141,573	(37,974)
Unearned revenues	(20,036)	8,869
Deferred income tax liabilities (assets), net	1,133,763	(141,631)
Derivative instruments, net	(160,082)	(2,459,621)
Payment of severance and retirement benefits	(85,526)	(17,552)
Due to trust accounts	33,724	(273,809)
Accounts payable	(1,769,204)	2,514,601
Accrued expenses	(59,467)	202,103
Cash dividends	—	271,564
Others, net	(858,230)	1,376,527
Total adjustments	(771,795)	(21,751,137)
Net cash used in operating activities	₩ (10,683)	₩(21,400,808)

Korea Development Bank
Non-consolidated statements of cash flows—(Continued)
For the years ended December 31, 2009 and 2008

(Korean won in millions)

	2009	2008
Cash flows from investing activities:		
Purchase of property and equipment	₩ (9,521)	₩ (32,265)
Proceeds from disposal of property and equipment	11,985	6,838
Purchase of intangible assets	(23,245)	(9,998)
Decrease (increase) in due from bank, net	1,480,402	(1,545,849)
Increase in guarantee deposits	(7,918)	(4,946)
Proceeds from disposal of equity method investments	1,984	—
Net cash provided by (used in) investing activities	1,453,687	(1,586,220)
Cash flows from financing activities:		
Proceeds from (repayment of) borrowings, net	(769,144)	4,306,828
Increase (decrease) in bonds sold under repurchase agreements, net	59,586	(131,246)
Proceeds from (redemption of) bills sold, net	(132)	30
Proceeds from debentures, net	641,648	12,537,062
Increase (decrease) in exchange payable, net	(8,806)	13,855
Placement (withdrawal) of deposits, net	(2,261,667)	7,147,257
Redemption of certificate of deposits	(570,936)	—
Proceeds from (repayment of) call money, net	1,152,783	(589,241)
Payment of cash dividends.....	—	(300,000)
Injection of paid-in capital	900,000	—
Net cash provided by (used in) financing activities	(856,668)	22,984,545
Decrease in cash and cash equivalents caused by spin-off	(577,701)	—
Net increase (decrease) in cash and cash equivalents	8,635	(2,483)
Cash and cash equivalents at the beginning of the year	58,280	60,763
Cash and cash equivalents at the end of the year	₩ 66,915	₩ 58,280

Korea Development Bank
Notes to Non-Consolidated Financial Statements
December 31, 2009 and 2008

1. Corporate information

Korea Development Bank (the “Bank”) was established in 1954 in accordance with the Korea Development Bank Act of the Republic of Korea to supply and manage major industrial funds for the promotion of the industrial development and advancement of the national economy. The Bank has 44 local branches, 7 overseas branches, 5 overseas subsidiaries and 2 overseas offices as of December 31, 2009. The Bank is engaged in the banking business under the Korea Development Bank Act and other related regulations and in the trust business in accordance with the Financial Investment Services and Markets Act.

As of December 31, 2009, the capital stock of the Bank amounts to ~~₩~~9,241,861 million and KDB Financial Group Inc. (“KDBFG”) owns 100 percent of the Bank’s common shares.

The Bank’s spin-off

On October 28, 2009, the Bank spun off its public finance unit and financial subsidiaries business support unit into Korea Finance Corporation (“KoFC”) and KDBFG, respectively, according to a resolution made at the Board of Directors meeting held on September 8, 2009 for the proposed spin-off and another resolution made at the special general meeting of stockholder held on September 23, 2009 for the approval of the spin-off. New shares of the two new entities were issued and distributed to the Bank’s stockholder as of the spin-off date on a pro-rata basis, and the Bank continues its remaining operations. The Bank and the new entities will be jointly and severally liable for all liabilities existing prior to the spin-off.

The amount of the Bank’s assets transferred to the new entities was determined by the provisions of the spin-off plan (the “Spin-off Plan”) approved at the aforementioned Board of Directors meeting and special general meeting of stockholder. All assets, where possible, were transferred at their book values as of the day immediately preceding the spin-off date; otherwise, the remaining assets were transferred at their book values as of September 30, 2009.

On November 24, 2009, the Korea government who was also the sole equity owner of the Bank, exchanged the Bank’s shares with KDBFG shares at the exchange ratio of 0.163608 KDBFG share for every 1 share of the Bank. Immediately after the completion of the share exchange, the Bank became a fully-owned subsidiary of KDBFG.

2. Summary of significant accounting policies

Basis of financial statement preparation

The Bank maintains its official 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 (“Korean GAAP”) with the exception of overseas branches and subsidiaries, where the Bank used financial statements prepared in accordance with the financial accounting standards generally accepted in their jurisdictions, with adjustments to align with Korean GAAP if the adjustments materially effects the Bank’s 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.

Korea Development Bank
Notes to Non-Consolidated Financial Statements—(Continued)
December 31, 2009 and 2008

The significant accounting policies followed by the Bank in preparing the accompanying non-consolidated financial statements are summarized below.

Recognition of interest income

Interest income on loans and investments is recognized on an accrual basis. However, interest income on loans overdue or dishonored is recognized on a cash basis except for those secured and guaranteed by financial institutions for which the interest is recognized on an accrual basis.

Securities

Securities are classified as either trading, held-to-maturity or available-for-sale securities, as appropriate, and are initially measured at cost, including incidental expenses. The Bank determines the classification of its investments after initial recognition, and, where allowed and appropriate, re-evaluates this designation at each fiscal year end.

Securities that are acquired and held principally for the purpose of selling them in the near term are classified as trading securities. Debt securities which carry fixed or determinable principal payments and a fixed maturity are classified as held-to-maturity, if the Bank has the positive intention and ability to hold to maturity. Securities that are not classified as either trading or held-to-maturity are classified as available-for-sale securities.

After initial measurement, available-for-sale securities are measured at fair value with unrealized gains or losses being recognized as other comprehensive income in equity. Likewise, trading securities are also measured at fair value after initial measurement, but with unrealized gains or losses reported as part of net income. Held-to-maturity securities are measured at amortized cost after initial measurement. The cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method, of any difference between the initially recognized amount and the maturity amount.

The fair value of trading and available-for-sale securities that are traded actively in the open market (marketable securities) is measured at the closing price of those securities at the reporting date. Non-marketable equity securities are carried at a value announced by a public independent credit rating agency. If application of such measurement method is not feasible, non-marketable equity securities are measured at cost less impairment, if any, subsequent to initial recognition. Non-marketable debt securities are carried at the present value of their future cash flows discounted using an appropriate interest rate which reflects the issuer's credit rating, as announced by a public independent credit rating agency.

When held-to-maturity securities are reclassified to available-for-sale, those securities are accounted for at fair value on the reclassification date and the difference between the fair value and book value is reported in other comprehensive income as a gain or loss on valuation of available-for sale securities. When available-for-sale securities are reclassified to held-to-maturity, gains or losses on valuation of these available-for-sale securities, which had been recorded until the reclassification date, continue to be included in accumulated other comprehensive income and are amortized using the effective interest rate method. Such amortization amount is charged to interest income until maturity. Once the reclassification is made, trading securities cannot be reclassified to available-for-sale securities or held-to-maturity securities and vice versa except in rare circumstances only. In addition, when certain trading securities become non-marketable, such securities are reclassified to available-for-sale at fair value as of the reclassification date.

Korea Development Bank
Notes to Non-Consolidated Financial Statements—(Continued)
December 31, 2009 and 2008

If the recoverable amount of a held-to-maturity security and available-for-sale security is less than acquisition cost or carrying value, and such decline is deemed other than temporary, such security is adjusted to its recoverable amount with an impairment loss charged to the statement of income after eliminating any gains and losses previous recorded in accumulated other comprehensive income for temporary changes. A subsequent recovery is also recorded in the statement of income to the extent of the previously recorded impairment losses if such recovery is attributable to an event occurring subsequent to the recognition of the impairment losses.

Equity method investments

Investments in entities over which the Bank has control or significant influence are accounted for using the equity method. Investment securities which allow the Bank a significant influence over the investee are valued using the equity method of accounting. The Bank considers that it has a significant influence on an investee if the Bank holds more than 15% of voting shares.

Under the equity method of accounting, the Bank's initial investment in an investee is recorded at acquisition cost. Subsequently, the carrying amount of the investment is adjusted to reflect the Bank's share of income or loss of the investee in the statement of income and share of changes in equity that have been recognized directly in the equity of the investee in the related equity account of the Bank on the statement of financial position. If the Bank's share of losses of the investee equals or exceeds its interest in the investee, it suspends recognizing its share of further losses. However, if the Bank has other long-term interests in the investee, it continues recognizing its share of further losses to the extent of the carrying amount of such longterm interests. The Bank resumes the application of the equity method if the Bank's share of income or change in equity of an investee exceeds the Bank's share of losses accumulated during the period of suspension of the equity method of accounting.

At the date of acquisition, the difference between the acquisition cost of the investee and the Bank's share of the net fair value of the investee's identifiable assets and liabilities is accounted for as goodwill or negative goodwill. Goodwill is amortized over its useful life of five years using the straight-line method and the amortization expense is included as part of valuation gain or loss on equity method investments in the statement of income. Negative goodwill is amortized based on the investee's accounting treatments on the related assets and liabilities and charged or credited to valuation gain or loss on equity method investments in the statement of income.

The Bank's share in the investee's unrealized profits and losses resulting from transactions between the Bank and its investee are eliminated.

Allowance for possible loan losses

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

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

Korea Development Bank
Notes to Non-Consolidated Financial Statements—(Continued)
December 31, 2009 and 2008

Troubled debt restructuring

If the present value of a loan is different from its book value due to a rescheduling of terms as agreed by the related parties (as in the case of court receivership, court mediation or workout), the difference in present value of the restructured loan payments and book value of the loan is recorded as an allowance for possible loan loss. The difference recorded as an allowance is amortized to current earnings over the related period using the effective interest rate method. The amortization is recorded as interest income.

Deferred loan fees and expenses

The Bank defers and amortizes certain fees received from borrowers and expenses paid to third parties associated with originating certain loans. Such fees and expenses are amortized over the life of the associated loan using the straight-line method.

Valuation of long-term receivables (payables) at present value

Receivables or payables arising from long-term installment transactions are stated at present value. The difference between the carrying amount of these receivables or payables and their present value is amortized using the effective interest rate method and credited or charged to the statement of income over the installment period.

Property and equipment

Property and equipment are stated at cost. Maintenance and repairs are expensed in the year in which they are incurred. Expenditures which enhance the value or extend the useful lives of the related assets are capitalized as additions to property and equipment.

Depreciation of property and equipment is provided using the straight-line method over the following estimated useful life of assets:

	<u>Year</u>
Buildings	20~50
Furniture and fixture	10~40
Computer equipment.....	4
Vehicles	4
Others	4

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.

Intangible assets

Intangible assets of the Bank consist of trademarks, development costs and software, which are stated at cost less accumulated amortization. Intangible assets are amortized using the straight-line method over a period of four to five years.

Impairment of assets

When the recoverable amount of an asset is less than its carrying amount, the decline in value, if material, is deducted from the carrying amount and recognized as an asset impairment loss in the current period.

Korea Development Bank
Notes to Non-Consolidated Financial Statements—(Continued)
December 31, 2009 and 2008

Bond purchased under resale agreement and bonds sold under repurchase agreements

Bond 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.

Debenture issuance costs

Debenture issuance costs are amortized as an interest expense over the redemption term using the effective interest rate method.

Accrued severance and retirement benefits

In accordance with the Employee Retirement Benefit Security Act and the Bank's regulations, employees and directors terminating their employment with at least one year of service are entitled to severance and retirement benefits, based on the rates of pay in effect at the time of termination, years of service and certain other factors. The provider is determined based on the amount that would be payable assuming all employees and directors were to terminate their employment as of the reporting date.

Provisions and contingent liabilities

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made on the amount of the obligation. The provision is used only for expenditures for which the provision was originally recognized. If the effect of the time value of money is material, provisions are stated at present value.

Confirmed acceptances and guarantees, unconfirmed acceptances and guarantees and bills endorsed are not recognized on the statement of financial position, but are disclosed as off-statement of financial position items in the notes to the financial statements. The Bank provides a provision for such off-statement of financial position items, applying a Credit Conversion Factor ("CCF") and provision rates, and records the provision as an allowance for possible losses on acceptances and guarantees.

The Bank records an allowance for a certain portion of unused credit lines and cash advance commitments. The Bank records the provision for such unused balances as a reserve for possible losses on unused commitments and cash advance commitments which are calculated by applying a CCF and the minimum required provision percentage given by the Regulation on the Supervision of Banking Business.

Income taxes

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from, or paid to, the tax authorities. Deferred income taxes are provided using the liability method for the tax effect of temporary differences between the tax bases of assets and liabilities and their reported amounts in the accompanying financial statements. Deferred tax assets and liabilities are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. In addition, current tax and deferred tax are charged or credited directly to equity if the tax relates to items that are charged or credited directly to equity.

Korea Development Bank
Notes to Non-Consolidated Financial Statements—(Continued)
December 31, 2009 and 2008

Translation of foreign currency and financial statements of overseas branches

Transactions involving foreign currencies are recorded at the exchange rates prevailing at the time the transactions are made. Assets and liabilities denominated in foreign currencies are translated into Korean won using the exchange rates of ₩1,167.6 to US\$1 and ₩1,257.5 to US\$1, the rates in effect on December 31, 2009 and 2008, respectively. The resulting translation gains or losses are credited or charged to current operations.

Accounting records of the overseas branches are maintained in foreign currencies. In translating financial statements of overseas branches, the Bank applies the appropriate rate of exchange at the reporting date.

Derivative financial instruments

Derivative financial instruments are presented as assets or liabilities valued principally at the fair value of the rights or obligations associated with the derivative contracts. The unrealized gain or loss from a derivative transaction with the purpose of hedging the exposure to changes in the fair value of a recognized asset or liability or unrecognized firm commitment is recognized in current operations. For a derivative instrument with the purpose of hedging the exposure to the variability of cash flows of a recognized asset or liability or a forecasted transaction, the hedge-effective portion of the derivative instrument's gain or loss is deferred as other comprehensive income in equity. The ineffective portion of the gain or loss is charged or credited to current operations. Derivative instruments that do not meet the criteria for hedge accounting, or contracts for which the Bank has not elected hedge accounting are measured at fair value with unrealized gains or losses reported in current operations.

Accounting for the trust accounts

The Bank recognizes, in accordance with the Financial Investment Services and Markets Act, trust fees earned from the trust accounts as income from trust operations. If losses are incurred on trust accounts that have a guarantee of principal repayment, the losses are recognized as a loss from trust operations.

Changes in accounting estimates

The Bank changed its accounting estimate relating to impairment loss on investment securities in 2009 in order to better reflect the Bank's investment securities position and enhance comparability to other banks. Impairment loss on securities recognized in 2009 amounted to ₩361,117 million.

Significant judgments and accounting estimates

The preparation of financial statements in accordance with Korean GAAP requires management to judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Korea Development Bank
Notes to Non-Consolidated Financial Statements—(Continued)
December 31, 2009 and 2008

3. Cash and due from banks

Cash and due from banks as of December 31, 2009 and 2008 consist of the following (Korean won in millions):

	2009	2008
Cash and cash equivalents:		
Korean won	₩ 60,073	₩ 50,319
Foreign currency	6,842	7,961
	<u>66,915</u>	<u>58,280</u>
Due from banks:		
Korean won	1,810,678	2,998,737
Foreign currency	1,087,763	1,380,106
	<u>2,898,441</u>	<u>4,378,843</u>
	<u>₩2,965,356</u>	<u>₩4,437,123</u>

Due from banks in Korean won as of December 31, 2009 and 2008 are as follows (Korean won in millions):

Counterparty	Account	Annual interest rate (%)	2009	2008
Bank of Korea (“BOK”)	Reserve deposits with BOK	—	₩ 646,172	₩ 541,119
Korea Exchange Bank	Collateral deposits	—	82	189
Kookmin Bank	Other deposits	3.2~3.4	106,267	91,716
Others	Other deposits, etc.	3.2~3.9	1,058,157	2,365,713
			<u>₩1,810,678</u>	<u>₩2,998,737</u>

Due from banks in foreign currency as of December 31, 2009 and 2008, are as follows (Korean won in millions):

Counterparty	Account	Annual interest rate (%)	2009	2008
BOK	Reserve deposits with BOK	—	W 59,704	W 94,117
Shinhan Bank	Due from banks time deposits and others	—	—	12,575
Hana Bank	”	—	—	6,288
Korea Exchange Bank	”	0.5~1.0	72,274	79,223
Woori Bank	”	0.8~2.4	87,570	12,575
KDB Island	”	1.3~1.7	54,224	64,676
Others	”	0.0~3.9	813,991	1,110,652
			<u>₩1,087,763</u>	<u>₩1,380,106</u>

Korea Development Bank
Notes to Non-Consolidated Financial Statements—(Continued)
December 31, 2009 and 2008

Restricted balances in due from banks as of December 31, 2009 and 2008 are summarized as follows
(Korean won in millions):

Counterparty	2009	2008	Restriction
BOK	₩ 705,876	₩ 541,119	Reserve for payment of deposit Reserve for payment of principal on behalf of special purpose entities
Kookmin Bank	106,267	91,716	”
Shinhan Bank	35,586	30,222	”
ICBC Shanghai and others	46,689	137,827	Reserve for payment of deposit by the local law
	₩ 894,418	₩ 800,884	

The maturities of due from banks outstanding as of December 31, 2009 and 2008 are as follows (Korean won in millions):

	2009		
	Korean won	Foreign currencies	Total
Within 3 months	₩ 648,825	₩ 545,705	₩ 1,194,530
After 3 months but no later than 6 months	141,853	73,818	215,671
After 6 months but no later than 1 year	—	309,414	309,414
After 1 year but no later than 3 years	—	93,408	93,408
Later than 5 years	1,020,000	65,418	1,085,418
	₩ 1,810,678	₩ 1,087,763	₩ 2,898,441

	2008		
	Korean won	Foreign currencies	Total
Within 3 months	₩ 2,320,000	₩ 353,932	2,673,932
After 3 months but no later than 6 months	57,598	92,930	150,528
After 6 months but no later than 1 year	64,340	36,064	100,404
After 1 year but no later than 3 years	—	320,493	320,493
After 3 years but no later than 5 years	—	62,875	62,875
Later than 5 years	556,799	513,812	1,070,611
	₩ 2,998,737	₩ 1,380,106	₩ 4,378,843

Due from banks by financial institution as of December 31, 2009 are as follows (Korean won in millions):

Counterparty	2009		
	Korean won	Foreign currencies	Total
BOK	₩ 646,172	₩ 59,704	₩ 705,876
Other banks	141,853	1,002,320	1,144,173
Others	1,022,653	25,739	1,048,392
	₩ 1,810,678	₩ 1,087,763	₩ 2,898,441

Korea Development Bank
Notes to Non-Consolidated Financial Statements—(Continued)
December 31, 2009 and 2008

4. Securities

Trading securities as of December 31, 2009 and 2008 consist of the following (Korean won in millions):

Type	Annual interest rate (%)	Fair value (book value)	
		2009	2008
Government and public bonds	4.0~5.8	₩224,243	₩277,350
Finance bonds	3.9~6.9	180,395	141,707
Corporate bonds	5.47	10,050	—
Commercial papers	2.9~3.4	128,880	—
Securities in foreign currency	0.4~2.3	71,797	6,634
		₩615,365	₩425,691

Debt securities included in trading securities as of December 31, 2009 and 2008 consist of the following (Korean won in millions):

Type	2009		
	Par value	Acquisition cost	Fair value (book value)
Government and public bonds	₩224,000	₩225,768	₩224,243
Finance bonds	181,000	181,086	180,395
Corporate bonds	10,000	10,084	10,050
Commercial papers	130,000	128,881	128,880
Securities in foreign currency	73,103	70,490	71,797
	₩618,103	₩616,309	₩615,365

Type	2008		
	Par value	Acquisition cost	Fair value (book value)
Government and public bonds	₩259,000	₩269,628	₩277,350
Finance bonds	140,000	138,589	141,707
Corporate bonds	—	—	—
Commercial papers	—	—	—
Securities in foreign currency	6,692	7,072	6,634
	₩405,692	₩415,289	₩425,691

Debt securities in Korean won are measured based on the lower of the valuation provided by KIS Pricing Inc. or the Korea Bond Pricing Co. Debt securities in foreign currency are measured based on the lower of the valuation provided by NICE Pricing Services Inc. or the Korea Bond Pricing Co.

Korea Development Bank
Notes to Non-Consolidated Financial Statements—(Continued)
December 31, 2009 and 2008

Available-for-sale securities as of December 31, 2009 and 2008 consist of the following (Korean won in millions):

	Annual interest rate (%)	2009	2008
Equity securities:			
Marketable equity securities	—	₩ 1,279,013	₩ 2,562,567
Non-marketable equity securities	—	1,750,206	7,575,630
		3,029,219	10,138,197
Debt securities:			
Government and public bonds	2.8~5.8	1,082,033	739,884
Corporate bonds	—	—	80,000
Finance bonds	1.7~6.5	3,922,907	3,269,018
Other bonds	3.0~20.0	11,897,713	16,622,114
		16,902,653	20,711,016
Beneficiary certificates	—	2,714,851	1,852,797
Securities denominated in foreign currency:			
Equity securities	—	12,651	17,662
Debt securities	2.6~11.0	3,995,283	4,367,723
Beneficiary certificates securities	—	42,333	—
		4,050,267	4,385,385
		₩26,696,990	₩37,087,395

Details of marketable equity securities (including equity securities denominated in foreign currencies) as of December 31, 2009 and 2008 consist of the following (Korean won in millions):

		2009	2008
Company	Ownership (%)	Fair value (book value)	Fair value (book value)
STX Pan Ocean Co., Ltd	14.99	₩ 348,718	₩ —
.. Doosan Heavy Industries and Construction Co., Ltd	7.12	610,889	762,944
Ssangyong Cement Industry Co., Ltd	13.81	94,738	67,455
Hyundai Corporation	9.81	46,238	66,117
Asiana Airlines Inc	6.96	44,469	28,372
STX Corporation	4.81	40,375	38,510
Neosemitech Corporation	2.25	13,892	—
Taesan LCD Co., Ltd	6.02	9,995	—
Dongbu HiTek Co., Ltd	3.18	8,477	4,532
Ace Dightech Co., Ltd	1.69	8,120	1,761
Sungjin Giotec Co., Ltd	3.14	7,488	4,330
Moreens Co., Ltd	3.24	5,395	2,000
Others		42,560	1,588,623
		₩1,281,354	₩2,564,644

Korea Development Bank
Notes to Non-Consolidated Financial Statements—(Continued)
December 31, 2009 and 2008

Details of non-marketable equity securities (including equity securities denominated in foreign currencies) as of December 31, 2009 and 2008 consist of the following (Korean won in millions):

<u>Company</u>	2009		2008
	Ownership (%)	Fair value (book value)	Fair value (book value)
GM Daewoo Auto and Technology Corporation	17.02	₩ 206,574	₩ 244,411
Samsung Life Insurance Co., Ltd	1.89	132,248	132,248
Samsung Total Petrochemicals Co., Ltd	3.24	38,391	39,230
Hwan Young Steel Ind. Co., Ltd	13.69	32,983	29,364
Korea Securities Finance Corporation	5.19	29,397	24,847
Korea Integrated Freight Terminal Co., Ltd	6.90	14,523	22,580
Kangnam Beltway	12.10	13,972	11,850
Alpha dome City Co., Ltd	4.00	11,800	11,800
TU Media Corporation	3.28	5,325	11,242
Iljin Copper Foil Co., Ltd	8.92	8,970	9,911
Korea Ptg Co., Ltd.....	14.89	8,208	9,773
Jeju Airlines Co., Ltd	12.50	2,528	8,052
Others		1,255,597	7,035,907
		<u>₩1,760,516</u>	<u>₩7,591,215</u>

Available-for-sale securities that are restricted as to disposal as of December 31, 2009 are summarized as follows (Korean won in millions):

<u>Company</u>	2009		
	Number of shares	Book value	Disposal restriction
Ssangyong Cement Industry Co., Ltd.	11,092,842	₩ 94,738	Until completion of selling process
Hanchang Paper Co., Ltd	9,156,000	4,779	Until August 8, 2010
Daehan Eunpakgy Co., Ltd	2,815,093	2,846	Until March 27, 2010
Daewoo Electronics Corporation	2,412,662	1,884	Until March 31, 2011
		<u>₩104,247</u>	

Debt securities as of December 31, 2009 are summarized as follows (Korean won in millions):

	2009			
	Par value	Acquisition cost	Amortized cost	Fair value (book value)
Government and public bonds.....	₩ 1,075,000	₩ 1,131,286	₩ 1,107,235	₩ 1,082,033
Finance bonds	3,940,000	3,951,579	3,938,196	3,922,907
Corporate bonds	12,164,678	12,110,014	11,761,369	11,897,713
Bonds denominated in foreign currencies	4,168,939	4,176,729	4,137,007	3,995,283
	<u>₩21,348,617</u>	<u>₩21,369,608</u>	<u>₩20,943,807</u>	<u>₩20,897,936</u>

Korea Development Bank
Notes to Non-Consolidated Financial Statements—(Continued)
December 31, 2009 and 2008

Debt securities in Korean won are measured based on the lower of the valuation provided by KIS Pricing Inc. or the Korea Bond Pricing Co. Debt securities in foreign currency are measured based on the lower of the valuation provided by NICE Pricing Services Inc. or the Korea Bond Pricing Co.

Beneficiary certificates as of December 31, 2009 are summarized as follows (Korean won in millions):

	2009			
	Acquisition cost	Book value before valuation	Accumulated other comprehensive income	Book value
Beneficiary certificates				
In Korean won:				
Bond type	₩ 1,640,000	₩ 1,640,000	₩ 24,863	₩ 1,664,863
MMF type	1,023,042	1,009,589	40,399	1,049,988
	2,663,042	2,649,589	₩ 65,262	2,714,851
Beneficiary certificates				
In foreign currency.....	41,883	41,883	450	42,333
	<u>2,704,925</u>	<u>2,691,472</u>	<u>65,712</u>	<u>2,757,184</u>

The Bank reclassified certain trading securities which lost marketability to available-for-sale securities for the year ended December 31, 2008 are summarized as follows (Korean won in millions):

Type	Book value on reclassification	Valuation loss	Unrealized Book loss	Book value
Akerys Holdings S.A .	3,734	(1,123)	(1,457)	2,277

Held-to-maturity securities as of December 31, 2009 and 2008 consist of the following (Korean won in millions):

	Par value		Acquisition cost		Book value	
	2009	2008	2009	2008	2009	2008
Government and public bonds:						
National Housing						
Bonds	₩ 17,236	₩ 21,752	₩ 10,654	₩ 13,990	₩ 16,952	₩ 20,445
Public bonds	1,708,411	3,028,856	1,708,411	3,028,856	1,708,411	3,028,856
	1,725,647	3,050,608	1,719,065	3,042,846	1,725,363	3,049,301
Corporate bonds	50,000	70,000	50,000	70,000	50,000	70,000
Others	569	631	566	628	569	631
	<u>₩1,776,216</u>	<u>₩3,121,239</u>	<u>₩1,769,631</u>	<u>₩3,113,474</u>	<u>₩1,775,932</u>	<u>₩3,119,932</u>

Korea Development Bank
Notes to Non-Consolidated Financial Statements—(Continued)
December 31, 2009 and 2008

Structured securities included in available-for-sale securities as of December 31, 2009 are summarized as follows (U.S. dollar (\$) in thousands, JPY (¥) in millions, GBP (£) in thousands):

Type	2009					
	Issuer	Par value	Issued date	Maturity	Book value	Risk
<Available-for-sale securities>						
Foreign currencies Stock:						
Convertible bonds (JPY)	Today Industries Inc .	¥ 200	2007.03.06	2014.03.12	¥ 190	Stock index
"	Heiwa Real Estate Co., Ltd.	50	2007.06.15	2012.06.22	48	"
"	Sharp Co., Ltd.	200	2007.09.07	2013.09.30	190	"
"	LG Display Co., Ltd .	921	2007.10.01	2012.04.18	1,002	"
"	Mitsubishi Chemical Holdings Co., Ltd.	100	2007.10.09	2013.10.22	90	
"	Hynix Semicon Inc .	184	2007.12.12	2012.12.14	183	
"	Yamada Denki Co., Ltd.	100	2008.06.24	2015.03.31	91	"
"	Yamada Denki Co., Ltd.	100	2008.06.26	2015.03.31	91	"
"	KCC Corporation	461	2008.07.03	2012.10.30	480	"
"	KCC Corporation	184	2008.07.03	2012.10.30	186	"
"	KCC Corporation	92	2008.07.04	2012.10.30	93	"
"	KCC Corporation	92	2008.07.16	2012.10.30	93	"
"	KCC Corporation	92	2008.07.17	2012.10.30	93	"
"	LG Display Co., Ltd .	276	2008.09.05	2012.04.18	301	"
"	LG Display Co., Ltd .	184	2008.09.05	2012.04.18	200	"
Convertible bonds (JPY)	STX Pan Ocean Co., Ltd.	184	2009.11.17	2014.11.20	179	"
Exchangeable bonds (JPY)	Donga Pharmaceutical Co., Ltd.	442	2007.08.03	2012.07.05	468	"
"	Donga Pharmaceutical Co., Ltd.	479	2007.08.03	2017.07.05	507	"
Convertible bonds (USD)	KCC Corporation	\$ 1,500	2008.07.02	2012.10.30	\$ 1,563	"
"	Hynix Semicon Inc .	1,000	2009.03.17	2012.12.14	994	"
"	Hynix Semicon Inc .	1,000	2009.04.03	2012.12.14	994	"
"	Hynix Semicon Inc .	1,000	2009.04.03	2012.12.14	994	"
"	Hynix Semicon Inc .	1,000	2009.04.17	2012.12.14	994	"
"	LG Display Co., Ltd .	2,000	2009.06.10	2012.04.18	2,176	"
"	Hynix Semicon Inc .	1,000	2009.07.21	2012.12.14	994	"
"	Hynix Semicon Inc .	2,000	2009.07.21	2012.12.14	1,987	"
"	Hynix Semicon Inc .	1,000	2009.07.23	2012.12.14	994	"
"	Hynix Semicon Inc .	1,000	2009.07.23	2012.12.14	994	"
"	Hynix Semicon Inc .	1,000	2009.07.23	2012.12.14	994	"
Exchangeable bonds (GBP)	Daechang Co., Ltd .	£ —	2009.04.09	2012.08.09	£ 110	"
Convertible bonds	Hynix Semicon Inc .	1,241	2007.12.10	2010.06.14	1,233	"
Exchangeable bonds	Zeus (Cayman) Pohang	2,015	2009.05.21	2011.08.19	1,966	"
JPY Total		4,341			4,485	
USD Total		13,500			13,678	
GBP Total		3,256			3,309	

Korea Development Bank
Notes to Non-Consolidated Financial Statements—(Continued)
December 31, 2009 and 2008

The maturities of debt securities included in available-for-sale securities and held-to-maturity securities as of December 31, 2009 are as follows (Korean won in millions):

	2009				
	Finance bonds		Bonds denominated in foreign currencies	Total	
	Government bonds	Corporate bonds			
Available-for-sale securities					
Within 1 year	₩ 223,963	₩1,016,402	₩ 3,584,977	₩ 1,111,839	₩ 5,937,181
After 1 year but no later than 5 years	468,327	2,906,505	8,004,792	1,605,684	12,985,308
After 5 years but no later than 10 years	304,839	—	293,768	1,235,564	1,834,171
Later than 10 years	84,904	—	14,176	42,196	141,276
	₩1,082,033	₩3,922,907	₩11,897,713	₩ 3,995,283	₩20,897,936
	Government and public bonds			Total	
		Corporate bonds	Others		
Held-to-maturity securities					
Within 1 year	₩ 882,892	₩ —	₩569	₩ 883,461	
After 1 year but no later than 5 years	749,729	50,000	—	799,729	
After 5 years But no later than 10 years	92,742	—	—	92,742	
	₩1,725,363	₩50,000	₩569	₩1,775,932	

Information of securities (except for equity method investments) by country of issuance or origination as of December 31, 2009 is summarized as follows (Korean won in millions):

	2009		
	Country	Amount	Ratio (%)
Trading securities:			
	Korea	₩ 607,761	98.8
	US	7,604	1.2
		615,365	100.0
Available-for-sale securities:			
	Korea	25,076,611	93.9
	US	385,590	1.4
	India	191,440	0.7
	Russia	147,279	0.6
	UAE	95,457	0.4
	UK	78,125	0.3
	Japan	73,878	0.3
	Other	648,160	2.4
		26,696,990	100.0
Held-to-maturity securities			
	Korea	1,775,932	100.0
		₩29,088,287	

Korea Development Bank
Notes to Non-Consolidated Financial Statements—(Continued)
December 31, 2009 and 2008

Information of securities (except for equity method investments) by industry as of December 31, 2009 is summarized as follows (Korean won in millions):

		2009		
	Industry		Amount	Ratio (%)
Trading securities				
	Financial services	₩	319,098	51.9
	Electricity, gas and water supply		19,822	3.2
	Manufacturing		13,505	2.2
	Construction		3,300	0.5
	Other		259,640	42.2
			615,365	100.0
Available-for-sale securities				
	Financial services		14,270,986	53.5
	Manufacturing		5,448,414	20.4
	Construction		1,983,935	7.4
	Public sector		1,981,970	7.4
	Electricity, gas and water supply		183,102	0.7
	Other		2,828,583	10.6
			26,696,990	100.0
Held-to-maturity securities				
	Construction		1,443,600	81.3
	Public sector		112,676	6.3
	Financial services		50,711	2.9
	Electricity, gas and water supply		4,313	0.2
	Other		164,632	9.3
			1,775,932	100.0
			<u>₩29,088,287</u>	

Information of securities (except for equity method investments) by type of instrument as of December 31, 2009 is summarized as follows (Korean won in millions):

		2009		
	Type		Amount	Ratio (%)
Trading securities				
	Floating rate bonds	₩	64,192	10.4
	Fixed rate bonds		551,173	89.6
			615,365	100.0
Available-for-sale securities				
	Equity securities		2,742,280	10.3
	Investments in partnerships		299,590	1.1
	Fixed rate bonds		19,721,317	74.0
	Floating rate bonds		1,176,619	4.4
	Beneficiary certificates		2,757,184	10.2
			26,696,990	100.0
Held-to-maturity securities				
	Fixed rate bonds		1,775,932	100.0
			<u>₩ 29,088,287</u>	

Korea Development Bank
Notes to Non-Consolidated Financial Statements—(Continued)
December 31, 2009 and 2008

Equity method investments as of December 31, 2009 and 2008 are summarized as follows (Korean won in millions):

	2009								2008			
	Owner-ship (%)	Beginning balance	Increase (decrease)	Dividend	Equity method valuation				Book value	Proportionate net asset value	Book value	Proportionate net asset value
					Earnings (loss)	Retained earnings	Other comprehensive income	Spin-off				
Securities:												
Korea Electric Power Co.	—	₩ 8,734,991	W	—	₩	—	₩	₩ (9,014,049)	W	—	₩ 8,734,991	₩12,261,895
Daewoo Securities Co., Ltd.	—	931,756	—	—	100,462	—	—	(1,032,218)	—	—	931,756	931,756
Daewoo Shipbuilding & Marine Engineering Co., Ltd.	31.26	668,428	—	(29,913)	178,792	(43,434)	266,613	—	1,040,486	1,040,486	668,428	646,391
KDB Capital Corp.	—	431,130	—	—	1,338	—	—	(432,468)	—	—	431,130	428,023
STX Pan Ocean Co., Ltd.	—	346,578	(333,886)	—	(12,692)	—	—	—	—	—	346,578	352,442
KDB Asia Ltd. ^(vi)	100.00	183,896	(13,147)	—	12,516	—	31,541	—	214,806	214,707	183,896	183,896
Korea Tourism Organization	—	182,522	—	—	(14,665)	—	—	(167,857)	—	—	182,522	182,522
Korea Aerospace Industries, Ltd.	—	141,907	—	—	29,386	—	—	(171,293)	—	—	141,907	138,908
Korea Infrastructure Fund II	26.67	148,822	(51,557)	(10,467)	9,997	—	—	—	96,795	96,795	148,822	148,822
KDB Bank (Hungary) Ltd. ^(vi)	100.00	158,488	(11,917)	—	5,230	—	151	—	151,952	151,952	158,488	158,488
Korea Infrastructure Fund	85.00	61,464	1,605	(4,373)	5,605	—	—	—	64,301	64,301	61,464	61,266
Banco KDB Do Brasil S.A. ^(vi)	100.00	48,524	11,833	—	(39,687)	—	(4,761)	—	15,909	15,909	48,524	48,524
KDB Asset Management Co., Ltd.	—	40,698	—	—	1,705	—	—	(42,403)	—	—	40,698	41,065
KDB Ireland Ltd. ^(vi)	100.00	29,470	(1,974)	—	5,302	—	29,592	—	62,390	62,390	29,470	27,610
UzKDB Bank	61.11	17,616	(1,259)	—	2,670	—	(393)	—	18,634	18,603	17,616	17,551
Korea Infrastructure Investments Asset Management Co., Ltd.	—	11,738	—	—	440	—	—	(12,178)	—	—	11,738	12,554
Korea Appraisal Board	—	11,652	—	—	2,456	—	—	(14,108)	—	—	11,652	11,652
Others	—	269,579	290,863	(10,663)	20,712	(239)	9,238	—	579,490	598,374	269,579	294,364
		12,419,259	(109,439)	(55,416)	588,625	(43,673)	331,981	(10,886,574)	2,244,763	2,263,517	12,419,259	15,947,729

Korea Development Bank
Notes to Non-Consolidated Financial Statements—(Continued)
December 31, 2009 and 2008

	2009									2008		
	Ownership (%)	Beginning balance	Increase (decrease)	Dividend	Equity method valuation			Spin-off	Book value	Proportionate net asset value	Book value	Proportionate net asset value
					Earnings (loss)	Retained earnings	Other comprehensive income					
Other investments:		88,435	(62,401)	(14,300)	33,944	—	772	—	46,450	46,450	88,435	88,435
KDB Value Private Equity Fund I	77.02											
KDB Value Private Equity Fund II	50.63	153,123	(17,400)	(79)	1,194	—	(31)	—	136,807	136,807	153,123	153,123
KDB Value Private Equity Fund III	67.07	63,820	—	(624)	(894)	—	—	—	62,302	62,302	63,820	63,820
KDB Venture M&A Private Equity Fund	57.56	10,349	3,406	—	(150)	—	(6)	—	13,599	13,599	10,349	10,349
National Pension Service 05-4 Saneun Venture Investment Inc.	25.00											
Others	—	25,166	(2,250)	(1,102)	(716)	—	491	—	64,803	65,810	25,166	26,448
		350,716	(36,335)	(16,105)	31,316	—	1,561	—	331,153	332,160	350,716	352,058
		₩ 12,769,975	₩ (145,774)	₩ (71,521)	₩ 619,941	₩ (43,673)	₩ 333,542	₩ (10,886,574)	₩ 2,575,916	₩ 2,595,677	₩ 12,769,975	₩ 16,299,787

(* 1) For investments denominated in foreign currency, the beginning balance was translated using the exchange rate at December 31, 2009.

(*2) The Bank obtained the audited or reviewed financial statements of the investees, if available, to perform the equity method of accounting. If they are not available, the Bank obtains unaudited financial statements signed by the investees' internal auditors and management. The Bank confirmed that the investees' unaudited financial statements reflected all significant transactions or resolution of accounting issues which the Bank identified.

Korea Development Bank
Notes to Non-Consolidated Financial Statements—(Continued)
December 31, 2009 and 2008

Difference in eliminating investment for the years ended December 31, 2009 and 2008 are as follows
(Korean won in millions):

	2009		2008	
	Amortization	Reversal	Amortization	Reversal
Beginning balance	₩23,371	₩ 3,582,458	₩ 26,663	₩3,796,035
Increase (decrease)	(456)	(3,337,519)	9,978	52,202
Amortization or reversal	(7,207)	(205,078)	(13,270)	(265,779)
Ending balance	<u>₩15,708</u>	<u>₩ 39,861</u>	<u>₩ 23,371</u>	<u>₩3,582,458</u>

For the years ended December 31, 2009 and 2008, the unamortized difference between the Bank's acquisition cost and the Bank's portion of the investee's net asset value at the acquisition date representing goodwill (negative goodwill) are summarized as follows (Korean won in millions):

	2009			
	Beginning balance	Increase	Decrease	Ending balance
KDB Capital Corp.	₩ 3,107	₩ —	₩ (3,107)	₩ —
Daewoo Shipbuilding & Marine Engineering Co., Ltd....	22,036	—	(2,570)	19,466
Korea Aerospace Industries, Ltd.	2,273	—	(2,273)	—
KDB Ireland Ltd	1,860	—	(342)	1,518
KDB Bank (Hungary) Ltd.	—	99	—	99
KDB Asia Ltd	—	99	—	99
Daewoo Securities Co., Ltd.	—	670	(670)	—
	<u>₩29,276</u>	<u>₩ 868</u>	<u>₩ 8,962</u>	<u>₩21,182</u>

	2008			
	Beginning balance	Increase	Decrease	Ending balance
KDB Capital Corp.	₩ 5,320	₩ —	₩(2,213)	₩3,107
Daewoo Shipbuilding & Marine Engineering Co., Ltd	19,545	2491	—	22,036
Korea Aerospace Industries, Ltd.	2410	—	(137)	2,273
KDB Ireland Ltd	1,343	517	—	1,860
KDB Bank (Hungary) Ltd.	84	—	(84)	—
	<u>₩28,702</u>	<u>₩3,008</u>	<u>₩ 2,434</u>	<u>₩29,276</u>

Korea Development Bank
Notes to Non-Consolidated Financial Statements—(Continued)
December 31, 2009 and 2008

The condensed financial position and the results of operations of the Bank's equity method investees as of and for the years ended December 31, 2009 and 2008 are summarized as follows (Korean won in millions):

2009				
	Assets	Liabilities	Operating income (loss)	Net income (loss)
Securities:				
Daewoo Shipbuilding & Marine Engineering Co., Ltd.	₩16,530,511	₩13,463,018	₩12,442,519	₩616,385
KDB Asia Ltd.	724,331	509,624	54,210	12,353
Korea Infrastructure Fund II	456,259	93,278	45,832	37,492
KDB Bank(Hungary) Ltd	860,462	708,610	170,703	4,778
Korea Infrastructure Fund	75,677	29	7,438	6,826
KDB Ireland Ltd.	440,251	379,381	33,970	5,606
Banco KDB Do Brasil S.A	635,338	619,428	531,332	(40,718)
UzKDB Bank	143,575	113,133	14,521	6,444
Other investments:				
KDB Value Private Equity Fund I	60,541	229	51,232	49,391
KDB Value Private Equity Fund II	271,381	1,193	6,251	2,368
KDB Value Private Equity Fund III	94,148	1,261	372	(1,733)
KDB Venture M&A Private Equity Fund	23,777	150	635	(261)
National Pension Service 05-4 Saneun Venture Investment Inc.	28,766	-	5,232	1,133
2008				
	Assets	Liabilities	Operating income (loss)	Net income (loss)
Korea Electric Power Corp.	₩66,868,200	₩25,929,200	₩31,522,400	(2,952,500)
Daewoo Securities Co., Ltd.	13,051,355	10,668,033	4,109,300	109,471
Daewoo Shipbuilding & Marine Engineering Co., Ltd.	15,953,600	13,885,700	11,074,600	401,700
KDB Capital Corp.	3,701,658	3,273,283	525,834	23,719
GM Daewoo Auto & Technology Corp.	8,848,955	7,771,652	12,310,655	(862,127)
STX Pan Ocean Co., Ltd.	4,017,305	1,750,014	6,544,898	553,853
KDB Asia Ltd.	605,117	458,877	40,409	(3,948)
Korea Tourism Organization	805,685	386,911	299,956	35,576
Korea Aerospace Industries, Ltd.	1,054,964	600,354	910,126	19,059
Korea Infrastructure Fund II	626,557	68,474	9,499	5,396
KDB Bank(Hungary) Ltd.	977,424	818,937	192,292	3,940
Korea Asset Management Corp	2,788,339	2,245,163	875,704	68,336
Korea Infrastructure Fund	72,254	177	2,906	1,138
KDB Ireland Ltd.	442,343	414,734	42,203	815
Banco KDB Do Brasil S.A.....	841,651	793,126	513,839	1,221
KDB Asset Management Co., Ltd	71,340	7,452	10,483	3,020
Sewon Co., Ltd.	132,167	54,623	44,645	5,790
UzKDB Bank	145,976	117,255	14,255	6,205
Korea Appraisal Board	347,601	309,518	116,985	4,937

Korea Development Bank
Notes to Non-Consolidated Financial Statements—(Continued)
December 31, 2009 and 2008

	2008			
	Assets	Liabilities	Operating income	Net income
			(loss)	(loss)
Other investments:				
KDB Value Private Equity Fund I.....	129,610	490	35,414	(4,073)
KDB Value Private Equity Fund II	305,846	1,158	6,774	(7,554)
KDB Value Private Equity Fund III	95,506	357	1,059	530
Kdb capital 1	4,001	—	1,385	1,198
Jeonman Agriculture & Fisheries Investment Association ...	10,734	—	397	188

The Bank has not applied the equity method accounting for the following investees even though the Bank holds equity interest more than 15% as of December 31, 2009 (Korean won in millions, number of shares in thousands):

	2009				
	Number of Shares	Ownership (%)	Acquisition value	Book value	Reason
Pantech Co., Ltd.	249,427	15.14	₩ 46,133	₩ 103,762	Corporate Restructuring Promotion Act.
Others			203,927	161,639 ^(*)	
			<u>₩ 250,060</u>	<u>₩ 265,401</u>	

(*) According to Korea Financial Accounting Standards Interpretation 42-59

The market values of investments in listed investees as of December 31, 2009 are as follows (Korean won in millions):

	2009	
	Market value	Book value
Daewoo Shipbuilding & Marine Engineering Co., Ltd	₩ 1,046,948	₩ 1,040,486
Sewon Corporation	8,050	12,011
Moorim P&P Co., Ltd	31,462	29,628
	<u>₩ 1,086,460</u>	<u>₩ 1,082,125</u>

Restricted securities as of December 31, 2009 are summarized as follows (Korean won in millions):

	2009	
	Book value	Restriction
BOK	₩ 1,974,873	Collateral for overdrafts and others
Korea Securities Depository	10,190,995	Collateral relating to repurchase transactions
Others	1,060,820	
	<u>₩ 13,226,688</u>	

Korea Development Bank
Notes to Non-Consolidated Financial Statements—(Continued)
December 31, 2009 and 2008

5. Loans receivable

Total loans receivable as of December 31, 2009 and 2008 consist of the following (Korean won in millions):

	2009	2008
Loans in Korean won	₩36,809,619	₩34,901,217
Loans in foreign currencies	17,954,984	21,179,887
Bills bought in Korean won.....	4,180	5,400
Bills bought in foreign currencies	2,315,945	2,388,011
Advance payments on acceptances and guarantees	75,401	71,508
Bonds purchased under resale agreements	950,407	1,395,132
Others	18,100,818	17,172,320
	76,211,354	77,113,475
Less allowance for possible loan losses	(1,413,400)	(1,046,134)
Deferred loan fees	(12,499)	(1,569)
Total loans receivable	₩74,785,455	₩76,065,772

Loans receivable as of December 31, 2009 and 2008 consist of the following (Korean won in millions):

	2009	2008
<Loans receivable in Korean won>		
Loans for working capital:		
Industrial fund loans	₩10,522,291	₩12,705,994
Government fund loans	392	170,588
Overdraft	407,536	320,938
Trade notes purchased at a discount	6,000	94,000
Loans for working capital for small and medium industry	447,550	431,987
Others	730,623	1,390,571
	12,114,392	15,114,078
Loans for facility developments:		
Industrial fund loans	21,173,602	16,275,271
Government fund loans	789,806	779,422
Loans to customers with fund for rational use of energy	923,765	858,510
Loans to customers with tourism fund	721,481	757,366
Loans to customers with small and medium company promotion fund	460,349	452,444
Loans to customers with national investment fund	15,394	16,446
Loans to customers with industrial technique fund	51,260	80,685
Loans to customers with industrial foundation fund	4,013	23,131
Others	555,557	543,864
	24,695,227	19,787,139
	₩36,809,619	₩34,901,217

Korea Development Bank
Notes to Non-Consolidated Financial Statements—(Continued)
December 31, 2009 and 2008

	2009	2008
<Loans receivable in foreign currency>		
Loans for working capital:		
Loans for working capital from foreign country	₩ 548,113	₩ 659,713
Loans for working capital in foreign currency	1,859,482	2,464,709
Others	3,301	20,411
	2,410,896	3,144,833
Loans for facility developments:		
Loans for facility developments from foreign country	2,746,163	3,594,709
Loans for facility development in foreign currency	7,803,036	8,832,298
Off-shore loans in foreign currency	3,418,935	3,680,755
Loans to international bank for reconstruction and development	1,417,786	1,927,292
Loans to Japan Bank for International corporation	158,168	—
	15,544,088	18,035,054
	₩17,954,984	₩21,179,887
	2009	2008
<Other loans receivable>		
Domestic import usance bills	₩ 3,683,812	₩ 3,684,616
Call loans	1,277,845	2,795,450
Debentures accepted by private subscription	11,426,504	9,436,648
Letter of credit	14,004	27,636
Inter-bank loans	1,499,725	988,898
Inter-non-bank loans	178,643	218,805
Others	20,285	20,267
	₩1 8,100,818	₩17,172,320

Concentrations of loans in Korean won and loans in foreign currencies by country as of December 31, 2009 and 2008 are summarized as follows (Korean won in millions):

	2009	2008	Ratio (%)
Korea	₩47,826,006	₩48,317,609	87.33
China	1,668,939	1,964,527	3.05
Ireland	710,249	1,021,168	1.30
US	357,432	437,150	0.65
Indonesia	168,569	320,848	0.31
Others	4,033,408	4,019,802	7.36
	₩54,764,603	₩56,081,104	100.00

Korea Development Bank
Notes to Non-Consolidated Financial Statements—(Continued)
December 31, 2009 and 2008

Concentrations of loans in Korean won and loans in foreign currencies by industry as of December 31, 2009 and 2008 are summarized as follows (Korean won in millions):

	2009	2008	Ratio (%)
Manufacturing	₩32,172,178	₩32,068,742	₩ 58.75
Financial services	3,331,544	4,156,974	6.08
Transportation business	5,567,665	5,981,822	10.17
Electricity, Gas and Water Supply	2,983,588	2,976,598	5.45
Wholesale and retail	1,649,112	2,290,542	3.01
Public sector and others.....	1,629,681	2,050,672	2.98
Others	7,430,835	6,555,754	13.56
	₩54,764,603	₩56,081,104	₩100.00

The maturity of loans in Korean won and loans in foreign currencies as of December 31, 2009 and 2008 is summarized as follows (Korean won in millions):

	2009		
	Korean won	Foreign currencies	Total
Within 3 months	₩ 4,229,310	₩ 1,223,726	₩ 5,453,036
After 3 months but no later than 6 months	3,254,762	1,938,783	5,193,545
After 6 months but no later than 1 year.....	5,725,542	2,706,687	8,432,229
After 1 year but no later than 3 years	12,349,779	7,088,901	19,438,680
After 3 years but no later than 5 years	5,733,282	2,945,829	8,679,111
Later than 5 years	5,516,944	2,051,058	7,568,002
	₩36,809,619	₩17,954,984	₩54,764,603

	2008		
	Korean won	Foreign currencies	Total
Within 3 month	₩ 4,097,889	₩ 1,020,152	₩ 5,118,041
After 3 months but no later than 6 months	3,181,365	1,456,423	4,637,788
After 6 months but no later than 1 year.....	6,446,178	2,527,030	8,973,208
After 1 year but no later than 3 years	10,864,990	6,862,018	17,727,008
After 3 years but no later than 5 years	4,954,947	5,509,191	10,464,138
Later than 5 years	5,355,848	3,805,073	9,160,921
	₩34,901,217	₩21,179,887	₩56,081,104

Korea Development Bank
Notes to Non-Consolidated Financial Statements—(Continued)
December 31, 2009 and 2008

Details of changes in the allowance for possible loan losses for the years ended December 31, 2009 and 2008 are as follows (Korean won in millions):

	2009			2008
	Loans	Others	Total	
Beginning balance	₩ 1,023,727	₩ 3,050	₩ 1,026,777	₩ 782,747
Changes in translation of foreign currency	(2,465)	—	(2,465)	10,280
Increase in allowance from loan repurchase	18,316	—	18,316	129,485
Transfer to other allowance	(1,562)	51,041	49,479	1,269
Disposal of non-performing loans	(136,958)	—	(136,958)	(1,643)
Increase in allowance due to early collection for loans restructured	1,156	—	1,156	3,655
Spin-off	(33,626)	—	(33,626)	—
Write-offs	(395,475)	—	(395,475)	(227,075)
Provision (reversal) of allowance for possible loan losses	920,433	(1,847)	918,586	328,059
Ending balance	₩1,393,546	₩52,244	₩1,445,790	₩1,026,777

The difference between the above allowance for possible loan losses of ₩1,393,546 million and the amount per the statement of financial position of ₩1,413,400 million represents present value discount of loans under restructuring agreements.

Details on the allowance for possible loan losses as of December 31, 2009 and 2008 are as follows (Korean won in millions):

Loans:	2009	2008
Loans and Bills bought	₩1,097,632	₩ 804,275
Bills bought in foreign currencies	49,462	24,751
Advance payments on acceptances and guarantee	26,825	17,589
Domestic import usance	62,850	56,531
Privately-placed corporate bonds	152,542	114,915
Others	4,235	5,666
	1,393,546	1,023,727
Other assets	52,244	3,050
	₩ 1,445,790	₩ 1,026,777

Korea Development Bank
Notes to Non-Consolidated Financial Statements—(Continued)
December 31, 2009 and 2008

Details on the classification of loans receivable and the allowance for possible loan losses as of December 31, 2009 and 2008 are as follows (Korean won in millions):

2009			
	Loans receivable	Allowance for possible loan losses	Ratio (%)
Normal	₩66,797,008	₩ 719,605	1.08
Precautionary	1,343,173	190,199	14.16
Substandard	1,580,400	418,944	26.51
Doubtful	37,600	22,830	60.72
Estimated Loss	41,968	41,968	100.00
	₩69,800,149	₩1,393,546	2.00

2008			
	Loans receivable	Allowance for possible loan losses	Ratio (%)
Normal	₩66,008,357	₩ 595,578	0.90
Precautionary	449,142	56,493	12.58
Substandard	913,357	223,631	24.48
Doubtful	10,348	5,174	50.00
Estimated Loss	142,851	142,851	100.00
	₩67,524,055	₩1,023,727	1.52

Details of adjustments to loans receivable for purpose of the determination of the allowance for possible losses as of December 31, 2009 and 2008 are as follows (Korean won in millions):

	2009	2008
Loans receivable	₩76,211,354	₩77,113,475
Present value discount	(19,854)	(22,408)
Prepayments regarded as loans	1,908	3,864
Call loans	(1,277,845)	(2,795,450)
Inter-bank loans	(1,499,725)	(988,898)
Bonds purchased under resale agreement	(950,407)	(1,395,132)
Others,*	(2,665,282)	(4,391,396)
	₩69,800,149	₩67,524,055

(*) Others represent loans to or loans guaranteed by the Korean

Historical ratios of the allowance for possible loan losses to total loans receivable as of December 31, 2009, 2008 and 2007, are as follows (Korean won in millions):

	2009	2008	2007
Total loans receivable	₩69,800,149	₩67,524,055	₩49,918,744
Allowance for possible loan losses	1,393,546	1,023,727	779,941
Ratio (%)	2.00	1.52	1.56

Korea Development Bank
Notes to Non-Consolidated Financial Statements—(Continued)
December 31, 2009 and 2008

Details of restructured loans as of December 31, 2009 and 2008 are as follows (Korean won in millions):

	2009	2008
Conversion of investment	<u><u>₩76,561</u></u>	<u><u>₩13,043</u></u>

Changes in present value discounts originated from troubled debt restructuring for the years ended December 31, 2009 and 2008 are as follows (Korean won in millions):

	2009		
	Original amount before restructuring	Present value discount	Present value
Loans receivable restructured	<u><u>₩97,918</u></u>	<u><u>₩ (19,854)</u></u>	<u><u>₩ 78,064</u></u>
	2008		
	Original amount before restructuring	Present value discount	Present value
Loans receivable restructured	<u><u>₩132,676</u></u>	<u><u>₩ (22,408)</u></u>	<u><u>₩110,268</u></u>

Changes in present value discounts originated from troubled debt restructuring for the years ended December 31, 2009 and 2008 are as follows (Korean won in millions):

	2009	2008
Beginning balance	<u><u>₩22,408</u></u>	<u><u>₩30,430</u></u>
Increase	2,711	4
Amortization (Interest income, etc)	(4,095)	(4,371)
Reversal	(1,170)	(3,655)
Ending balance	<u><u>₩19,854</u></u>	<u><u>₩22,408</u></u>

Changes in deferred loan fees, net of expenses for the years ended December 31, 2009 and 2008 are summarized as follows (Korean won in millions):

	2009			
	Beginning balance	Increase	Decrease	Ending balance
Deferred loan fees, net of expenses	<u><u>₩1,569</u></u>	<u><u>₩20,577</u></u>	<u><u>₩(9,647)</u></u>	<u><u>₩12,499</u></u>
	2008			
	Beginning balance	Increase	Decrease	Ending balance
Deferred loan fees, net of expenses	<u><u>₩ —</u></u>	<u><u>₩ 1,590</u></u>	<u><u>₩ (21)</u></u>	<u><u>₩ 1,569</u></u>

Korea Development Bank
Notes to Non-Consolidated Financial Statements—(Continued)
December 31, 2009 and 2008

6. Property and equipment

Changes in property and equipment for the years ended December 31, 2009 and 2008 are as follows (Korean won in millions):

2009						
	Beginning balance	Acquisition	Disposal	Other ^(*)	Depreciation	Ending balance
Land	₩319,198	₩ 21	₩ (38,958)	₩ (6,049)	₩ —	₩274,212
Buildings	288,810	1,695	(36,760)	(4,397)	(8,945)	240,403
Leasehold improvements	8,101		(2,148)		(517)	5,436
Computer equipment	11,049	4,297	—	(10)	(2,109)	13,227
Vehicles	284	24	(17)	(14)	(81)	196
Construction in-progress	49	1,286	(1,321)	—	—	14
Others.....	9,074	2,198	(117)	(204)	(2,249)	8,702
	₩636,565	₩ 9,521	₩ (79,321)	₩ (10,674)	₩ (13,901)	₩542,190
2008						
	Beginning balance	Acquisition	Disposal	Other ^(*)	Depreciation	Ending balance
Land	₩311,094	₩13,416	₩ (5,444)	₩132	₩ —	₩319,198
Buildings	296,783	2,150	(1,021)	122	(9,224)	288,810
Leasehold improvements	8,525	57	(42)	—	(439)	8,101
Computer equipment	10,894	8,339	(15)	77	(8,246)	11,049
Vehicles	291	186	(16)	40	(217)	284
Construction in-progress		1,795	(1,746)			49
Others.....	7,011	5,480	(859)	470	(3,028)	9,074
	₩634,598	₩31,423	₩ (9,143)	₩841	₩ (21,154)	₩636,565

(*) Others included exchanges differences adjustment for assets denominated in foreign currencies.

The value of the Bank's land, as determined by the government of the Republic of Korea for tax administration purposes as of December 31, 2009 and 2008 amounted to ₩360,490 million and ₩423,422 million, respectively.

Insured property and equipment as of December 31, 2009 are summarized as follows (Korean won in millions):

2009		
	Insured amount	Insurance period
Buildings & equipment.....	₩269,267	2009.01.12~2010.01.12
Computer equipment	10,631	”
Others	4,769	”
	₩284,667	

Korea Development Bank
Notes to Non-Consolidated Financial Statements—(Continued)
December 31, 2009 and 2008

7. Other assets

Changes in intangible assets for the years ended December 31, 2009 are as follows (Korean won in millions):

Type	2009			Ending balance
	Beginning balance	Increase	Decrease	
Equipment usage right	₩ 317	₩ 34	₩ (28)	₩ 323
Development costs	22,613	17,481	(7,809)	32,285
Others	6,252	4,834	(3,114)	7,972
	<u>₩29,182</u>	<u>₩22,349</u>	<u>₩(10,951)</u>	<u>₩40,580</u>

Details of miscellaneous assets as of December 31, 2009 and 2008 are as follows (Korean won in millions):

	2009	2008
Accounts receivable related foreign exchange	₩1,152,906	₩563,969
Prepaid income taxes	230	53,987
Others	76,072	277,269
	<u>₩1,229,208</u>	<u>₩895,225</u>

8. Deposits

Deposits as of December 31, 2009 and 2008 consist of the following (Korean won in millions):

	2009	2008
Deposits in Korean won:		
Demand deposits:		
Checking accounts	₩ 2,951	₩ 2,733
Temporary deposits	212,456	162,072
Passbook deposits	7,639	5,723
Others	81	1,316
	<u>223,127</u>	<u>171,844</u>
Time and savings deposits:		
Time deposits	3,945,550	5,384,983
Installment savings deposits	158,280	104,146
Corporate savings deposits	4,390,176	3,972,845
Savings deposits	99,193	89,857
Others	1,714	2,625
	<u>8,594,913</u>	<u>9,554,456</u>
	<u>8,818,040</u>	<u>9,726,300</u>
Deposits in foreign currency:		
Demand deposits:		
Checking accounts	24,992	7,987
Passbook deposits	244,624	321,784
Temporary deposits	463	2,174
Others	28,611	87,869
	<u>298,690</u>	<u>419,814</u>
Time and savings deposits:		
Time deposits	1,234,410	2,466,693
	<u>1,533,100</u>	<u>2,886,507</u>
Negotiable certificates of deposits	<u>3,584,786</u>	<u>4,155,722</u>
	<u>₩13,935,926</u>	<u>₩16,768,529</u>

Korea Development Bank
Notes to Non-Consolidated Financial Statements—(Continued)
December 31, 2009 and 2008

Maturities of deposits as of December 31, 2009 are summarized as follows (Korean won in millions):

	2009			
	Demand deposits	Time and saving deposits	Negotiable certificates of deposits	Total
Within 3 months.....	₩ 521,817	₩ 6,865,553	₩ 2,062,155	₩ 9,449,525
After 3 months but no later than 6 months	—	1,394,007	1,470,305	2,864,312
After 6 months but no later than 1 year	—	1,016,735	25,034	1,041,769
After 1 year but no later than 3 years.....	—	551,926	27,228	579,154
After 3 years but no later than 5 years	—	1,022	64	1,086
Later than 5 years.....	—	80	—	80
	₩ 521,817	₩ 9,829,323	₩ 3,584,786	₩ 13,935,926

9. Borrowing liabilities

Borrowing liabilities as of December 31, 2009 and 2008 consist of the following (Korean won in millions):

	2009	2008
Borrowings:		
Korean won	₩ 4,657,164	₩ 5,365,040
Foreign currency	13,087,541	16,468,165
	17,744,705	21,833,205
Debentures:		
Korean won	34,938,266	49,628,537
Foreign currency	17,005,852	19,232,242
	51,944,118	68,860,779
Other borrowings:		
Bonds sold under repurchase agreements	9,028,121	8,968,535
Bill sold	—	132
Call money	1,975,140	822,357
	11,003,261	9,791,024
	80,692,084	100,485,008
Deferred borrowing fees	(4,296)	—
	₩ 80,687,788	₩ 100,485,008

Korea Development Bank
Notes to Non-Consolidated Financial Statements—(Continued)
December 31, 2009 and 2008

Borrowings in Korean won as of December 31, 2009 and 2008 consist of the following (Korean won in millions):

Lender	Classifications	Annual interest rate (%)	2009	2008
Ministry of Strategy and Finance	Borrowings from government fund	3.4~6.0	₩ 848,647	₩ 1,015,734
Industrial Bank of Korea	Borrowings from industrial technique fund	1.5~4.5	144,713	170,613
Small Business Corp.....	Borrowings from local small and medium company promotion fund	2.0~4.2	557,702	538,840
Ministry of Culture and Tourism	Borrowings from tourism promotion fund	1.4~4.5	1,150,502	1,118,318
Korea Energy Management Corporation	Borrowings from fund for rational use of energy	0.3~4.5	923,453	862,243
Local governments	Borrowings from local small and medium company promotion fund	1.5~6.0	135,381	129,896
Institute for Information Technology Advancement	Borrowings from information promotion fund	2.0~4.8	—	6,226
Others	Borrowings from environment improvement support fund	0.0~4.7	896,766	1,523,170
			₩ 4,657,164	₩ 5,365,040

Korea Development Bank
Notes to Non-Consolidated Financial Statements—(Continued)
December 31, 2009 and 2008

Borrowings in foreign currency as of December 31, 2009 and 2008 consist of the following (Korean won in millions):

Lender	Classifications	Annual interest rate (%)	2009	2008
Finanzierungsplanungs und Beratungs GmbH ("KFW")	Borrowings from KFW	5.5	₩ —	₩ 898
JBIC	Borrowings from JBIC	1.4~6M Libor +0.8	167,147	—
International Bank for Reconstruction and Development ("IBRD")	Borrowings from IBRD	6M Libor + 0.8	1,481,451	2,099,003
Mizuho and others	Borrowings from foreign banks	3M Libor + 0.1~0.3	1,655,870	1,479,923
		6M Libor + 0.1~0.3	316,887	416,983
		6M Euribor + 0.6	166,942	138,058
			2,139,699	2,034,964
DBS Bank and others	Off-shore short-term borrowings	2.2~5.5	194,766	485,287
		3M Libor + 2.0~3.5	122,598	—
		6M Libor + 0.8~3.4	36,932	138,325
		1Y Libor + 0.3~4.0	93,408	534,438
			447,704	1,158,050
Nippon Life Insurance Company and others	Off-shore long-term borrowings	3M Libor + 0.6~0.9	306,615	257,321
		6M Euribor +0.8~0.9	216,286	316,766
		6M Libor + 0.3~1.9	198,492	402,400
			721,393	976,487
Others	Short-term borrowings in foreign currency	1.0~9.2	6,405,850	6,966,540
		3M Libor + 2.0~2.5	151,788	1,116,025
		6M Libor + 0.3~3.1	72,913	163,475
		1Y Libor + 1.0~4.0	188,720	163,475
		1 Y Euribor + 0.5	—	35,524
			6,819,271	8,445,039
	Long-term borrowings in foreign currency	1.0~5.9	1,310,876	1,753,724
			₩13,087,541	₩16,468,165

Korea Development Bank
Notes to Non-Consolidated Financial Statements—(Continued)
December 31, 2009 and 2008

Debentures in Korean won as of December 31, 2009 and 2008 are as follows (Korean won in millions):

	Interest rate (%)	2009	2008
Debentures in Korean won	2.3~12.0	₩35,014,398	49,645,878
Premium on debentures		856	1,174
Discount on debentures		(76,988)	(18,515)
		<u>₩34,938,266</u>	<u>49,628,537</u>

Debentures in foreign currency as of December 31, 2009 and 2008 are as follows (Korean won in millions):

	Interest rate (%)	2009	2008
Debentures in foreign currency	0.1~8.0	₩13,330,315	15,761,854
Premium on debentures		2,318	3,381
Discount on debentures		(28,530)	(11,195)
		<u>13,304,103</u>	<u>15,754,040</u>
Off-shore debentures in foreign currency	0.1~8.8	3,706,869	3,481,119
Premium on debentures		525	696
Discount on debentures		(5,645)	(3,613)
		<u>3,701,749</u>	<u>3,478,202</u>
		<u>₩17,005,852</u>	<u>19,232,242</u>

Pursuant to the Korea Development Bank Act, the Bank has the exclusive right to issue industrial finance bonds. The amount of such bonds issued and guaranteed outstanding provided by the Bank cannot exceed thirty times the aggregate amount of the paid-in capital and legal reserve of the Bank. The industrial finance bonds which are purchased or guaranteed by the government are excluded in calculating the limit. The Bank may, when necessary reused the terms of the bonds or to discharge its obligations arising from the guarantee or acceptance of debts, issue the bonds over that limit. There are no issued industrial finance bonds guaranteed by the Korean government as of December 31, 2009 and 2008.

Maturities of borrowing liabilities as of December 31, 2009 are as follows (Korean won in millions):

	2009			
	Borrowings	Debentures	Other borrowings	Total
Within 3 months	₩ 4,814,668	₩ 4,155,583	₩ 7,417,431	₩16,387,682
After 3 months but no later than 6 months	2,789,616	5,843,274	2,430,195	11,063,085
After 6 months but no later than 1 year	3,181,812	9,110,091	1,114,561	13,406,464
After 1 year but no later than 3 years	4,044,590	18,809,481	41,074	22,895,145
After 3 years but no later than 5 years	1,518,365	10,154,985	—	11,673,350
Later than 5 years	1,395,654	3,978,168	—	5,373,822
	<u>₩17,744,705</u>	<u>₩52,051,582</u>	<u>₩11,003,261</u>	<u>₩80,799,548</u>

Korea Development Bank
Notes to Non-Consolidated Financial Statements—(Continued)
December 31, 2009 and 2008

Subordinated borrowings as of December 31, 2009 and 2008 are as follows (Korean won in millions):

Type	Rate (%)	2009	2008	Terms
Borrowing from government funds	3.4-6.0	₩ 848,647	₩ 1,015,734	Installment
Borrowing from IBRD	6M Libor +0.75	1,480,890	2,099,003	Installment
		<u><u>₩2,329,537</u></u>	<u><u>₩3,114,737</u></u>	

10. Severance and retirement benefits

Changes in severance and retirement benefits for the years ended December 31, 2009 and 2008 are as follows (Korean won in millions):

	2009	2008
Beginning balance	₩120,251	₩106,796
Payments during the year	(85,526)	(17,553)
Provision for severance and retirement benefits	28,240	31,008
	62,965	120,251
Deposits for severance and retirement	(43,881)	(33,007)
	<u><u>₩ 19,084</u></u>	<u><u>₩ 87,244</u></u>

11. Acceptances and guarantees

Acceptances and guarantees and allowance for possible losses on acceptances and guarantees as of December 31, 2009 and 2008 are as follows (Korean won in millions):

	Acceptances and guarantees		Allowance for possible losses	
	2009	2008	2009	2008
Settled guarantees and commitments:				
Acceptance on letters of credit	₩ 1,225,215	₩ 717,575	₩ 8,471	₩ 5,407
Collateral for loan	214,645	139,348	2,549	658
Debt guarantee	154,772	192,436	1,513	1,202
Corporate debentures	1,210	102,937	10	1,953
Foreign banks borrowing	6,704	8,253	57	70
Other acceptances and guarantees in foreign currency(*)	12,686,138	16,910,410	203,517	80,728
Acceptances for letters of guarantees for importers	40,332	29,801	319	128
Others	—	6,288	—	53
	<u>14,329,016</u>	<u>18,107,048</u>	<u>216,436</u>	<u>90,199</u>
Unsettled guarantees and commitments:				
Local letters of credit	335,904	244,233	596	480
Letters of credit	2,573,324	2,250,603	5,076	3,853
Others	7,254,340	10,764,461	21,453	19,136
	<u>10,163,568</u>	<u>13,259,297</u>	<u>27,125</u>	<u>23,469</u>
Bills endorsed	—	87	—	1
	<u><u>₩24,492,584</u></u>	<u><u>₩31,366,432</u></u>	<u><u>₩243,561</u></u>	<u><u>₩113,669</u></u>

(*) Other acceptances and guarantees in foreign currency consist of acceptances and guarantees for the return of advances related to export, overseas bidding and contractual obligations.

Korea Development Bank
Notes to Non-Consolidated Financial Statements—(Continued)
December 31, 2009 and 2008

Details of classification of acceptances and guarantees and allowance for possible losses on acceptances and guarantees as of December 31, 2009 and 2008 are summarized as follows (Korean won in millions):

2009									
Acceptances and guarantees									
Korean won		Foreign currencies		Bills endorsed		Total			
Outstanding amount	Allowance	Outstanding amount	Allowance	Outstanding amount	Allowance	Outstanding amount	Allowance	Ratio (%)	
Normal	₩236,672	₩1,110	₩23,254,091	₩ 78,071	₩—	₩—	₩23,490,763	₩ 79,181	0.34
Precautionary	—	—	565,709	33,081	—	—	565,709	33,081	5.85
Substandard	8,300	1,660	427,779	129,632	—	—	436,079	131,292	30.11
Doubtful	—	—	—	—	—	—	—	—	—
Estimated loss	—	—	33	7	—	—	33	7	21.21
	₩244,972	₩2,770	₩24,247,612	₩240,791	₩—	₩—	₩24,492,584	₩243,561	0.99

2008									
Acceptances and guarantees									
Korean won		Foreign currencies		Bills endorsed		Total			
Outstanding amount	Allowance	Outstanding amount	Allowance	Outstanding amount	Allowance	Outstanding amount	Allowance	Ratio (%)	
Normal	₩264,444	₩2,713	₩30,698,165	₩ 97,847	₩ 87	₩ 1	₩30,962,696	₩100,561	0.32
Precautionary	1,140	80	399,050	12,801	—	—	400,190	12,881	3.22
Substandard	280	56	3,126	125	—	—	3,406	181	5.31
Doubtful	61	30	—	—	—	—	61	30	49.18
Estimated loss	—	—	79	16	—	—	79	16	20.25
	₩265,925	₩2,879	₩31,100,420	₩110,789	₩ 87	₩ 1	₩31,366,432	₩113,669	0.36

Historical ratios of allowance for possible losses on acceptances and guarantees to total acceptances and guarantees as of December 31, 2009, 2008, and 2007 are as follows (Korean won in millions):

	2009	2008	2007
Total acceptances and guarantees	₩24,492,584	₩31,366,432	₩23,225,113
Allowance for possible losses on acceptances and guarantees	243,561	113,669	75,944
Ratio (%)	0.99	0.36	0.33

Korea Development Bank
Notes to Non-Consolidated Financial Statements—(Continued)
December 31, 2009 and 2008

12. Allowances for unused commitments

Unused loan commitments and the related allowances for possible losses as of December 31, 2009 and 2008 are as follows (Korean won in millions):

	2009		2008	
	Unused loan commitment	Allowance for possible loan losses	Unused loan commitment	Allowance for possible loan losses
Commitments on loans receivable	₩ 4,192,444	₩ 22,586	₩ 3,841,639	₩ 15,844
Commitments on guarantees and acceptances	16,560,056	63,977	16,555,910	67,940
Commitments on loan	12,238,484	102,359	4,802,193	19,176
	₩ 32,990,984	₩ 188,922	₩ 25,199,742	₩ 102,960

Historical ratios of allowance for losses on unused commitments to total unused commitments as of December 31, 2009, 2008 and 2007, are as follows (Korean won in millions):

	2009	2008	2007
Unused commitments	₩ 32,990,984	₩ 25,199,742	₩ 19,109,189
Allowance for possible losses on unused commitments	188,922	102,960	71,559
Ratio (%)	0.57	0.41	0.37

13. Miscellaneous liabilities

Miscellaneous liabilities as of December 31, 2009 and 2008 consist of the following (Korean won in millions):

	2009	2008
Withholding taxes.....	₩ 9,025	₩ 17,373
Accounts payable on unpaid exchange	641,067	389,617
Other allowance	4,281	1,032
Industrial finance debentures	—	974,694
Others	326,045	164,483
	₩ 980,418	₩ 1,547,199

Korea Development Bank
Notes to Non-Consolidated Financial Statements—(Continued)
December 31, 2009 and 2008

14. Assets and liabilities denominated in foreign currencies

Significant assets and liabilities denominated in foreign currencies as of December 31, 2009 and 2008 are as follows (Korean won in millions or U.S. dollar in thousands):

Account	USD equivalent:		Korean won equivalent	
	2009	2008	2009	2008
Assets:				
Cash on hand	\$ 5,879	\$ 6,331	₩ 6,842	₩ 7,961
Due from banks	931,759	1,097,497	1,087,763	1,380,106
Trading securities	61,583	5,275	71,797	6,634
Available-for-sale securities	3,472,768	3,473,340	4,050,267	4,367,723
Equity method investments	451,302	399,340	525,993	501,813
Bills purchased	1,986,036	1,899,010	2,315,945	2,388,011
Call loans	615,112	2,142,817	718,012	2,694,592
Loan receivables	15,395,081	16,846,158	17,954,984	21,179,887
Domestic import usance	3,156,358	2,930,116	3,683,812	3,684,616
Receivables	1,429,380	2,260,703	1,667,827	2,842,825
Others	2,543,299	3,082,957	2,972,098	3,876,818
	<u>\$30,048,557</u>	<u>\$34,143,544</u>	<u>₩35,055,340</u>	<u>₩42,930,986</u>
Liabilities:				
Deposits	\$ 1,447,526	\$ 2,295,426	₩ 1,689,044	₩ 2,886,507
Borrowings	11,224,722	13,088,870	13,087,541	16,349,440
Bonds sold under repurchase agreements	906,067	1,211,026	1,057,020	1,522,868
Call money	499,086	256,348	582,040	322,357
Debentures	11,385,846	12,193,013	13,304,103	14,224,399
Off-shore debentures	3,146,133	2,729,619	3,701,749	2,874,336
Others	3,582,239	2,118,870	3,055,975	2,667,617
	<u>\$32,191,619</u>	<u>\$33,893,172</u>	<u>₩36,477,472</u>	<u>₩40,847,524</u>

(*) All foreign currencies other than the U.S. dollar are expressed in the equivalent of U.S. dollars at the reporting date.

15. Commitments and contingencies

Unsettled commitments provided by the Bank as of December 31, 2009 and 2008 are as follows (Korean won in millions):

	2009	2008
Unsettled commitments:		
Commitments on loans in Korean won.....	₩1 1,690,299	₩3,775,584
Commitments on loans in foreign currency	548,185	1,026,609
Commitments on purchase of securities	1,000,000	1,000,000
	<u>13,238,484</u>	<u>5,802,193</u>
Bonds sold under repurchase agreements	750,570	750,570
	<u>₩13,989,054</u>	<u>₩6,552,763</u>

Korea Development Bank
Notes to Non-Consolidated Financial Statements—(Continued)
December 31, 2009 and 2008

The Bank has entered into agreements to provide certain syndicated loans with foreign banks. The aggregate credit limit and unused amount as of December 31, 2009 are as follows:

Type	Aggregate credit limit	Unused amount
USD	2,505,384 thousand	475,271 thousand
JPY	2,181,225 thousand	365,241 thousand
EUR	63,000 thousand	—
CNY	6,360 thousand	636 thousand
CHF	7,733 thousand	582 thousand
KRW	2,896,730 million	331,893 million
Total (KRW)	<u>5,964,839 million</u>	<u>892,195 million</u>

Loans sold as of December 31, 2009 are as follows (Korean won in millions):

Counterparty	Disposal date	Book value	Selling price	Subordinated debt securities held by the Bank	Collateral amount ^(*)
KDB First SPC	2000.06.08	₩ 950,627	₩ 600,000	₩ 201,800	₩ 120,000
KDB Second SPC	2000.11.08	914,764	423,600	93,600	80,000
KDB Third SPC	2000.09.20	1,793,546	949,900	—	—
KDB Fifth SPC	2000.12.13	765,358	528,400	98,400	100,000
KDB Sixth SPC	2009.09.30	420,631	330,000	160,000	—
		<u>₩ 4,844,926</u>	<u>₩ 2,831,900</u>	<u>₩ 553,800</u>	<u>₩ 300,000</u>

(*) Investment securities are pledged as collateral.

According to the contracts with the counterparties for the above loans sold with a recourse provision, the Bank is liable to the counterparties' claims of up to 30% of the selling price when the principal or the interest is not repaid according to the payment schedules.

The Banks' loans and receivables written-off, for which the contractual rights to cash flows have not expired, amount to ~~₩~~1,774,962 million as of December 31, 2009.

The Bank has outstanding loans receivable amounting to ~~₩~~2,952,640 million and holds securities amounting to ~~₩~~ 191,164 million as of December 31, 2009 from companies under workout, court receivership, court mediation or other restructuring process. The Bank provided ~~₩~~528,306 million of allowances for possible loan losses for such loans. Actual losses from these loans may differ from the allowances provided.

As of December 31, 2009, the Bank is involved in 13 lawsuits as a plaintiff and 19 lawsuits as a defendant. The aggregate amount of claims as a plaintiff and a defendant amounted to approximately ~~₩~~3,726,044 million and ~~₩~~336,452 million, respectively. The Bank is involved in 1 lawsuit as an independent arbitrator party, amounting to ~~₩~~769 million. The Bank provided other allowance for loss amounting to ~~₩~~3,249 million as of December 31, 2009.

Korea Development Bank
Notes to Non-Consolidated Financial Statements—(Continued)
December 31, 2009 and 2008

16. Derivative instruments

The Bank's derivatives instruments are divided into trading derivatives and hedge derivatives, based on the nature of the transaction. The Bank enters into hedge transactions mainly for the purpose of hedging the fair value risk related to changes in fair values of the underlying assets and liabilities.

The notional amounts outstanding for derivatives contracts and the related valuation gains (losses) for the years ended December 31, 2009 and 2008 are summarized as follows (Korean won in millions):

2009								
	Notional amounts			Valuation gain (loss)			Derivative asset	
	Trading purpose	Hedging purpose	Total	Trading purpose	Hedging purpose	Total	((liability)
Commodity:								
Forward	₩ 33,003	₩ —	₩ 33,003	₩ 33	₩ —	₩ 33	₩	33
Swap	508,101	—	508,101	2,270	—	2,270		2,447
Option bought	119,329	—	119,329	—	—	—		31,109
Option sold	119,329	—	119,329	—	—	—		(31,109)
	779,762	—	779,762	2,303	—	2,303		2,480
Interest:								
Futures	3,708,545	—	3,708,545	—	—	—		—
Swap	294,595,518	19,451,406	314,046,924	18,479	(270,681)	(252,202)		(234,358)
Option bought	1,795,816	—	1,795,816	5,874	—	5,874		26,350
Option sold	3,161,816	150,000	3,311,816	—	6,615	6,615		(44,307)
	303,261,695	19,601,406	322,863,101	24,353	(264,066)	(239,713)		(252,315)
Currency:								
Forward	49,689,013	—	49,689,013	(419,786)	—	(419,786)		1,828,320
Futures	597,846	—	597,846	—	—	—		—
Swap	44,180,654	10,406,751	54,587,405	611,506	13,199	624,705		(694,001)
Option bought	3,526,438	—	3,526,438	(33,621)	—	(33,621)		256,875
Option sold	2,042,024	—	2,042,024	—	—	—		(102,182)
	100,035,975	10,406,751	110,442,726	158,099	13,199	171,298		1,289,012
Stock:								
Index forward								
bought	23,029	—	23,029	—	—	—		—
Option bought	102,630	—	102,630	20	—	20		24,108
Index option								
bought	126,255	—	126,255	(2,729)	—	(2,729)		390
Option sold	114,261	—	114,261	—	—	—		(24,108)
Index option sold	252,486	—	252,486	—	—	—		(8,340)
	618,661	—	618,661	(2,729)	—	(2,709)		(7,950)
	<u>₩404,696,093</u>	<u>₩30,008,157</u>	<u>₩434,704,250</u>	<u>₩ 182,046</u>	<u>₩ (250,867)</u>	<u>₩ (68,821)</u>	<u>₩</u>	<u>₩1,031,225</u>

The difference between the above valuation loss and the amount per the statement of income represents other allowance of ₩51,041 million, which was adjusted due to credit risk of counter party.

Korea Development Bank
Notes to Non-Consolidated Financial Statements—(Continued)
December 31, 2009 and 2008
2008

	Notional amounts			Valuation gain (loss)			I	asset (liability)
	Trading purpose	Hedging purpose	Total	Trading purpose	Hedging purpose	Total		
Commodity:								
Forward	₩ 114,447	₩ —	₩ 114,447	₩ (222)	₩ —	₩ (222)		₩
Swap	241,987	—	241,987	(2,306)	—	(2,306)		(1,657)
Futures	76	—	776	—	—	—		—
Option bought ..	53,576	—	53,576	(169)	—	(169)		2,320
Option sold	53,576	—	53,576	20	—	200		(2,320)
	464,362	—	464,362	(2,497)	—	(2,497)		(1,879)
Interest:								
Futures	3,139,330	—	3,139,330	—	—	—		—
Swap.....	222,218,086	7,980,810	230,198,896	(465,680)	473,285	7,605		(323,706)
Option bought ..	646,200	1,160,000	1,806,200	17,085	—	17,085		46,386
Option sold	1,616,200	1,780,000	3,396,200	(43,415)	(8,515)	(51,930)		(84,633)
	227,619,816	10,920,810	238,540,626	(492,010)	464,770	(27,240)		(361,953)
Currency:								
Forward	57,994,151	—	57,994,151	3,936,015	—	3,936,015		4,042,834
Futures	713,694	—	713,694	—	—	—		—
Swap.....	58,014,149	6,614,539	64,628,688	(3,658,461)	320,673	(3,337,788)		(2,935,684)
Option bought ..	7,365,527	—	7,365,527	797,706	—	797,706		1,031,654
Option sold	8,256,078	—	8,256,078	(615,910)	—	(615,910)		(784,274)
	132,343,599	6,614,539	138,958,138	459,350	320,673	780,023		1,354,530
Stock:								
Index forward								
bought.....	8154	—	—	—	—	—		—
Option bought ..	185,680	—	185,680	(1,174)	—	(1,174)		410,079
Index option								
bought.....	850,160	—	—	(3,150)	—	(3,150)		1,013
Option sold	213,443	—	213,443	1,225	—	1,225		(410,079)
Index option								
sold	886,517	—	886,517	6,799	—	6,799		(706)
	2,143,954	—	2,143,954	3,700	—	3,700		307
	₩362,571,731	₩17,535,349	₩380,107,080	₩(31,457)	₩785,443	₩ 753,986	₩	991,005

Unrealized gains and losses from fair value hedge items by type of the underlying assets or liabilities for the years ended December 31, 2009 and 2008 are as follows (Korean won in millions):

	2009		2008	
	Gains	Losses	Gains	Losses
Available-for-sale securities	₩ 7,332	₩ 41,997	₩ 82,927	₩ 2,083
Borrowings	44,947	17,895	22,728	160,118
Debentures	803,939	71,692	93,853	2,636,129
	₩856,218	₩131,584	₩199,508	₩2,798,330

Korea Development Bank
Notes to Non-Consolidated Financial Statements—(Continued)
December 31, 2009 and 2008

17. Equity

Paid-in capital

The Korean government increased the Bank's paid-in capital by ~~₩~~900 billion during the year ended December 31, 2009. The total paid-in capital of the Bank outstanding as of December 31, 2009 is ~~₩~~9,241,861 million.

Capital surplus

The Bank utilized ~~₩~~5,178,600 million of its paid-in capital in 1998 and 2000 to offset its accumulated deficit amounting to ~~₩~~5,134,227 million. The outstanding balance of capital surplus as of December 31, 2009 amount to ~~₩~~52,168 million.

Legal reserve

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

In accordance with the Korea Development Bank Act, the Bank offsets accumulated deficit with reserves. If reserves are insufficient to offset the accumulated deficit, the Korean government is supposed to be responsible for the deficit.

18. General and administrative expenses

General and administrative expenses for the years ended December 31, 2009 and 2008 are as follows (Korean won in millions):

	2009	2008
Salaries,*	₩ 216,531	₩ 230,655
Severance and retirement benefits (*)	28,240	31,008
Other employee benefits,*	23,388	21,000
Rent,*	15,288	13,477
Depreciation,*	13,901	21,154
Amortization,*	10,951	11,649
Taxes and dues,*	15,000	18,259
Printing	5,588	5,217
Travel	3,784	3,844
Commission	16,816	17,347
Electronic data processing	27,518	26,145
Training	7,770	9,108
Others	30,707	23,345
	<u>₩415,482</u>	<u>₩432,208</u>

(*) These accounts in aggregate amounting to ~~₩~~323,299 million and ~~₩~~347,202 million for the years ended December 31, 2009 and 2008, respectively, are related to the “added value” disclosure items of the Bank's operations in accordance with SKAS 21.

Korea Development Bank
Notes to Non-Consolidated Financial Statements—(Continued)
December 31, 2009 and 2008

19. Income tax

Income tax expense for the years ended December 31, 2009 and 2008 is as follows (Korean won in millions):

	2009	2008
Current income taxes,*	₩ (84,810)	₩ 116,515
Change in deferred income tax due to temporary difference	306,316	(1,352,391)
Tax effect of tax loss carryforwards	—	67,722
	221,506	(1,168,154)
Current and deferred income taxes recognized directly to equity	(183,769)	1,190,470
Income tax expense	₩ 37,737	₩ 22,316

(*) The additional tax payments or refunds were included in the current income taxes.

Reconciliations of income tax expense applicable to income before income taxes at the Korea statutory tax rate to income tax expense at the effective income tax rate of the Bank are as follows (Korean won in millions):

	2009	2008
Income before income taxes	₩ 798,849	₩ 372,645
Tax at the statutory income tax rate	₩ 183,230	₩ 102,444
Adjustments:		
Non-taxable (deductible) income (expenses), net	116,455	(98,839)
Deferred income taxes not recognized	(113,713)	175,328
Others	(148,235)	(156,617)
	(145,493)	(80,128)
Income tax expense	₩ 37,737	₩ 22,316

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for corporate income tax reporting purposes. Significant changes in cumulative temporary differences and deferred income tax assets and liabilities for the years ended December 31, 2009 and 2008 are as follows (Korean won in millions):

	2009			
	Beginning	Increase (decrease)	Ending	Deferred income tax assets (liabilities)
Equity method investments	₩ (5,204,542)	₩ 4,221,157	(983,385)	₩ (220,765)
Derivatives assets	(16,432,776)	8,955,365	(7,477,411)	(1,645,030)
Derivatives liabilities	15,560,594	(8,962,651)	6,597,943	1,451,547
Loss on valuation of hedge items	2,358,612	(1,328,763)	1,029,849	226,567
Gain on valuation of fair value hedge in foreign currency	(1,770,893)	950,071	(820,822)	(180,581)
Loans written-off	1,003,803	(463,893)	539,910	118,780
Impairment losses on investment bonds	396,617	128,992	525,609	115,634
Impairment losses on investment securities	360,184	151,933	512,117	112,666
Others	807,613	(532,960)	274,653	125,632
	₩ (2,920,788)	₩ 3,119,251	₩ 198,463	₩ 104,450

Korea Development Bank
Notes to Non-Consolidated Financial Statements—(Continued)
December 31, 2009 and 2008

2008

	Beginning	Increase (decrease)	Ending	Deferred income tax assets (liabilities)
Equity method investments	₩ (6,015,261)	₩ 810,719	₩ (5,204,542)	₩ (1,077,849)
Derivatives assets	(3,181,778)	(13,250,998)	(16,432,776)	(3,615,211)
Derivatives liabilities	2,889,057	12,671,537	15,560,594	3,423,331
Loss on valuation of hedge items	178,859	2,179,753	2,358,612	518,894
Gain on valuation of fair value hedge in foreign currency	(225,778)	(1,545,115)	(1,770,893)	(389,596)
Loans written-off	1,140,251	(136,448)	1,003,803	140,839
Impairment losses on investment bonds	360,589	36,028	396,617	87,256
Impairment losses on investment securities ...	772,889	(412,705)	360,184	79,240
Others	556,967	250,646	807,613	134,409
	₩ (3,524,205)	₩ 603,417	₩ (2,920,788)	₩ (698,687)

The above temporary differences did not include deferred income tax assets (liabilities) of foreign branches and charged directly to equity.

Deferred income tax assets (liabilities) recognized in the statement of financial position as of December 31, 2009 and 2008 consist of the following (Korean won in millions):

	2009	2008
Cumulative temporary differences	₩ 198,463	₩ (2,920,787)
Tax rate(%)	(*1)	(*1)
Tax effects arising from cumulative temporary differences	44,160	(645,263)
Unrealizable deferred income tax assets(*2)	(60,289)	53,424
Deferred income tax liabilities arising from cumulative temporary differences	104,450	(698,687)
Deferred income tax recognized directly to equity	(215,226)	(31,458)
Deferred income tax liabilities of foreign branches	365	—
Deferred income tax liabilities	(110,411)	(730,145)
Deferred income tax assets of foreign branches(*3)	30,115	42,048
Net deferred income tax liabilities	₩ (80,296)	₩ (688,097)

(* 1) Deferred income tax assets and liabilities are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse (the income tax rate of 24.2% and 22% is applied for calculation until 2011 and after 2012, respectively).

(*2) The Bank did not record deferred income tax liabilities amounting to ₩277,972 million for temporary differences relating to valuation of equity investments and the amount was determined based on the ratio of dividend tax exemption rate under the related tax law.

(*3) Deferred income tax assets of foreign branches are not offset against the deferred income tax liabilities in accordance with the tax jurisdictions of the foreign branches.

Korea Development Bank
Notes to Non-Consolidated Financial Statements—(Continued)
December 31, 2009 and 2008

Details of deferred income taxes charged directly to equity for the years ended December 31, 2009 and 2008 are as follows (Korean won in millions):

2009				
	Beginning	Increase (decrease)	Ending	Deferred income tax assets (liabilities)
Gain on valuation of available-for-sale securities	₩ (1,627,444)	₩ 482,665	₩ (1,144,779)	₩ (245,525)
Loss on valuation of available-for-sale securities	1,407,852	(934,043)	473,809	95,363
Gain on valuation of equity method investments ..	(78,389)	(220,366)	(298,755)	(65,476)
Loss on valuation of equity method investments ..	397,459	(388,064)	9,395	2,286
Capital surplus	—	(10,006)	(10,006)	(2,210)
Capital adjustments	—	1,565	1,565	336
	₩ 99,478	₩ (1,068,249)	₩ (968,771)	₩ (215,226)
2008				
	Beginning	Increase (decrease)	Ending	Deferred income tax assets (liabilities)
Gain on valuation of available-for-sale securities	₩ (5,344,173)	₩ 3,719,011	₩ (1,625,162)	₩ (357,536)
Loss (gain) on valuation of available-for-sale securities	820,319	588,259	(1,408,578)	309,887
Gain on valuation of equity method investments —	(122,482)	44,085	(78,397)	(16,886)
Loss on valuation of equity method investments —	220,661	291,876	512,537	33,077
	₩ (4,425,675)	₩ 4,643,231	₩ 217,556	₩ (31,458)

20. Related party transactions

The subsidiaries and equity method investees of the Bank as of December 31, 2009 are as follows:

	Related companies
Domestic companies	Korea Infrastructure Fund, Daewoo Shipbuilding & Marine Engineering Co., Ltd., Korea Marine Fund Co., KDB Value Private Equity Fund I, KDB Value Private Equity Fund II, KDB Value Private Equity Fund III, KDB Venture M&A Private Equity Fund, KDB Turnaround Private Equity Fund
Overseas companies	KDB Asia Ltd., KDB Ireland Ltd., KDB Bank (Hungary) Ltd., Banco KDB Do Brasil S.A, UzKDB Bank

Korea Development Bank
Notes to Non-Consolidated Financial Statements—(Continued)
December 31, 2009 and 2008

The significant transactions which occurred in the normal course of business with related companies for the years ended December 31, 2009 and 2008, and the related account balances as of December 31, 2009 and 2008, are as follows (Korean won in millions):

<u>Classification</u>	<u>Income</u>		<u>Expense</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Subsidiaries	₩ 39,051	₩ 113,334	₩ 8,753	₩ 56,910
Equity method investees	11,452	297,494	2,480	19,796
	<u>₩ 50,503</u>	<u>₩ 410,828</u>	<u>₩ 11,233</u>	<u>₩ 76,706</u>

<u>Classification</u>	<u>Assets</u>		<u>Liabilities</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Subsidiaries	₩4,074,468	₩ 6,772,279	₩225,671	₩680,086
Equity method investees	529,845	5,590,926	94,816	164,053
	<u>₩4,604,313</u>	<u>₩12,363,205</u>	<u>₩320,487</u>	<u>₩844,139</u>

Guarantee and collateral provided among the Bank and its related parties as of December 31, 2009 and 2008 are summarized as follows (Korean won in millions):

<u>Benefactor</u>	<u>Related parties</u> <u>Beneficiary</u>	<u>Guarantee</u> <u>and collateral</u>	<u>2009</u>	<u>2008</u>
KDB	Daewoo Shipbuilding & Marine Engineering Co., Ltd .	Guarantee for F/X	₩2,690,143	₩5,077,378
KDB	KDB Asia Ltd.....	Guarantee for F/X	58,380	—
KDB	Korea Aerospace Industries, Ltd.	Guarantee for F/X	—	236,683
			<u>₩2,748,523</u>	<u>₩5,314,061</u>

21. Comprehensive income (loss)

Comprehensive income (loss) for the years ended December 31, 2009 and 2008 are as follows (Korean won in millions):

	<u>2009</u>	<u>2008</u>
Net income	₩ 761,112	₩ 350,329
Other comprehensive income:		
Gain (loss) on valuation of available-for-sale securities, net (Income taxes effect: ₩102,513 million at December 31, 2009 and ₩1,196,411 million at December 31, 2008)	1,366,850	(3,110,858)
Changes in gain on valuation of securities using the equity method (Income taxes effect: ₩48,590 million at December 31, 2009 and ₩16,640 million at December 31, 2008)	216,981	(27,446)
Changes in loss on valuation of securities using the equity method (Income taxes effect: ₩30,791 million at December 31, 2009 and ₩22,581 million at December 31, 2008)	334,419	(314,457)
Comprehensive income (loss)	<u>₩2,679,362</u>	<u>₩(3,102,432)</u>

Korea Development Bank
Notes to Non-Consolidated Financial Statements—(Continued)
December 31, 2009 and 2008

22. Information of trust business

The operations of the trust accounts for the years ended December 31, 2009 and 2008 are as follows (Korean won in millions):

	2009	2008
Operating revenue of trust operations:		
Fees on trust accounts	₩15,176	₩13,356
Early termination fees	4	1
	₩15,180	₩13,357
Operating expenses of trust operations:		
Interest due to trust accounts	₩12,386	₩20,791

As of December 31, 2009 and 2008, the Bank is not required to bear the difference between book value and fair value of principal or dividend guaranteed trust accounts as the difference will be appropriated using a special reserve trust account.

23. Cash flow information

Significant non-cash transactions for the years ended December 31, 2009 and 2008 are as follows (Korean won in millions):

	2009	2008
Debt-to-equity swap	—	13,043
Paid in-capital investment in-kind	—	500,000
Spin-off	24,903,301	—

24. Operating result of the final interim period (unaudited)

Summary of operating results for the three months ended December 31, 2009 and 2008 are as follows (Korean won in millions except for per share amounts):

	Three months ended December 31,	
	2009	2008
Operating revenue	₩4,902,097	₩17,089,078
Operating expenses	5,114,027	16,537,010
Operating income (loss)	(211,930)	552,068
Net loss	(146,029)	(49,434)

25. Preparation plan for adoption of Korea International Financial Reporting Standards and implementation status

The Bank will adopt the Korea International Financial Reporting Standards (“K-IFRS”) for the first time for the financial period beginning January 1, 2011. As part of the Bank’s K-IFRS implementation plan, the Bank appointed an external advisor to identify and report on the differences between the current accounting standards and K-IFRS related to the Bank. The Bank also formed a task force team in March 2008.

Korea Development Bank
Notes to Non-Consolidated Financial Statements—(Continued)
December 31, 2009 and 2008

Following the completion of identification of accounting policy differences described above, the Bank conducted the detail analysis of its financial reporting system requirement and accounting policy changes impacted by the adoption of K-IFRS until August 2008. Based on results of the above analysis, the Bank has mapped out changes that are required for its financial reporting system capable of capturing and producing IFRS financial data, and modifications to the Bank's work processes relating to the system changes have been made. The Bank has completed the system and work processes changes in the end of 2009.

The task force team regularly reports the preparation plans and implementation progress to the Bank's management and training programs are also regularly provided to the Bank's employees to develop K-IFRS trained-resources within the Bank.

Starting from 2010, the K-IFRS financial statements will be reported the opening K-IFRS financial statements at the date of transition and any issues or unforeseen implementation errors following the implementation of K-IFRS will be continuously improved and remedied, and the related internal control processes are to be reassessed for a smooth transition to K-IFRS.

Major differences are expected to give rise to a significant impact on the Bank's financial statements based on the K-IFRSs that are effective as of December 31, 2009, are consolidation scope, allowance for possible loan losses, revenue recognition, financial instruments measurement and derecognition, employee benefits and others.

26. Approval of financial statements

The 2009 financial statements were approved by the Board of Directors on March 12, 2010.

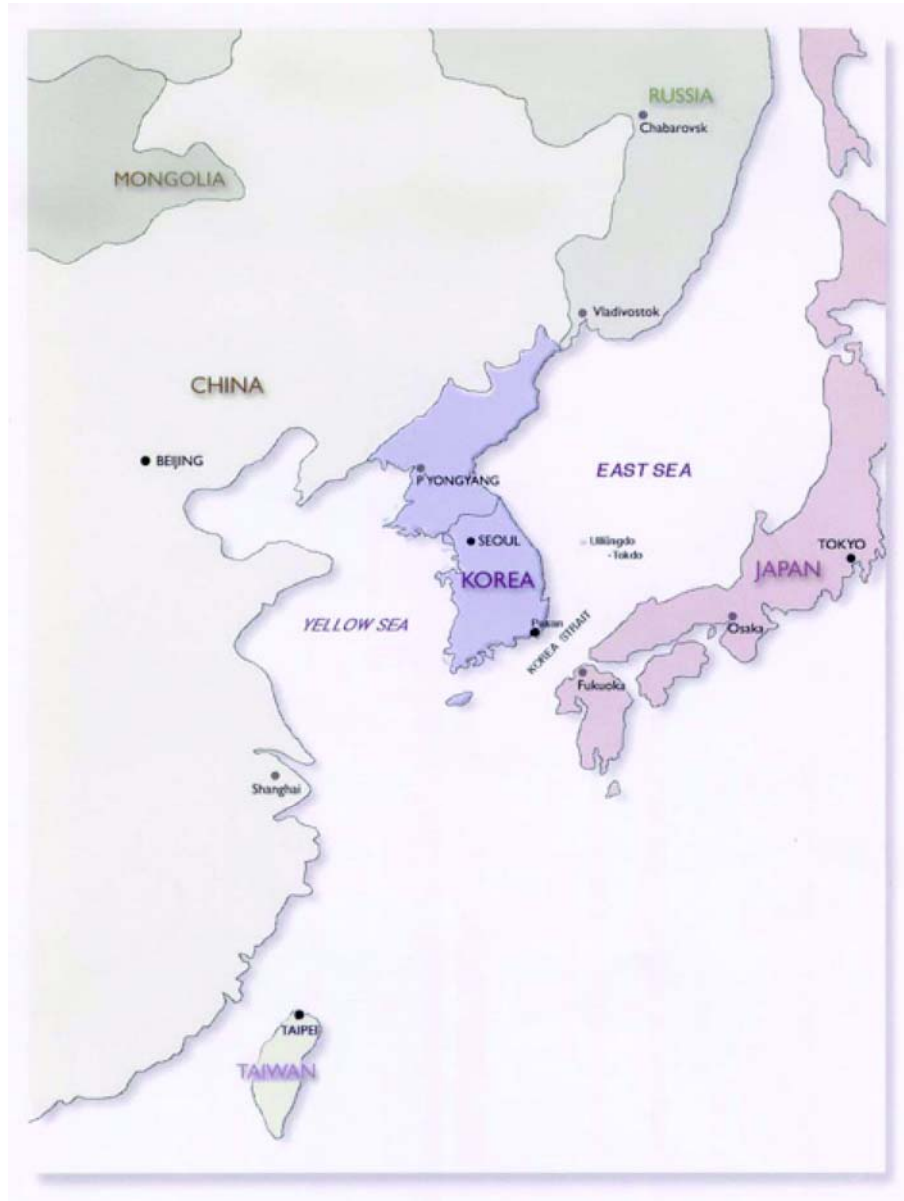
THE REPUBLIC OF KOREA

Land and History

Territory and Population

Located generally south of the 38th parallel on the Korean peninsula, The Republic of Korea covers about 38,000 square miles, approximately one-fourth of which is arable. The Republic has a population of approximately 48 million people. The country's largest city and capital, Seoul, has a population of about 11 million people.

Map of the Republic of Korea



Political History

Dr. Rhee Seungman, who was elected President in each of 1948, 1952, 1956 and 1960, dominated the years after the Republic's founding in 1948. Shortly after President Rhee's resignation in 1960 in response to student-led demonstrations, a group of military leaders headed by Park Chung Hee assumed power by coup. The military leaders established a civilian government, and the country elected Mr. Park as President in October 1963. President Park served as President until his assassination in 1979 following a period of increasing strife between the Government and its critics. The Government declared martial law and formed an interim government under Prime Minister Choi Kyu Hah, who became the next President. After clashes between the Government and its critics, President Choi resigned, and General Chun Doo Hwan, who took control of the Korean army, became President in 1980.

In late 1980, the country approved, by national referendum, a new Constitution, providing for indirect election of the President by an electoral college and for certain democratic reforms, and shortly thereafter, in early 1981, re-elected President Chun.

Responding to public demonstrations in 1987, the legislature revised the Constitution to provide for direct election of the President. In December 1987, Roh Tae Woo won the Presidency by a narrow plurality, after opposition parties led by Kim Young Sam and Kim Dae Jung failed to unite behind a single candidate. In February 1990, two opposition political parties, including the one led by Kim Young Sam, merged into President Roh's ruling Democratic Liberal Party.

In December 1992, the country elected Kim Young Sam as President. The election of a civilian and former opposition party leader considerably lessened the controversy concerning the legitimacy of the political regime. President Kim's administration reformed the political sector and deregulated and internationalized the Korean economy.

In December 1997, the country elected Kim Dae Jung as President. President Kim's party, the Millennium Democratic Party (formerly known as the National Congress for New Politics), formed a coalition with the United Liberal Democrats led by Kim Jong Pil, with Kim Jong Pil becoming the first prime minister in President Kim's administration. The coalition, which temporarily ended before the election held in April 2000, continued with the appointment of Lee Han Dong of the United Liberal Democrats as the Prime Minister in June 2000. The coalition again ended in September 2001.

In December 2002, the country elected Roh Moo Hyun as President. President Roh and his supporters left the Millennium Democratic Party in 2003 and formed a new party, the Uri Party, in November 2003. On August 15, 2007, 85 members of the National Assembly, previously belonging to the Uri Party, or the Democratic Party, formed the United New Democratic Party (the "UNDP"). The Uri Party merged into the UNDP in August 20, 2007.

In December 2007, the country elected Lee Myung-Bak as President. He commenced his term on February 25, 2008. The Lee administration's key policy priorities include:

- pursuing a lively market economy through deregulation, free trade and the attraction of foreign investment;
- establishing an efficient government by reorganizing government functions and privatizing state-owned enterprises;
- taking initiatives on the denuclearization of North Korea;
- seeking a productive welfare system based on customized welfare benefits and job training; and
- strengthening the competitiveness of Korea's education system.

Government and Politics

Government and Administrative Structure

Governmental authority in the Republic is centralized and concentrated in a strong Presidency. The President is elected by popular vote and can only serve one term of five years. The President chairs the State Council, which consists of the prime minister, the deputy prime ministers, the respective heads of Government ministries and the ministers of state. The President can select the members of the State Council and appoint or remove all other Government officials, except for elected local officials.

The President can veto new legislation and take emergency measures in cases of natural disaster, serious fiscal or economic crisis, state of war or other similar circumstances. The President must promptly seek the concurrence of the National Assembly for any emergency measures taken and failing to do so automatically invalidates the emergency measures. In the case of martial law, the President may declare martial law without the consent of the National Assembly; provided, however, that the National Assembly may request the President to rescind such martial law.

The National Assembly exercises the country's legislative power. The Constitution and the Election for Public Offices Act provide for the direct election of about 82% of the members of the National Assembly and the distribution of the remaining seats proportionately among parties winning more than 5 seats in the direct election or receiving over 3% of the popular vote. National Assembly members serve four-year terms. The National Assembly enacts laws, ratifies treaties and approves the national budget. The executive branch drafts most legislation and submits it to the National Assembly for approval.

The country's judicial branch comprises the Supreme Court, the Constitutional Court and lower courts of various levels. The President appoints the Chief Justice of the Supreme Court and appoints the other Justices of the Supreme Court upon the recommendation of the Chief Justice. All appointments to the Supreme Court require the consent of the National Assembly. The Chief Justice, with the consent of the conference of Supreme Court Justices, appoints all the other judges in Korea. Supreme Court Justices serve for six years and all other judges serve for ten years. Other than the Chief Justice, justices and judges may be reappointed to successive terms.

The President formally appoints all nine judges of the Constitutional Court, but three judges must be designated by the National Assembly and three by the Chief Justice of the Supreme Court. Constitutional Court judges serve for six years and may be reappointed to successive terms.

Administratively, the Republic comprises nine provinces and seven cities with provincial status: Seoul, Busan, Daegu, Incheon, Gwangju, Daejeon and Ulsan. From 1961 to 1995, the national government controlled the provinces and the President appointed provincial officials. Local autonomy, including the election of provincial officials, was reintroduced in June 1995.

Political Organizations

Currently, there are two major political parties, the Grand National Party, or GNP, and the United New Democratic Party, or UNDP. The 18th legislative general election was held on April 9, 2008 and the term of the National Assembly members elected in the 18th legislative general election commenced on May 30, 2008.

As of July 22, 2010, the parties control the following number of seats in the National Assembly:

	<u>GNP</u>	<u>UNDP</u>	<u>Others</u>	<u>Total</u>
Number of Seats	168	84	39	291

Relations with North Korea

Relations between the Republic and North Korea have been tense over most of the Republic's history. The Korean War, which took place between 1950 and 1953 began with the invasion of the Republic by communist forces from North Korea and, following a military stalemate, an armistice was reached establishing a demilitarized zone monitored by the United Nations in the vicinity of the 38th parallel.

North Korea maintains a regular military force estimated at more than 1,000,000 troops, mostly concentrated near the northern border of the demilitarized zone. The Republic's military forces, composed of approximately 650,000 regular troops and almost 3.0 million reserves, maintain a state of military preparedness along the southern border of the demilitarized zone. In addition, the United States has historically maintained its military presence in the Republic. In October 2004, the United States and the Republic agreed to a three-phase withdrawal of approximately one-third of the 37,500 troops stationed in the Republic by the end of 2008. By the end of 2004, 5,000 U.S. troops departed the Republic in the first phase of such withdrawal and in the plan's second phase, the United States removed 5,000 troops by the end of 2006. In the final phase, another 2,500 U.S. troops were scheduled to depart by the end of 2008. In April 2008, however, the United States and the Republic decided not to proceed with the final phase of withdrawal and agreed to maintain 28,500 U.S. troops in the Republic. In February 2007, the United States and the Republic agreed to dissolve their joint command structure by 2012, which would allow the Republic to assume the command of its own armed forces in the event of war on the Korean peninsula.

The level of tension between the two Koreas has fluctuated and may increase abruptly as a result of current and future events. In recent years, there have been heightened security concerns stemming from North Korea's nuclear weapons and long-range missile programs and increased uncertainty regarding North Korea's actions and possible responses from the international community. In December 2002, North Korea removed the seals and surveillance equipment from its Yongbyon nuclear power plant and evicted inspectors from the United Nations International Atomic Energy Agency. In January 2003, North Korea renounced its obligations under the Nuclear Non-Proliferation Treaty. Since the renouncement, the Republic, the United States, North Korea, China, Japan and Russia have held numerous rounds of six party multi-lateral talks in an effort to resolve issues relating to North Korea's nuclear weapons program.

In addition to conducting test flights of long-range missiles, North Korea announced in October 2006 that it had successfully conducted a nuclear test, which increased tensions in the region and elicited strong objections worldwide. In response, the United Nations Security Council passed a resolution that prohibits any United Nations member state from conducting transactions with North Korea in connection with any large scale arms and material or technology related to missile development or weapons of mass destruction and from providing luxury goods to North Korea, imposes an asset freeze and travel ban on persons associated with North Korea's weapons program, and calls upon all United Nations member states to take cooperative action, including thorough inspection of cargo to or from North Korea. In response, North Korea agreed in February 2007 at the six-party talks to shut down and seal the Yongbyon nuclear facility, including the reprocessing facility, and readmit international inspectors to conduct all necessary monitoring and verifications.

In April 2009, North Korea launched a long-range rocket over the Pacific Ocean. The Republic, Japan and the United States responded that the launch poses a threat to neighboring nations and that it was in violation of the United Nations Security Council resolution adopted in 2006 against nuclear tests by North Korea, and the United Nations Security Council unanimously passed a resolution that condemned North Korea for the launch and decided to tighten sanctions against North Korea. Subsequently, North Korea announced that it would permanently pull out of the six-party talks and restart its nuclear program, and the International Atomic Energy Agency reported that its inspectors had been ordered to remove surveillance devices and other equipment at the Yongbyon nuclear power plant and to leave North Korea. In May 2009, North Korea announced that it had successfully conducted a second nuclear test and test-fired three short-range, surface-to-air missiles. In response, the United Nations Security Council unanimously passed a resolution that condemned North Korea for the

nuclear test and decided to expand and tighten sanctions against North Korea. In March 2010, a Korean warship was destroyed by an underwater explosion, killing many of the crewmen on board. In May 2010, the Government formally accused North Korea of causing the sinking and demanded that North Korea apologize for the act and punish those responsible. The Government has also been seeking international condemnation against North Korea for the act. North Korea has threatened retaliation for any attempt to punish it over the incident.

There recently has been increased uncertainty about the future of North Korea's political leadership and its implications for the economic and political stability of the region. In June 2009, U.S. and Korean officials announced that Kim Jong-il, the North Korean ruler who reportedly suffered a stroke in August 2008, designated his third son, who is reportedly in his twenties, to become his successor. The succession plan, however, remains uncertain. In addition, North Korea's economy faces severe challenges. For example, in November 2009, the North Korean government redenominated its currency at a ratio of 100 to 1 as part of its first currency reform in 17 years in an attempt to control inflation and reduce income gaps. In tandem with the currency redenomination, the North Korean government banned the use or possession of foreign currency by its residents and closed down privately run markets, which led to severe inflation and food shortages. Such developments may further aggravate social and political tensions within North Korea.

There can be no assurance that the level of tension on the Korean peninsula will not escalate in the future or that such escalation will not have a material adverse impact on the Republic's economy or its ability to obtain future funding. Any further increase in tension, which may occur, for example, if North Korea experiences a leadership crisis, high-level contacts between the Republic and North Korea break down or military hostilities occur, could have a material adverse effect on the Republic's economy.

Over the longer term, reunification of the two Koreas could occur. Reunification may entail a significant economic commitment by the Republic. In President Lee's national address on August 15, 2010, he suggested the possible adoption of a reunification tax as a potential means of alleviating the potential long-term economic burden associated with reunification. Such discussions on reunification are very preliminary, and it has not been decided whether or when such a reunification tax would be implemented. If a reunification tax is implemented, depending on how it is structured, it may lead to a decrease in domestic consumption, which in turn may have a material adverse effect on the Republic's economy.

Foreign Relations and International Organizations

The Republic maintains diplomatic relations with most nations of the world, most importantly with the United States with which it entered into a mutual defense treaty and several economic agreements. The Republic also has important relationships with Japan and China, its largest trading partners together with the United States.

The Republic belongs to a number of supranational organizations, including:

- the International Monetary Fund, or the IMF;
- the World Bank;
- the Asian Development Bank, or ADB;
- the Multilateral Investment Guarantee Agency;
- the International Finance Corporation;
- the International Development Association;
- the African Development Bank;
- the European Bank for Reconstruction and Development;
- the Bank for International Settlements;

- the World Trade Organization, or WTO; and
- the Inter-American Development Bank, or IDB.

In September 1991, the Republic and North Korea became members of the United Nations. During the 1996 and 1997 sessions, the Republic served as a non-permanent member of the United Nations Security Council.

In March 1995, the Republic applied for admission to the Organization for Economic Cooperation and Development, or the OECD, which the Republic officially joined as the twenty-ninth regular member in December 1996.

The Economy

Current Worldwide Economic and Financial Difficulties

Recent difficulties affecting the U.S. and global financial sectors, adverse conditions and volatility in the U.S. and worldwide credit and financial markets, fluctuations in oil and commodity prices and the general weakness of the U.S. and global economy during the second half of 2008 and first half of 2009 increased the uncertainty of global economic prospects in general and adversely affected, and may continue to adversely affect, the Korean economy. During the second and third quarter of 2007, credit markets in the United States started to experience difficult conditions and volatility that in turn have affected worldwide financial markets. In particular, in late July and early August 2007, market uncertainty in the U.S. sub-prime mortgage sector increased dramatically and further expanded to other markets such as those for leveraged finance, collateralized debt obligations and other structured products. In September and October 2008, liquidity and credit concerns and volatility in the global credit and financial markets increased significantly with the bankruptcy or acquisition of, and government assistance to, several major U.S. and European financial institutions. These developments resulted in reduced liquidity, greater volatility, widening of credit spreads and a lack of price transparency in the United States and global credit and financial markets.

As liquidity and credit concerns and volatility in the global financial markets increased significantly since September 2008, the value of the Won relative to the U.S. dollar depreciated at an accelerated rate during the fourth quarter of 2008 and first half of 2009. See “Monetary Policy—Foreign Exchange.” Such depreciation of the Won increased the cost of imported goods and services and the Won revenue needed by Korean companies to service foreign currency-denominated debt. Furthermore, as a result of adverse global and Korean economic conditions, there was a significant overall decline and continuing volatility in the stock prices of Korean companies. The Korea Composite Stock Price Index declined by 27.8% from 1,852.0 on May 30, 2008 to 1,336.7 on April 16, 2009. See “The Financial System—Securities Markets.” Further declines in the Korea Composite Stock Price Index and large amounts of sales of Korean securities by foreign investors and subsequent repatriation of the proceeds of such sales may continue to adversely affect the value of the Won, the foreign currency reserves held by financial institutions in Korea, and the ability of Korean companies to raise capital. In addition, increases in credit spreads, as well as limitations on the availability of credit resulting from heightened concerns about the stability of the markets generally and the strength of counterparties specifically that led many lenders and institutional investors to reduce or cease funding to borrowers, adversely affected Korean banks’ ability to borrow, particularly with respect to foreign currency funding, during the fourth quarter of 2008 and first half of 2009. Moreover, GDP in the first quarter of 2009 contracted by 4.3% at chained 2005 year prices compared with the same period in 2008, and exports in the first quarter of 2009 decreased by 24.8% to US\$74.7 billion from US\$99.4 billion in the same period in 2008. In the event that such difficult conditions in the global credit markets continue or the global economy deteriorates in the future, the Korean economy could be adversely affected and Korean banks, including us, may be forced to fund their operations at a higher cost or may be unable to raise as much funding as they need to support their lending and other activities.

In response to these developments, legislators and financial regulators in the United States and other jurisdictions, including Korea, implemented a number of policy measures designed to add stability to the

financial markets, including the provision of direct and indirect assistance to distressed financial institutions. In particular, the Government has implemented or announced, among other things, the following measures during the fourth quarter of 2008 and in 2009:

- in October 2008, the Government implemented a guarantee program to guarantee foreign currency- denominated debt incurred by Korean banks and their overseas branches between October 20, 2008 and June 30, 2009 (subsequently extended to December 31, 2009), up to an aggregate amount of US\$100 billion, for a period of three years (subsequently extended to five years) from the date such debt was incurred;
- in October 2008, The Bank of Korea established a temporary reciprocal currency swap arrangement with the Federal Reserve Board of the United States for up to US\$30 billion, effective until April 30, 2009 (subsequently extended to October 30, 2009). The Bank of Korea provided U.S. dollar liquidity, through competitive auction facilities, to financial institutions established in Korea, using funds from the swap line;
- in December 2008, a ₩10 trillion bond market stabilization fund was established to purchase financial and corporate bonds and debentures in order to provide liquidity to companies and financial institutions;
- in December 2008, The Bank of Korea agreed with the People's Bank of China to establish a bilateral currency swap arrangement for up to ₩38 trillion, effective for three years, and agreed with the Bank of Japan to increase the maximum amount of their bilateral swap arrangement from US\$3 billion to US\$20 billion, effective until April 30, 2009;
- in December 2008 and March 2009, the Government, through Korea Asset Management Corporation, purchased non-performing loans held by savings banks in the amount of approximately ₩1.7 trillion;
- in February 2009, the Government announced its plan to contribute capital to Korean banks through a ₩20 trillion bank recapitalization fund and received applications from 14 banks;
- during the first quarter of 2009, the Government, through the Bank of Korea and the Korea Development Bank, purchased from Korean banks hybrid securities and subordinated bonds in the amount of approximately ₩4 trillion;
- during the fourth quarter of 2008 and the first quarter of 2009, The Bank of Korea decreased the policy rate by a total of 3.25% points to 2.00% in order to address financial market instability and to help combat the slowdown of the domestic economy;
- in April 2009, the National Assembly authorized the expansion of the 2009 national budget by ₩28.4 trillion to provide stimulus for the Korean economy. The stimulus plan includes ₩17.2 trillion to be used for cash handouts, low-interest loans, infrastructure spending and job training, as well as ₩11.2 trillion in various tax incentives; and
- in December 2009, the Government, together with the member countries of the Association of Southeast Asian Nations, China and Japan, signed the Chiang Mai Initiative Multilateralization Agreement to address balance-of-payments and short-term liquidity difficulties in the region and to supplement the existing international financial arrangements.

However, the overall impact of these legislative and regulatory efforts on the financial markets is uncertain, and they may not have the intended stabilizing effects.

While the rate of deterioration of the global economy slowed in the second half of 2009 and into 2010, with some signs of stabilization and possible improvement, the overall prospects for the Korean and global economy in 2010 and beyond remain uncertain. For example, in November 2009, the Dubai government announced a moratorium on the outstanding debt of Dubai World, a government-affiliated investment company.

In addition, many governments in Europe are showing increasing signs of fiscal stress and may experience difficulties in meeting their debt service requirements. For example, in November 2008, the Icelandic government, facing mounting debt problems, reached an agreement with the IMF to receive loans in the amount of US\$2.1 billion over a two-year period. In addition, in May 2010, the Greek government reached an agreement with the IMF and the European Union to receive loans in the amount of Euro 115 billion over a three-year period. Any of these or other developments could potentially trigger another financial and economic crisis, which could have a material adverse effect on the Korean economy and financial markets (including depreciation of the value of the Won, decline and volatility in the stock prices of Korean companies, increases in credit spreads and funding costs and decreases in exports) and our financial conditions and results of operations.

Furthermore, while many governments worldwide are considering or are in the process of implementing “exit strategies”, in the form of reduced government spending, higher interest rates or otherwise, with respect to the economic stimulus measures adopted in response to the global financial crisis, such strategies may, for reasons related to timing, magnitude or other factors, have the unintended consequence of prolonging or worsening global economic and financial difficulties. In light of the high level of interdependence of the global economy, any of the foregoing developments could have a material adverse effect on the Korean economy and financial markets.

Gross Domestic Product

Gross domestic product, or GDP, measures the market value of all final goods and services produced within a country for a given period and reveals whether a country’s productive output rises or falls over time. Economists present GDP in both current market prices and “real” or “inflation-adjusted” terms. In March 2009, the Republic adopted a method known as the “chain-linked” measure of GDP, replacing the previous fixed-base, or “constant” measure of GDP, to show the real growth of the aggregate economic activity, as recommended by the System of National Accounts 1993. GDP at current market prices values a country’s output using the actual prices of each year, whereas the “chain-linked” measure of GDP is compiled by using “chained indices” linking volume growth between consecutive time periods.

The following table sets out the composition of the Republic's GDP at current and chained 2005 year prices and the annual average increase in the Republic's GDP.

	Gross Domestic Product					As % of GDP
	2005	2006	2007	2008	2009 ⁽¹⁾	2009 ^(c)
	(billions of Won)					
Gross Domestic Product at Current Market Prices:						
Private	465,430.5	494,917.6	530,264.1	561,627.5	577,404.7	54.3
Government	120,010.1	131,900.7	143,262.2	156,944.1	170,255.6	16.0
Gross Capital Formation	256,865.9	269,187.8	286,917.6	320,368.8	275,542.3	25.9
Exports of Goods and Services	339,756.8	360,625.3	408,754.1	544,110.7	530,470.6	49.9
Less Imports of Goods and Services	(316,377.6)	(348,022.9)	(394,026.2)	(556,197.9)	(488,825.4)	(46.0)
Statistical Discrepancy	(444.8)	135.3	(158.9)	(401.4)	(1,788.8)	(0.2)
Expenditures on Gross Domestic Product	865,240.9	908,743.8	975,013.0	1,026,451.8	1,063,059.1	100.0
Net Factor Income from the Rest of the World	(813.7)	1,390.3	1,800.9	7,663.6	5,595.0	(0.0)
Gross National Income ⁽²⁾	864,427.3	910,134.2	976,813.9	1,034,115.4	1,068,654.1	100.0
Gross Domestic Product at Chained 2005 Year Prices:						
Private	465,430.5	487,439.0	512,094.8	518,820.8	520,062.6	53.0
Government	120,010.1	127,908.9	134,806.9	140,633.6	147,605.6	15.1
Gross Capital Formation	256,865.9	268,215.8	277,729.0	277,772.8	236,000.5	24.1
Exports of Goods and Services	339,756.8	378,374.7	426,070.6	454,248.9	450,462.1	45.9
Less Imports of Goods and Services	(316,377.6)	(352,087.7)	(393,207.1)	(410,567.7)	(376,932.3)	(38.4)
Statistical Discrepancy	(444.8)	198.3	91.3	(323.6)	(293.8)	0.0
Expenditures on Gross Domestic Product ⁽³⁾	865,240.9	910,048.9	956,514.5	978,498.8	980,413.1	100.0
Net Factor Income from the Rest of the World in the Terms of Trade	(813.7)	1,341.6	1,622.9	6,776.2	4,811.4	0.5
Trading Gains and Losses from Changes in the Terms of Trade	0.0	(13,196.4)	(16,827.8)	(50,031.9)	(36,302.7)	(3.7)
Gross National Income ⁽⁴⁾	864,427.3	898,194.2	941,317.3	935,248.8	948,890.2	96.8
Percentage Increase (Decrease) of GDP over Previous Year At						
Current Prices	4.6	5.0	7.3	5.3	3.6	—
At Chained 2005 Year Prices	4.0	5.2	5.1	2.3	0.2	—

(1) Preliminary.

(2) GDP plus net factor income from the rest of the world is equal to the Republic's gross national product.

(3) Under the "chain-linked" measure of GDP, the components of GDP will not necessarily add to the total GDP.

(4) Under the "chain-linked" measure of Gross National Income, the components of Gross National Income will not necessarily add to the total Gross National Income.

Source: The Bank of Korea.

The following table sets out the Republic's GDP by economic sector at current prices:

Gross Domestic Product by Economic Sector (at current market prices)						
	2005	2006	2007	2008	2009 ⁽¹⁾	As % of GDP 2009 ⁽¹⁾
<hr/> (billions of Won) <hr/>						
Industrial Sectors:						
Agriculture, Forestry and						
Fisheries	25,853.0	25,751.2	25,208.8	24,686.0	24,928.8	2.3
Mining and Manufacturing	215,639.1	222,865.9	240,612.1	258,545.4	267,953.3	25.2
Mining and Quarrying	1,992.9	1,925.8	2,001.2	2,336.0	2,170.3	0.2
Manufacturing	213,646.2	220,940.1	238,610.9	256,209.4	265,783.0	25.0
Electricity, Gas and Water.....	17,611.5	18,546.9	19,155.3	12,298.6	17,412.8	1.6
Construction	59,284.5	61,359.3	64,979.0	64,612.2	66,472.3	6.3
Services:	457,510.7	486,162.9	524,826.9	559,545.8	581,464.1	54.7
Wholesale and Retail Trade,						
Restaurants and Hotels	82,469.7	87,320.8	93,405.5	100,419.3	105,343.0	9.9
Transportation, Storage and						
Communication	35,292.2	36,424.2	40,070.5	41,613.1	42,145.4	3.7
Financial Intermediation	53,394.8	55,234.7	61,114.0	65,132.2	66,283.3	6.2
Real Estate, Renting and						
Business Activities	63,215.4	65,534.7	69,435.7	71,886.2	74,344.6	7.0
Information,						
Communication	36,255.7	37,969.9	39,198.1	39,666.8	40,195.2	3.8
Business Activities	37,892.5	41,292.3	45,056.0	49,905.7	49,699.6	4.7
Public Administration and						
Defense; Compulsory Social						
Security	48,200.9	52,262.6	55,515.9	59,396.8	64,430.5	6.1
Education	46,502.1	51,036.7	55,554.4	60,940.1	63,430.9	6.0
Health and Social Work.....	28,558.2	31,617.7	35,451.6	38,452.1	43,080.3	4.1
Recreational, Cultural and						
Sporting	10,110.7	10,859.2	12,209.1	13,048.9	13,139.3	1.2
Other Service Activities	15,609.5	16,610.1	17,816.1	19,084.6	19,372.0	1.8
Taxes less subsidies on products	89,351.3	94,057.8	100,231.0	106,763.8	104,827.7	9.9
Gross Domestic Product at Current						
Prices	865,240.9	908,743.8	975,013.0	1,026,451.8	1,063,059.1	100.0
Net Factor Income from the Rest of						
the World	(813.7)	1,390.3	1,800.9	7,663.6	5,595.0	0.5
Gross National Income at Current						
Price	864,427.3	910,134.2	976,813.9	1,034,115.4	1,068,654.1	100.5

(1) Preliminary.

Source: The Bank of Korea.

The following table sets out the Republic's GDP per capita:

GDP per capita	Gross Domestic Product per capita (at current market prices)				
	<u>2005</u>	2006	2007	2008	2009 ⁽¹⁾
(thousands of Won)	17,970	18,820	20,120	21,120	21,810
GDP per capita (U.S. dollar)	17,548	19,692	21,655	19,153	17,085
Average Exchange Rate (in Won per U.S. dollar)	1,024.3	955.5	929.2	1,102.6	1,276.4

(1) Preliminary.

Source: The Bank of Korea.

The following table sets out the Republic's Gross National Income, or GNI, per capita:

GNI per capita	Gross National Income per capita (at current market prices)				
	<u>2005</u>	2006	2007	2008	2009 ⁽¹⁾
(thousands of Won)	17,960	18,840	20,160	21,280	21,920
GNI per capita (U.S. dollar)	17,531	19,772	21,695	19,296	17,175
Average Exchange Rate (in Won per U.S. dollar)	1,024.3	955.5	929.2	1,102.6	1,276.4

(1) Preliminary.

Source: The Bank of Korea.

The following table sets out the Republic's GDP by economic sector at chained 2005 year prices:

Gross Domestic Product by Economic Sector (at chained 2005 year prices)						
	2005	2006	2007	2008	2009 ⁽¹⁾	As % of GDP 2009 ⁽²⁾
	(billions of Won)					
Industrial Sectors:						
Agriculture, Forestry and Fisheries	25,853.0	26,240.2	27,294.0	28,826.9	29,297.9	3.0
Mining and Manufacturing	215,639.1	232,884.5	249,317.9	254,658.8	252,223.0	25.7
Mining and Quarrying	1,992.9	1,991.9	1,909.8	1,922.1	1,894.3	0.2
Manufacturing	213,646.2	230,892.6	247,408.1	254,466.7	250,328.7	25.5
Electricity, Gas and Water	17,611.5	18,332.9	19,026.2	20,199.0	21,182.0	2.2
Construction	59,284.5	60,564.4	62,134.9	60,611.1	61,749.6	6.3
Services:	457,501.7	477,658.0	502,050.0	515,983.6	520,895.6	53.1
Wholesale and Retail Trade,						
Restaurants and Hotels	82,469.7	85,792.6	90,291.3	91,512.4	90,979.0	9.3
Transportation and Storage	35,292.2	37,082.6	39,136.8	41,033.4	39,224.2	4.0
Financial Intermediation	53,394.8	55,611.7	61,614.4	64,612.2	67,137.2	6.8
Real Estate, Renting and Business	63,215.4	64,603.9	65,524.8	66,491.6	66,607.9	6.8
Activities						
Information and Communication	36,255.7	38,238.7	39,664.7	41,024.7	41,261.2	4.2
Business Activities	37,892.5	39,720.8	41,800.2	42,990.6	42,075.6	4.3
Public Administration and Defense:						
Compulsory Social Security	48,200.9	50,520.8	52,183.9	52,903.0	54,691.9	5.6
Education	46,502.1	48,532.9	49,971.2	51,619.6	52,209.5	5.3
Health and Social Work	28,558.2	30,389.3	32,905.8	34,197.6	37,215.4	3.8
Culture and Entertainment Services	10,110.7	10,744.2	11,781.1	12,175.8	12,050.6	1.2
Other Service Activities	15,609.5	16,420.5	17,175.8	17,422.7	17,443.1	1.8
Taxes less subsidies on products	89,351.3	94,368.8	96,992.4	97,090.1	95,806.8	9.8
Gross Domestic Product at Market						
Prices ⁽²⁾	865,240.9	910,048.9	956,514.5	978,498.8	980,413.1	100.0

(1) Preliminary.

(2) Under the "chain-linked" measure of GDP, the components of GDP will not necessarily add to the total GDP.

Source: The Bank of Korea.

GDP growth in 2005 was 4.0% at chained 2005 year prices, as aggregate private and general government consumption expenditures increased by 4.6% and gross domestic fixed capital formation increased by 1.9%, each compared with 2004.

GDP growth in 2006 was 5.2% at chained 2005 year prices, as aggregate private and general government consumption expenditures increased by 5.1 % and gross domestic fixed capital formation increased by 3.4%, each compared with 2005.

GDP growth in 2007 was 5.1 % at chained 2005 year prices, as aggregate private and general government consumption expenditures increased by 5.1 % and gross domestic fixed capital formation increased by 4.2%, each compared with 2006.

GDP growth in 2008 was 2.3% at chained 2005 year prices, as aggregate private and general government consumption expenditures increased by 2.0% and gross domestic fixed capital formation decreased by 1.9%, each compared with 2007.

Based on preliminary data, GDP growth in 2009 was 0.2% at chained 2005 year prices, as aggregate private and general government consumption expenditures increased by 1.3% but gross domestic fixed capital formation decreased by 0.2%, each compared with 2008.

Based on preliminary data, GDP growth in the first quarter of 2010 was 8.1% at chained 2005 year prices, as aggregate private and general government consumption expenditures increased by 5.7% and gross domestic fixed capital formation increased by 11.4%, each compared with the corresponding period of 2009. Based on preliminary data, GDP growth in the second quarter of 2010 was 7.2% at chained 2005 year prices, as aggregate private and general government consumption expenditures increased by 3.6% and gross domestic fixed capital formation increased by 6.1 %, each compared with the corresponding period of 2009.

Principal Sectors of the Economy

Industrial Sectors

The following table sets out production indices for the principal industrial products of the Republic and their relative contribution to total industrial production:

Industrial Production (2005 = 100)

	Index					
	Weight ⁽¹⁾	2005	2006	2007	2008	2009 ⁽²⁾
All Industries	10,000.0	100	108.4	115.9	119.4	119.0
Mining and Manufacturing	9,458.5	100	108.6	116.3	119.7	119.1
Mining	36.5	100	95.8	91.5	80.9	87.0
Petroleum, Crude Petroleum and Natural Gas	8.7	100	93.4	82.1	65.7	89.1
Metal Ores	0.5	100	113.2	171.0	154.8	122.2
Non-metallic Minerals	27.3	100	96.3	93.0	84.4	85.6
Manufacturing	9,422.0	100	108.7	116.4	119.9	119.2
Food Products	479.2	100	101.7	101.8	100.5	99.1
Beverage Products	159.0	100	99.4	101.7	104.7	99.7
Tobacco Products	55.1	100	111.9	116.2	120.8	120.3
Textiles	226.0	100	100.2	98.9	91.2	85.5
Wearing Apparel, Clothing Accessories and Fur Articles	174.6	100	109.6	116.3	117.2	112.5
Tanning and Dressing of Leather, Luggage and Footwear	47.9	100	102.5	100.5	95.7	86.0
Wood and Products of Wood and Cork (Except Furniture)	46.7	100	109.6	107.1	100.0	87.2
Pulp, Paper and Paper Products	145.0	100	102.1	104.8	103.3	100.2
Printing and Reproduction of Recorded Media	77.0	100	102.0	101.8	110.6	100.1
Coke, hard-coal and lignite fuel briquettes and Refined Petroleum Products	315.2	100	101.3	102.5	103.2	102.0
Chemicals and Chemical Products	772.2	100	102.5	109.6	110.4	116.3
Pharmaceuticals, Medicinal Chemicals and Botanical Products	187.1	100	111.2	120.6	130.3	134.7
Rubber and Plastic Products	434.2	100	106.8	113.0	109.2	100.5
Non-metallic Minerals	309.9	100	106.1	112.2	113.4	111.4
Basic Metals	753.2	100	103.7	108.4	109.1	100.3
Fabricated Metal Products	490.8	100	106.3	112.0	116.0	106.5
Electronic Components, Computer, Radio, Television and Communication Equipment and Apparatuses	1,970.4	100	122.3	138.9	152.0	163.5
Medical, Precision and Optical Instruments, Watches and Clocks	102.8	100	107.3	112.5	116.9	118.5
Electrical Equipment	449.5	100	100.3	104.8	111.5	114.4
Other Machinery and Equipment	737.5	100	109.5	120.4	119.8	107.3
Motor Vehicles, Trailers and Semitrailers	1,101.2	100	108.0	114.8	110.6	103.4
Other Transport Equipment	254.3	100	108.3	115.9	145.1	160.3
Furniture	79.0	100	101.4	100.6	96.6	91.7
Other Products	54.2	100	94.8	93.9	78.3	74.7
Electricity, Gas	541.5	100	104.1	108.8	114.6	116.4
Publishing activities	109.3	100	101.2	96.0	94.8	91.2
Total Index (including Publishing Activities)	10,109.3	100	108.3	115.7	119.2	118.7

- (1) Index weights were established on the basis of an industrial census in 2005 and reflect the average annual value added by production in each of the classifications shown, expressed as a percentage of total value added in the mining, manufacturing and electricity and gas industries in that year.

- (2) Preliminary

Source: The Bank of Korea; Korea National Statistical Office.

Industrial production increased by 6.3% in 2005, primarily due to strong exports and increased domestic consumption. Industrial production increased by 8.4% in 2006, primarily due to increased exports and domestic consumption. Industrial production increased by 6.9% in 2007, primarily due to solid export growth and domestic consumption. Industrial production growth was only 3.4% in 2008, primarily due to a slowdown in growth of exports and domestic consumption as a result of adverse global and Korean economic conditions beginning in the second half of 2008. Based on preliminary data, industrial production decreased by 0.8% in 2009.

Manufacturing

The manufacturing sector increased production by 6.3% in 2005, 8.7% in 2006, 7.1 % in 2007 and 3.4% in 2008. Based on preliminary data, in 2009, the manufacturing sector decreased production by 0.9%.

Light Industry. In 2005, light industry recorded a 2.6% decrease due to decreased production of textile, wood products, publishing and printing, furniture and non-metallic mineral products. In 2006, light industry recorded a 3.6% increase. In 2007, light industry recorded a 2.0% increase. In 2008, light industry recorded a decrease of 2.1 %.

Automobiles. In 2005, automobile production increased by 6.6%, domestic sales volume recorded an increase of 4.5% and export sales volume recorded an increase of 8.7%, compared with 2004. In 2005, export sales of automobiles constituted approximately 9.6% of the Republic's total exports. In 2006, automobile production increased by 3.8%, domestic sales volume recorded an increase of 1.9% and export sales volume recorded an increase of 2.4%, compared with 2005. In 2006, export sales of automobiles constituted approximately 9.4% of the Republic's total exports. In 2007, automobile production increased by 6.4%, domestic sales volume recorded an increase of 4.7% and export sales volume recorded an increase of 7.5%, compared with 2006. In 2007, export sales of automobiles constituted approximately 9.3% of the Republic's total exports. In 2008, automobile production decreased by 6.4%, domestic sales volume recorded a decrease of 5.3% and export sales volume recorded a decrease of 5.7%, compared with 2007, primarily due to a decrease in the domestic and global demand for automobiles as a result of adverse global and Korean economic conditions. In 2008, export sales of automobiles constituted approximately 7.4% of the Republic's total exports. Based on preliminary data, in 2009, automobile production decreased by 8.2%, domestic sales volume recorded an increase of 20.7% and export sales volume recorded a decrease of 19.9%, compared with 2008, primarily due to the continued decrease in global demand for automobiles. In 2009, export sales of automobiles constituted approximately 6.2% of the Republic's total exports. The automobile stimulus programs of a number of governments, including those in the United States and Europe, encouraged demand for automobiles in the relevant countries for the first nine months of 2009, the effect of which partially offset the decrease in global demand for Korean automobiles during the duration of such stimulus programs. In the fourth quarter of 2009, export sales of automobiles increased compared to previous quarters of 2009, primarily due to the recovery of global demand for automobiles, the effect of which more than offset the negative impact of termination of most of such governments' automobile stimulus programs in the second half of 2009.

Electronics. In 2005, electronics production increased by 17.6% and exports increased by 16.5%, each compared with 2004 primarily due to continued growth in exports of semiconductor memory chips and global information technology products. In 2005, export sales of semiconductor memory chips constituted approximately 10.5% of the Republic's total exports. In 2006, electronics production increased by 22.3% and exports increased by 18.6%, each compared with 2005. In 2006, export sales of semiconductor memory chips constituted approximately 11.5% of the Republic's total exports. In 2007, electronics production increased by 13.6% and exports increased by 13.7%, each compared with 2006. In 2007, export sales of semiconductor memory chips constituted approximately 10.5% of the Republic's total exports. In 2008, electronics production increased by 9.4% and exports increased by 8.9%, each compared with 2007. In 2008, export sales of semiconductor memory chips constituted approximately 7.8% of the Republic's total exports.

Iron and Steel. In 2005, crude steel production totaled 47.8 million tons, an increase of 0.6% from 2004. Domestic sales volume decreased by 2.7% but export sales volume increased by 7.8% due to continued strong

demand in China. In 2006, crude steel production totaled 48.5 million tons, an increase of 1.3% from 2005. Domestic sales volume decreased by 4.1% but export sales volume increased by 11.9%. In 2007, crude steel production totaled 51.5 million tons, an increase of 6.3% from 2006. Domestic sales volume increased by 7.0% and export sales volume increased by 5.2%. In 2008, crude steel production totaled 53.3 million tons, an increase of 3.8% from 2007. Domestic sales volume increased by 0.5% and export sales volume increased by 8.6%. Based on preliminary data, in 2009, crude steel production totaled 48.6 million tons, a decrease of 8.9% from 2008. Domestic sales volume and export sales volume decreased by 13.8% and 1.2%, respectively.

Shipbuilding. In 2005, the Republic's shipbuilding orders amounted to 12.2 million compensated gross tons, a decrease of 21.8% compared to 2004. In 2006, the Republic's shipbuilding orders amounted to 20.6 million compensated gross tons, an increase of 68.9% compared to 2005. In 2007, the Republic's shipbuilding orders amounted to 33.0 million compensated gross tons, an increase of 60.2% compared to 2006. In 2008, the Republic's shipbuilding orders amounted to 17.7 million compensated gross tons, a decrease of 46.4% compared to 2007. The shipbuilding industry is currently experiencing a downturn as a result of a decrease in ship orders due to adverse global economic conditions.

Agriculture, Forestry and Fisheries

The Government's agricultural policy has traditionally focused on:

- grain production;
- development of irrigation systems;
- land consolidation and reclamation;
- seed improvement;
- mechanization measures to combat drought and flood damage; and
- increasing agricultural incomes.

Recently, however, the Government has increased emphasis on cultivating profitable crops and strengthening international competitiveness in anticipation of opening the domestic agricultural market.

In 2005, rice production increased 6.7% from 2004 to 4.8 million tons. In 2006, rice production decreased 2.1 % from 2005 to 4.7 million tons. In 2007, rice production decreased 6.4% from 2006 to 4.4 million tons. In 2008, rice production increased 9.1% from 2007 to 4.8 million tons. Based on preliminary data, in 2009, rice production increased 2.1% from 2008 to 4.9 million tons. Due to limited crop yields resulting from geographical and physical constraints, the Republic depends on imports for certain basic foodstuffs. In 2004, 2005, 2006 and 2007, the Republic's self sufficiency ratio was 50.3%, 54.0%, 53.6% and 51.1 %, respectively.

The Government is seeking to develop the fishing industry by encouraging the building of large fishing vessels and modernizing fishing equipment, marketing techniques and distribution outlets.

In 2005, the agriculture, forestry and fisheries industry increased by 1.3% compared to 2004 primarily due to slightly increased production of rice, fruits and corns. In 2006, the agriculture, forestry and fisheries industry increased by 1.5% compared to 2005 primarily due to an increase in the cultivation and livestock industry. In 2007, the agriculture, forestry and fisheries industry increased by 4.0% compared to 2006 primarily due to an increase in fishing catch which offset a decrease in the production of rice. Based on preliminary data, in 2008, the agriculture, forestry and fisheries industry increased by 5.5% compared to 2007. Based on preliminary data, in 2009, the agriculture, forestry and fisheries industry increased by 1.6% compared to 2008.

Construction

In 2005, the construction industry decreased by 0.3% compared to 2004 primarily due to a slight decrease in residential and commercial construction. In 2006, the construction industry increased by 2.2% compared to 2005 primarily due to an increase in the construction of residential and commercial buildings. In 2007, the construction industry increased by 2.6% compared to 2006 primarily due to an increase in the construction of commercial buildings which offset a slight decrease in the construction of residential buildings. Based on preliminary data, in 2008, the construction industry decreased by 2.4% compared to 2007 primarily due to a significant decrease in the construction of commercial and residential buildings. Based on preliminary data, in 2009, the construction industry increased by 1.9% compared to 2008.

The construction industry is currently experiencing a significant downturn, due to excessive investment in recent years in residential property development projects, stagnation of real property prices and reduced demand for residential property, especially in areas outside of Seoul, as a result of deteriorating conditions in the Korean economy. The Government has recently taken measures to support the Korean construction industry, including a ₩5 trillion program to buy unsold housing units and land from construction companies. However, the effect of these measures is uncertain and the construction industry may continue to experience adverse conditions.

Electricity and Gas

The following table sets out the Republic's dependence on imports for energy consumption:

Dependence on Imports for Energy Consumption

	Total Energy Consumption	Imports	Imports Dependence Ratio
	(millions of tons equivalents, except ratios)		
2005	228.6	220.9	96.6
2006	233.4	225.2	96.5
2007	236.5	228.3	96.5
2008	240.8	232.2	96.4
2009	242.2	233.0	96.2

Source: Korea Energy Economics Institute.

Korea has almost no domestic oil or gas production and depends on imported oil and gas to meet its energy requirements. Accordingly, the international prices of oil and gas significantly affect the Korean economy. Any significant long-term increase in the prices of oil and gas will increase inflationary pressures in Korea and adversely affect the Republic's balance of trade.

To reduce its dependence on oil and gas imports, the Government has encouraged energy conservation and energy source diversification emphasizing nuclear energy. The following table sets out the principal primary sources of energy consumed in the Republic, expressed in oil equivalents and as a percentage of total energy consumption.

Consumption of Energy by Source										
Coal		Petroleum		Nuclear		Others⁽¹⁾		Total		
	Quantity	%	Quantity	%	Quantity	%	Quantity	%	Quantity	%
2005	54.8	24.0	101.5	44.4	36.7	16.1	35.6	15.5	228.6	100.0
2006	56.7	24.3	101.8	43.6	37.2	15.9	37.7	16.2	233.4	100.0
2007	59.7	25.2	105.5	44.6	30.7	13.0	40.6	17.2	236.5	100.0
2008	66.1	27.5	100.2	41.6	32.5	13.5	42.0	17.4	240.8	100.0
2009	68.1	28.3	102.3	42.2	31.8	13.1	39.5	16.3	242.2	100.0

(1) Includes natural gas, hydroelectric power and renewable energy.

Source: Korea Energy Economics Institute.

The Republic's first nuclear power plant went into full operation in 1978 with a rated generating capacity of 587 megawatts. Construction of an additional 18 nuclear power plants was completed by July 2004, adding 16,129 megawatts of generating capacity. The Republic's total nuclear power generating capacity is estimated to be 17,716 megawatts as of December 31, 2008.

Services Sector

In 2005, the transportation and storage sector increased by 2.9%, the financial intermediation sector increased by 5.7% and the real estate, renting and business activities sector increased by 3.4%, each compared with 2004. In 2006, the transportation and storage sector increased by 5.1 %, the financial intermediation sector increased by 4.2% and the real estate, renting and business activities sector increased by 2.2%, each compared with 2005. In 2007, the transportation and storage sector increased by 5.5%, the financial intermediation sector increased by 10.8% and the real estate, renting and business activities sector increased by 1.4%, each compared with 2006. Based on preliminary data, in 2008, the transportation and storage sector increased by 3.5%, the financial intermediation sector increased by 4.1% and the real estate, renting and business service sector increased by 1.3%, each compared with 2007. Based on preliminary data, in 2009, the transportation and storage sector decreased by 4.4%, the financial intermediation sector increased by 3.9% and the real estate, renting and business activities sector increased by 0.2%, each compared with 2008.

Prices, Wages and Employment

The following table shows selected price and wage indices and unemployment rates:

	Producer Price Index⁽¹⁾	Increase Over Previous Year	Consumer Price Index⁽¹⁾	Increase Over Previous Year	Wage Index⁽¹⁾⁽²⁾	Increase Over Previous Year	Unemployment Rate⁽¹⁾⁽³⁾
	(2005=100)	(%)	(2005=100)	(%)	(2000=100)	(%)	(%)
2005	100.0	2.1	100.0	2.8	144.2	6.6	3.7
2006	100.9	0.9	102.2	2.2	152.5	5.7	3.5
2007	102.3	1.4	104.8	2.5	163.0	6.9	3.2
2008	111.1	8.6	109.7	4.7	168.5	3.4	3.2
2009	110.9	(0.2)	112.8	2.8	N/A ⁽⁴⁾	N/A ⁽⁴⁾	3.6

-
- (1) Average for year
 - (2) Nominal wage index of earnings in all industries.
 - (3) Expressed as a percentage of the economically active population.
 - (4) Not available

Source: The Bank of Korea; Korea National Statistical Office.

The inflation rate, on an annualized basis, was 2.8% in 2005, 2.2% in 2006, 2.5% in 2007, 4.7% in 2008 and 2.8% in 2009. The inflation rate was 2.7% in the first quarter of 2010 and 2.6% in the second quarter of 2010, each compared to the same period of 2009.

The unemployment rate was 3.7% in 2005, 3.5% in 2006, 3.2% in 2007, 3.2% in 2008, 3.6% in 2009, 4.7% in the first quarter of 2010 and 3.5% in the second quarter of 2010.

From 1992 to 2009, the economically active population of the Republic increased by approximately 24.8% to 24.3 million, while the number of employees increased by approximately 23.7% to 23.5 million. The economically active population over 15 years old as a percentage of the total over-15 population has remained between 60% and 63% over the past decade. Literacy among workers under 50 is almost universal.

As of July 1, 2004, the Republic adopted a five-day workweek for large corporations with over 1,000 employees, publicly-owned (state-run) companies, banks and insurance companies, reducing working hours from 44 to 40 hours a week. The adoption of the five-day workweek has been extended to companies with over 300 employees and to government employees as of July 1, 2005 and to companies with over 100 employees as of July 1, 2006. Companies with more than 50 employees adopted the five-day workweek as of July 1, 2007 and those with over 20 adopted the five-day workweek as of July 1, 2008. Companies with less than 20 employees are also scheduled to adopt the five-day workweek by the end of 2011.

Approximately 10.5% of the Republic's workers were unionized as of December 31, 2008. In the early 2000s, the labor unions of several of the Republic's largest commercial banks, including Kookmin Bank, Chohung Bank (which was later acquired by Shinhan Bank) and Citibank Korea Inc. (formerly KorAm Bank), staged strikes in response to consolidation in the banking industry. In addition, in the summer of 2004 and 2005, respectively, unionized workers of GS Caltex Corporation and Asiana Airlines staged strikes demanding better compensation and working conditions. In the fall of 2005, unionized workers at Hyundai Motor Company and Kia Motors Corp. went on strikes during annual contract talks. In December 2005, Korean Air's unionized pilots also staged strikes demanding a higher wage increase. In the summer of 2006, unionized workers of Hyundai Motor Company and Kia Motors Corp. went on partial strikes demanding better compensation and working conditions, and unionized workers of Ssangyong Motor Company went on strike in response to the company's proposed layoff plans. In July 2006, unionized workers of POSCO's subcontractors initiated a sit-in strike at POSCO's headquarters in Pohang demanding better wages and working conditions, disrupting POSCO's operations for nine days. In June 2007, unionized workers of Hyundai Motor Company went on partial strikes demanding a higher bonus increase. Also, in May 2009, unionized workers of Ssangyong Motor Company went on full-scale strike and illegally occupied the company's factory premises in Pyungtaek opposing the company's reorganization plan. Actions such as these by labor unions may hinder implementation of the labor reform measures and disrupt the Government's plans to create a more flexible labor market. Although much effort is being expended to resolve labor disputes in a peaceful manner, there can be no assurance that further labor unrest will not occur in the future. Continued labor unrest in key industries of the Republic may have an adverse effect on the economy.

In 1997, the Korean Confederation of Trade Unions organized a political alliance, which led to the formation of the Democratic Labor Party in January 2000. The Democratic Labor Party, which seeks to represent the interests of workers, controls five seats in the National Assembly from May 30, 2008 as a result of the 18th legislative general election held on April 9, 2008.

The Financial System

Structure of the Financial Sector

The Republic's financial sector includes the following categories of financial institutions:

- The Bank of Korea;
- banking institutions;
- non-bank financial institutions; and
- other financial entities, including:
 - financial investment companies;
 - credit guarantee institutions;
 - venture capital companies; and
 - miscellaneous others.

To increase transparency in financial transactions and enhance the integrity and efficiency of the financial markets, Korean law requires that financial institutions confirm that their clients use their real names when transacting business. To ease the liquidity crisis, the Government altered the real-name financial transactions system during 1998, to allow the sale or deposit of foreign currencies through domestic financial institutions and the purchase of certain bonds, including Government bonds, without identification. The Government also strengthened confidentiality protection for private financial transactions.

In July 2007, the Korean National Assembly passed the Financial Investment Services and Capital Markets Act or FSCMA, under which various industry-based capital markets regulatory systems currently were consolidated into a single regulatory system. The FSCMA, which became effective in February 2009, expands the scope of permitted investment-related financial products and activities through expansive definitions of financial instruments and function-based regulations that allow financial investment companies to offer a wider range of financial services, as well as strengthening investor protection and disclosure requirements. The Enforcement Decree of the FSCMA classifies the financial investment companies into a total of 77 categories depending on the types of (i) financial investment services, (ii) financial investment products, and (iii) investors.

Prior to the effective date of the Financial Investment Services and Capital Markets Act, separate laws regulated various types of financial institutions depending on the type of the financial institution (for example, securities companies, futures companies, trust business companies and asset management companies) and subjected financial institutions to different licensing and ongoing regulatory requirements (for example, under the Securities and Exchange Act, the Futures Business Act and the Indirect Investment Asset Management Business Act). By applying one uniform set of rules to financial businesses having the same economic function, the Financial Investment Services and Capital Markets Act attempts to improve and address issues caused by the previous regulatory system under which the same economic function relating to capital markets-related business were governed by multiple regulations. To this end, the Financial Investment Services and Capital Markets Act categorizes capital markets-related businesses into six different functions, as follows:

- investment dealing (trading and underwriting of financial investment products);
- investment brokerage (brokerage of financial investment products);
- collective investment (establishment of collective investment schemes and the management thereof);
- investment advice;
- discretionary investment management; and
- trusts (together with the five businesses set forth above, "Financial Investment Businesses").

Accordingly, all financial businesses relating to financial investment products are reclassified as one or more of the Financial Investment Businesses described above, and financial institutions are subject to the regulations applicable to their relevant Financial Investment Businesses, irrespective of what type of financial institution it is. For example, under the Financial Investment Services and Capital Markets Act, derivative businesses conducted by securities companies and future companies will be subject to the same regulations under the Financial Investment Services and Capital Markets Act, at least in principle.

The banking business and the insurance business are not subject to the Financial Investment Services and Capital Markets Act and will continue to be regulated under separate laws; provided, however, that they are subject to the Financial Investment Services and Capital Markets Act if their activities involve any Financial Investment Businesses requiring a license based on the Financial Investment Services and Capital Markets Act.

Banking Industry

The banking industry comprises commercial banks and specialized banks. Commercial banks serve the general public and corporate sectors. They include nationwide banks, regional banks and branches of foreign banks. Regional banks provide services similar to nationwide banks, but operate in a geographically restricted region. Branches of foreign banks have operated in the Republic since 1967 but provide a relatively small proportion of the country's banking services. As of December 31, 2009, commercial banks consisted of seven nationwide banks, all of which have branch networks throughout the Republic, six regional banks and 53 branches of 38 foreign banks operating in the country. Nationwide and regional banks had, in the aggregate, 5,498 domestic branches and offices, 41 overseas branches, 20 overseas representative offices and 30 overseas subsidiaries as of December 31, 2009.

Specialized banks meet the needs of specific sectors of the economy in accordance with Government policy; they are organized under, or chartered by, special laws. Specialized banks include:

- The Korea Development Bank;
- The Export-Import Bank of Korea;
- The Industrial Bank of Korea;
- National Agricultural Cooperative Federation (which merged with the National Livestock Cooperative Federation in July 2000); and
- National Federation of Fisheries Cooperatives.

The economic difficulties in 1997 and 1998 caused an increase in Korean banks' non-performing assets and a decline in capital adequacy ratios of Korean banks. From 1998 through 2002, the Financial Services Commission amended banking regulations several times to adopt more stringent criteria for non-performing loans that more closely followed international standards. The new criteria increased the level of non-performing loans held by banks and other financial institutions. The following table sets out the total loans and discounts and non-performing assets of the commercial banking sector.

	Total Loans	Non-Performing Assets	Percentage of Total
	(trillions of won)		(percentage)
December 31, 2005	795.2	7.8	1.0
December 31, 2006	930.2	6.5	0.7
December 31, 2007	1,073.8	6.5	0.6
December 31, 2008 ⁽¹⁾	1,288.1	11.0	0.9
December 31, 2009 ⁽¹⁾	1,308.3	15.7	1.2

(1) Preliminary

Source: Financial Supervisory Service.

Most of the growth in total loans since the end of 2002 has been attributable to loans to the retail sector, accounting for 37.2% of total loans as of February 28, 2009, compared to 34.3% as of December 31, 1999.

In 2005, a group of the Republic's banks, including seven nationwide commercial banks, six regional commercial banks and five special banks, posted an aggregate net profit of ₩13.6 trillion, compared to an aggregate net profit of ₩8.8 trillion in 2004, primarily due to decreased loan loss provisions and increased commissions and foreign exchange revenues. In 2006, these banks posted an aggregate net profit of ₩13.6 trillion. In 2007, these banks posted an aggregate net profit of ₩15.0 trillion. Based on preliminary data, in 2008, these banks posted an aggregate net profit of ₩7.9 trillion, compared to an aggregate net profit of ₩15.0 trillion in 2007, primarily due to increased loan loss provisions. Based on preliminary data, in 2009, these banks posted an aggregate net profit of ₩7.1 trillion, compared to an aggregate net profit of ₩7.9 trillion in 2008, primarily due to increased non-performing loans.

Non-Bank Financial Institutions Non-

bank financial institutions include:

- savings institutions, including trust accounts of banks, mutual savings banks, credit unions, mutual credit facilities, community credit cooperatives and postal savings;
- life insurance institutions; and
- credit card companies.

The country had 105 mutual savings banks as of December 31, 2009, with assets totaling ₩82.4 trillion.

As of December 31, 2009, 12 domestic life insurance institutions, two joint venture life insurance institutions and eight wholly-owned subsidiaries of foreign life insurance companies, with assets totaling approximately ₩361.4 trillion as of December 31, 2009, were operating in the Republic.

As of December 31, 2009, six credit card companies operated in the country with loans totaling approximately ₩43.9 trillion, of which 2.2% were classified as non-performing loans.

Money Markets

In the Republic, the money markets consist of the call market and markets for a wide range of other short-term financial instruments, including treasury bills, monetary stabilization bonds, negotiable certificates of deposits, repurchase agreements and commercial paper.

Securities Markets

On January 27, 2005, the Korea Exchange was established pursuant to the now repealed Korea Securities and Futures Exchange Act by consolidating the Korea Stock Exchange, the Korea Futures Exchange, the KOSDAQ Stock Market, Inc., or the KOSDAQ, and the KOSDAQ Committee of the Korea Securities Dealers Association, which had formerly managed the KOSDAQ. There are three different markets operated by the Korea Exchange: the KRX KOSPI Market, the KRX KOSDAQ Market, and the KRX Derivatives Market. The Korea Exchange has two trading floors located in Seoul, one for the KRX KOSPI Market and one for the KRX KOSDAQ Market, and one trading floor in Busan for the KRX Derivatives Market. The Korea Exchange is a limited liability company, the shares of which are held by (i) financial investment companies that were formerly members of the Korea Futures Exchange or the Korea Stock Exchange and (ii) the stockholders of the KOSDAQ. Currently, the Korea Exchange is the only stock exchange in Korea and is operated by membership, having as its members Korean financial investment companies and some Korean branches of foreign financial investment companies.

The Korea Exchange publishes the Korea Composite Stock Price Index every ten seconds, which is an index of all equity securities listed on the Korea Exchange. The Korea Composite Stock Price Index is computed using the aggregate value method, whereby the market capitalizations of all listed companies are aggregated, subject to certain adjustments, and this aggregate is expressed as a percentage of the aggregate market capitalization of all listed companies as of the base date, January 4, 1980.

The following table shows the value of the Korea Composite Stock Price Index as of the dates indicated:

December 30, 2004	895.9
January 31, 2005	932.7
February 28, 2005	1,011.4
March 31, 2005	965.7
April 30, 2005	911.3
May 31, 2005.....	970.2
June 30, 2005	1,008.2
July 29, 2005	1,111.3
August 31, 2005	1,083.3
September 30, 2005	1,221.0
October 31, 2005	1,158.1
November 30, 2005	1,297.4
December 29, 2005	1,379.4
January 31, 2006	1,399.8
February 28, 2006	1,371.6
March 31, 2006	1,359.6
April 28, 2006	1,419.7
May 30, 2006	1,317.7
June 30, 2006	1,295.2
July 31, 2006	1,297.8
August 31, 2006	1,352.7
September 29, 2006	1,371.4
October 31, 2006	1,364.6
November 30, 2006	1,432.2
December 28, 2006	1,434.5
January 31, 2007	1,360.2
February 28, 2007	1,417.3
March 31, 2007	1,452.6
April 30, 2007	1,542.2
May 31, 2007	1,700.9
June 30, 2007	1,743.6
July 31, 2007	1,933.3
August 31, 2007	1,873.2
September 28, 2007	1,946.5
October 31, 2007	2,064.9
November 30, 2007	1,906.0
December 28, 2007	1,897.1
January 31, 2008	1,624.7
February 29, 2008	1,711.6
March 31, 2008	1,704.0
April 30, 2008	1,825.5
May 30, 2008	1,852.0
June 30, 2008	1,674.9
July 31, 2008	1,594.7
August 29, 2008	1,474.2
September 30, 2008	1,448.1
October 31, 2008	1,113.1
November 28, 2008	1,076.1

December 31, 2008	1,124.5
January 30, 2009	1,162.1
February 27, 2009	1,063.0
March 31, 2009	1,206.3
April 30, 2009	1,369.4
May 29, 2009	1,395.9
June 30, 2009	1,390.1
July 31, 2009	1,557.3
August 31, 2009	1,591.9
September 30, 2009	1,673.1
October 31, 2009	1,580.7
November 30, 2009	1,555.6
December 31, 2009	1,682.8
January 29, 2010	1,602.4
February 26, 2010	1,594.6
March 31, 2010	1,692.9
April 30, 2010	1,741.6
May 31, 2010	1,641.3
June 30, 2010	1,698.3
July 30, 2010	1,759.3

On December 27, 1997, the last day of trading in 1997, the index stood at 376.3, a sharp decline from 647.1 on September 30, 1997. The fall resulted from growing concerns about the Republic's weakening financial and corporate sectors, the Republic's falling foreign currency reserves, the sharp depreciation of the Won against the U.S. Dollar and other external factors, such as a sharp decline in stock prices in Hong Kong on October 24, 1997 and financial turmoil in Southeast Asian countries. The Korea Composite Stock Price Index recovered to reach a high of 2,064.9 in late 2007 but since then the index declined. As liquidity and credit concerns and volatility in the global financial markets increased significantly since September 2008, there was a significant overall decline and continuing volatility in the stock prices of Korean companies during the fourth quarter of 2008 and first half of 2009. The index was 1,767.7 on August 23, 2010.

Supervision System

The Office of Bank Supervision, the Securities Supervisory Board, the Insurance Supervisory Board and all other financial sector regulatory bodies merged in January 1999 to form the Financial Services Commission. The Financial Services Commission acts as the executive body over the Financial Supervisory Service. The Financial Services Commission reports to, but operates independently of, the Prime Minister's office.

The Ministry of Strategy and Finance (formerly the Ministry of Finance and Economy) focuses on financial policy and foreign currency regulations. The Bank of Korea manages monetary policy focusing on price stabilization.

Deposit Insurance System

The Republic's deposit insurance system insures amounts on deposit with banks, non-bank financial institutions, securities companies and life insurance companies.

Since January 2001, deposits at any single financial institution are insured only up to ₩50 million regardless of the amount deposited.

The Government recently excluded certain deposits, such as repurchase agreements, from the insurance scheme, expanded the definition of unsound financial institutions to which the insurance scheme would apply and increased the insurance premiums payable by insured financial institutions.

Monetary Policy

The Bank of Korea

The Bank of Korea was established in 1950 as Korea's central bank and the country's sole currency issuing bank. A seven-member Monetary Policy Committee, chaired by the Governor of The Bank of Korea, formulates and controls monetary and credit policies.

Inflation targeting is the basic system of operation for Korean monetary policy. The consumer price index is used as The Bank of Korea's target indicator. To achieve its established inflation target, the Monetary Policy Committee of The Bank of Korea determines and announces the "Bank of Korea Base Rate," the reference rate applied in transactions such as repurchase agreements between The Bank of Korea and its financial institution counterparts. The Bank of Korea uses open market operations as its primary instrument to keep the call rate in line with the Monetary Policy Committee's target rate. In addition, The Bank of Korea is able to establish policies regarding its lending to banks in Korea and their reserve requirements.

Interest Rates

On July 10, 2003, The Bank of Korea cut its policy rate to 3.75% from 4.00%, which was further lowered to 3.5% on August 12, 2004 and 3.25% on November 11, 2004, in order to help economic recovery and to address financial market instability. On October 11, 2005, The Bank of Korea raised the policy rate to 3.5%, which was further raised to 3.75% on December 8, 2005, to 4.0% on February 9, 2006, to 4.25% on June 8, 2006 and to 4.50% on August 10, 2006, in response to the increasing side-effects of a low interest rate environment including inflationary pressures coupled with signs of recovery of the real economy. On July 12, 2007, The Bank of Korea raised the policy rate to 4.75% from 4.5%, and raised it further to 5.0% on August 9, 2007. The rationale for this change was the concern that the ample market liquidity might put upside pressure on inflation in the medium to long term as the economic upswing continued. On August 7, 2008, The Bank of Korea raised the policy rate to 5.25% from 5.0%, taking the view that inflation in consumer prices had picked up its pace, due to the direct and indirect effects of high oil prices, at a time when domestic economic activity had slackened. On October 9, 2008, The Bank of Korea cut its policy rate to 5.0% from 5.25%, and continued to lower it further to 4.25% on

October 27, 2008, 4.0% on November 7, 2008, 3.0% on December 11, 2008, 2.5% on January 9, 2009 and 2.0% on February 12, 2009, in order to address financial market instability and to help combat the slowdown of the domestic economy. On July 9, 2010, The Bank of Korea raised the policy rate to 2.25% from 2.0%.

With the deregulation of interest rates on banks' demand deposits on February 2, 2004, The Bank of Korea completed the interest rate deregulation based upon the "Four-Stage Interest Rate Liberalization Plan" announced in 1991. The prohibition on the payment of interest on ordinary checking accounts was, however, maintained.

Money Supply

The following table shows the volume of the Republic's money supply:

	December 31				
	2005	2006	2007	2008	2009
	(billions of Won)				
Money Supply (M1) ⁽¹⁾	332,344.9	371,087.6	316,382.7	330,623.7	389,394.5
Quasi-money ⁽²⁾	689,103.8	778,174.5	957,229.2	1,095,263.8	1,177,455.5
Money Supply (M2) ⁽³⁾	1,021,448.7	1,149,262.1	1,273,611.9	1,425,887.5	1,566,850.0
Percentage Increase Over Previous Year	7.0%	12.5%	10.8%	12.0%	9.9%

(1) Consists of currency in circulation and demand and instant access savings deposits at financial institutions.

(2) Includes time and installment savings deposits, marketable instruments, yield-based dividend instruments and financial debentures, excluding financial instruments with a maturity of more than two years.

(3) Money Supply (M2) is the sum of Money Supply (M1) and quasi-money.

Source: The Bank of Korea.

Exchange Controls

Authorized foreign exchange banks, as registered with the Ministry of Strategy and Finance, handle foreign exchange transactions. The ministry has designated other types of financial institutions to handle foreign exchange transactions on a limited basis.

Korean laws and regulations generally require a report to either the Ministry of Strategy and Finance, The Bank of Korea or authorized foreign exchange banks, as applicable, for issuances of international bonds and other instruments, overseas investments and certain other transactions involving foreign exchange payments.

In 1994 and 1995, the Government relaxed regulations of foreign exchange position ceilings and foreign exchange transaction documentation and created free Won accounts which may be opened by non-residents at Korean foreign exchange banks. The Won funds deposited into the free Won accounts may be converted into foreign currencies and remitted outside Korea without any governmental approval. In December 1996, after joining the OECD, the Republic freed the repatriation of investment funds, dividends and profits, as well as loan repayments and interest payments. The Government continues to reduce exchange controls in response to changes in the world economy, including the new trade regime under the WTO, anticipating that such foreign exchange reform will improve the Republic's competitiveness and encourage strategic alliances between domestic and foreign entities.

In September 1998, the National Assembly passed the Foreign Exchange Transactions Act, which became effective in April 1999 and was subsequently amended in October 2000, December 2000, December 2005, October 2006, January 2007, February 2008, January 2009 and April 2009. In principle, most currency and capital transactions, including, among others, the following transactions, have been liberalized:

- the investment in real property located overseas by Korean companies and financial institutions;
- the establishment of overseas branches and subsidiaries by Korean companies and financial institutions;
- the investment by non-residents in deposits and trust products having more than one year maturities; and
- the issuance of debentures by non-residents in the Korean market.

To minimize the adverse effects from further opening of the Korean capital markets, the Ministry of Strategy and Finance is authorized to introduce a variable deposit requirement system to restrict the influx of short-term speculative funds.

The Government has also embarked on a second set of liberalization initiatives starting in January 2001, under which ceilings on international payments for Korean residents have been eliminated, including overseas travel expenses, overseas inheritance remittances and emigration expenses. Overseas deposits, trusts, acquisitions of foreign securities and other foreign capital transactions made by residents and the making of deposits in Korean currency by non-residents have also been liberalized. In line with the foregoing liberalization, measures will also be adopted to curb illegal foreign exchange transactions and to stabilize the foreign exchange market.

Effective as of January 1, 2006, the Government liberalized the regulations governing "capital transactions." The regulations provide that no regulatory approvals are required for any capital transactions. The capital transactions previously subject to approval requirements are now subject only to reporting requirements.

In January 2010, the Financial Supervisory Services released *FX Derivative Transactions Risk Management Guideline* to prevent over-hedging of foreign exchange risk by corporate investors. According to the guideline, if a corporate investor, other than a financial institution or a public enterprise, wishes to enter into a foreign exchange forward, option or swap agreement with a bank, the bank is required to verify whether the corporate investor's

assets, liabilities or contracts face foreign exchange risks that could be mitigated by a foreign exchange forward, option or swap agreement. In addition, the bank is required to ensure that the corporate investor's risk hedge ratio, which is the ratio of the aggregate notional amount to the aggregate amount of risk, does not exceed 125%.

Foreign Exchange

The following table shows the exchange rate between the Won and the U.S. Dollar (in Won per U.S. Dollar) as announced by the Seoul Money Brokerage Services, Ltd. as of the dates indicated:

	Won/U.S. Dollar Exchange Rate
December 31, 2004	1,043.8
January 31, 2005	1,026.4
February 28, 2005	1,008.1
March 31, 2005	1,024.3
April 30, 2005	1,001.8
May 31, 2005	1,002.5
June 30, 2005	1,024.4
July 30, 2005	1,025.7
August 31, 2005	1,031.0
September 30, 2005	1,038.0
October 31, 2005	1,042.7
November 30, 2005	1,036.3
December 30, 2005	1,013.0
January 31, 2006	971.0
February 28, 2006	969.0
March 31, 2006	975.9
April 28, 2006	945.7
May 30, 2006	947.4
June 30, 2006	960.3
July 31, 2006	953.1
August 31, 2006	959.6
September 29, 2006	945.2
October 31, 2006	944.2
November 30, 2006	929.9
December 29, 2006	929.6
January 31, 2007	940.9
February 28, 2007	938.3
March 31, 2007	940.3
April 30, 2007	929.4
May 31, 2007	929.9
June 30, 2007	926.8
July 31, 2007	923.2
August 31, 2007	939.9
September 28, 2007	920.7
October 31, 2007	907.4
November 30, 2007	929.6

	<u>Won/U.S. Dollar Exchange Rate</u>
December 31, 2007	938.2
January 31, 2008	943.9
February 29, 2008	937.3
March 31, 2008	991.7
April 30, 2008	999.7
May 31, 2008	1,031.4
June 30, 2008	1,043.4
July 31, 2008	1,008.5
August 29, 2008	1,081.8
September 30, 2008	1,187.7
October 31, 2008	1,291.4
November 28, 2008	1,482.7
December 31, 2008	1,257.5
January 31, 2009	1,368.5
February 27, 2009	1,516.4
March 31, 2009	1,377.1
April 30, 2009	1,348.0
May 29, 2009	1,272.9
June 30, 2009	1,284.7
July 31, 2009	1,240.5
August 31, 2009	1,244.9
September 30, 2009	1,188.7
October 31, 2009	1,200.6
November 30, 2009	1,167.4
December 31, 2009	1,167.6
January 29, 2010	1,156.5
February 26, 2010	1,158.4
March 31, 2010	1,130.8
April 30, 2010	1,115.5
May 31, 2010	1,200.2
June 30, 2010	1,210.3
July 30, 2010	1,187.2

Prior to November 1997, the Government permitted exchange rates to float within a daily range of 2.25%. In response to the substantial downward pressures on the Won caused by the Republic's economic difficulties in late 1997, in November 1997, the Government expanded the range of permitted daily exchange rate fluctuations to 10%. The Government eliminated the daily exchange rate band in December 1997, and the Won now floats according to market forces. The value of the Won relative to the U.S. dollar depreciated from ₩888.1 to US\$1.00 on June 30, 1997 to ₩1,964.8 to US\$1.00 on December 24, 1997. Due to improved economic conditions and increases in trade surplus, the Won has generally appreciated against the U.S. dollar, although the trend reversed in March 2008. During the period from January 2, 2008 through April 16, 2009, the value of the Won relative to the U.S. dollar declined by approximately 29.9%, due primarily to adverse economic conditions resulting from liquidity and credit concerns and volatility in the global credit and financial markets and repatriations by foreign investors of their investments in the Korean stock market. The market average exchange rate was ₩1,179.9 to US\$1.00 on August 23, 2010.

Balance of Payments and Foreign Trade

Balance of Payments

Balance of payments figures measure the relative flow of goods, services and capital into and out of the country as represented in the current balance and the capital balance. The current balance tracks a country's trade in goods and services and transfer payments and measures whether a country is living within its income from trading and investments. The capital balance covers all transactions involving the transfer of capital into and out of the country, including loans and investments. The overall balance represents the sum of the current and capital

balances. An overall balance surplus indicates a net inflow of foreign currencies, thereby increasing demand for and strengthening the local currency. An overall balance deficit indicates a net outflow of foreign currencies, thereby decreasing demand for and weakening the local currency. The financial account mirrors the overall balance. If the overall balance is positive, the surplus, which represents the nation's savings, finances the overall deficit of the country's trading partners. Accordingly, the financial account will indicate cash outflows equal to the overall surplus. If, however, the overall balance is negative, the nation has an international deficit which must be financed. Accordingly, the financial account will indicate cash inflows equal to the overall deficit.

The following table sets out certain information with respect to the Republic's balance of payments:

Classification	Balance of Payments				
	2005	2006	2007	2008	2009 ⁽³⁾
	(millions of dollars)				
Current Account	14,980.9	5,385.2	5,876.0	(5,776.3)	42,667.6
Goods	32,683.1	27,905.1	28,168.0	5,669.1	56,127.6
Exports ⁽¹⁾	288,970.7	331,842.0	379,045.1	432,922.3	373,584.4
Imports ⁽¹⁾	256,287.6	303,936.9	350,877.1	427,253.2	317,456.8
Services	(13,658.2)	(18,960.7)	(19,767.6)	(16,671.5)	(17,202.7)
Income	(1,562.5)	533.7	1,002.7	5,900.0	4,553.6
Current Transfers	(2,481.5)	(4,092.9)	(3,527.1)	(673.9)	(810.9)
Capital and Financial Account	4,756.5	17,972.0	7,128.3	(50,083.6)	26,447.9
Financial Account ⁽²⁾	7,096.9	21,098.1	9,515.8	(50,192.9)	25,260.6
Capital Account.....	(2,340.4)	(3,126.1)	(2,387.5)	109.3	1,187.3
Changes in Reserve Assets	(19,805.8)	(22,112.9)	(15,128.4)	56,446.0	(69,061.1)
Net Errors and Omissions	68.4	(1,244.3)	2,124.1	(586.1)	(54.4)

(1) These entries are derived from trade statistics and are valued on a free on board basis, meaning that the insurance and freight costs are not included.

(2) Includes borrowings from the IMF, syndicated bank loans and short-term borrowings.

(3) Preliminary.

Source: The Bank of Korea.

The Republic recorded a current account deficit of approximately US\$5.8 billion in 2008 compared with a current account surplus of US\$5.9 billion in 2007, primarily due to a significant decrease in surplus from the goods account.

Based on preliminary data, the Republic recorded a current account surplus of approximately US\$42.7 billion in 2009 compared with a current account deficit of US\$5.8 billion in 2008, primarily due to a significant increase in surplus from the goods account.

Based on preliminary data, the Republic recorded a current account surplus of approximately US\$11.6 billion in the first half of 2010. The current account surplus in the first half of 2010 decreased from the current account surplus of US\$21.7 billion in the first half of 2009, primarily due to an increase in deficit from the services account and a decrease in surplus from the goods account.

Foreign Direct Investment

Since 1960, the Government has adopted a broad range of related laws, administrative rules and regulations, providing a framework for the conduct and regulation of foreign investment activities. In September 1998, the Government promulgated the Foreign Investment Promotion Act (the "FIPA"), which replaced previous foreign direct investment related laws, rules and regulations, to promote inbound foreign investments by providing incentives to, and facilitating investment activities in the Republic by, foreign nationals. The FIPA prescribes, among others, procedural requirements for inbound foreign investments, incentives for foreign investments such as tax reductions, and requirements relating to designation and development of foreign investment target regions.

The Government believes that providing a stable and receptive environment for foreign direct investment will accelerate the inflow of foreign capital, technology and management techniques.

The following table sets forth information regarding annual foreign direct investment in the Republic for the periods indicated.

Foreign Direct Investment					
Contracted and Reported Investment	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
	(billions of dollars)				
Greenfield Investment ⁽¹⁾	2.7	6.9	8.0	7.3	8.1
Merger & Acquisition	5.3	4.3	2.5	4.4	3.4
Total	11.6	11.2	10.5	11.7	11.5
Actual Investment	9.6	9.1	7.8	8.4	N/A ⁽²⁾

(1) Includes building new factories and operational facilities.

(2) Not available

Source: Ministry of Knowledge and Economy

In 2009, the contracted and reported amount of foreign direct investment in the Republic decreased to US\$11.5 billion from US\$11.7 billion in 2008, primarily due to a decrease in foreign investment in the service sector to US\$7.6 billion in 2009 from US\$8.4 billion in 2008, which more than offset an increase in foreign investment in the manufacturing sector to US\$3.7 billion in 2009 from US\$3.0 billion in 2008.

The following table sets forth information regarding the source of foreign direct investment by region and country for the periods indicated:

Foreign Direct Investment by Region and Country					
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
	(billions of dollars)				
North America					
U.S.A.	2.7	1.7	2.3	1.3	1.5
Others	<u>0.4</u>	<u>0.2</u>	<u>0.9</u>	<u>0.6</u>	<u>0.7</u>
	3.1	1.9	3.2	1.9	2.2
Asia					
Japan	1.9	2.1	1.0	1.4	1.9
Hong Kong	0.8	0.2	0.1	0.2	0.8
Singapore	0.4	0.6	0.5	0.9	0.4
China	0.1	0.0	0.4	0.4	0.2
Others	<u>0.3</u>	<u>1.1</u>	<u>0.3</u>	<u>0.4</u>	<u>0.4</u>
	3.5	4.0	2.3	3.3	3.7
European Union					
England	2.3	0.7	0.3	1.2	2.0
Netherlands	1.2	0.8	2.0	1.2	1.9
Germany	0.7	0.5	0.4	0.7	0.6
France	0.1	1.2	0.4	0.5	0.1
Others	<u>0.5</u>	<u>1.8</u>	<u>1.2</u>	<u>2.7</u>	<u>0.7</u>
	4.8	5.0	4.3	6.3	5.3
Others regions and countries	0.2	0.3	0.7	0.2	0.3
Total	11.6	11.2	10.5	11.7	11.5

Source: Ministry of Knowledge and Economy

Trade Balance

Trade balance figures measure the difference between a country's exports and imports. If exports exceed imports the country has a trade balance surplus while if imports exceed exports the country has a deficit. A deficit, indicating that a country's receipts from abroad fall short of its payments to foreigners, must be financed, rendering the country a debtor nation. A surplus, indicating that a country's receipts exceed its payments to foreigners, allows the country to finance its trading partners' net deficit to the extent of the surplus, rendering the country a creditor nation.

The following table summarizes the Republic's trade balance for the periods indicated:

Trade Balance				
	Exports¹⁾	Imports²⁾	Balance of Trade	Exports as % of Imports
	(millions of dollars, except percentages)			
2005	284,418.7	261,238.3	23,180.4	108.9
2006	325,464.9	309,382.7	16,082.2	105.2
2007	371,489.0	356,845.7	14,643.3	104.1
2008	422,007.3	435,274.7	(13,267.4)	97.0
2009 ³⁾	363,533.6	323,084.5	40,449.1	112.5

- (1) These entries are derived from trade statistics and are valued on a free on board basis, meaning that the insurance and freight costs are not included.
- (2) These entries are derived from customs clearance statistics on a C.I.F. basis, meaning that the price of goods include insurance and freight cost.
- (3) Preliminary.

Source: The Bank of Korea.

Overall exports increased during the period from 2005 to 2008 primarily due to the continued increase in global demand (including strong demand in China) for electronics products (including semiconductors and information technology products), iron and steel products and machinery and precision equipment. Overall exports decreased in 2009 compared to 2008 due to the effects of the global financial crisis on global demand for goods in general.

The Republic, due to its lack of natural resources, relies on extensive trading activity for growth. The country meets virtually all domestic requirements for petroleum, wood and rubber with imports, as well as much of its coal and iron needs. Exports consistently represent a high percentage of GDP and, accordingly, the international economic environment is of crucial importance to the Republic's economy.

The following tables give information regarding the Republic's exports and imports by major commodity groups:

Exports by Major Commodity Groups (F.O.B.)⁽¹⁾

	2005	As % of Total	2006	As % of Total	2007	As % of Total	2008	As % of Total	2009 ⁽²⁾	As % of Total
(millions of dollars, except percentages)										
Foods & Consumer Goods	3,174.4	1.1	3,167.7	1.0	3,531.7	1.0	4,071.7	1.0	4,282.8	1.2
Raw Materials and Fuels	18,650.9	6.6	25,071.5	7.7	29,442.5	7.9	44,102.6	10.5	27,892.3	7.7
Petroleum & Derivatives	15,519.8	5.5	20,602.8	6.3	24,212.4	6.5	37,825.3	9.0	23,191.9	6.4
Light Industrial Products	26,332.1	9.3	26,864.0	8.3	27,469.7	7.4	29,416.3	7.0	27,497.7	7.6
Heavy & Chemical Industrial										
Products	236,261.3	83.1	270,361.7	83.1	311,045.1	83.7	344,416.7	81.6	303,860.8	83.6
Electronic & Electronic										
Products	103,255.0	36.3	115,742.7	35.6	126,914.3	34.2	127,181.5	30.0	121,217.2	33.3
Chemicals & Chemical										
Products	27,295.5	9.6	31,234.9	9.6	36,822.5	9.9	41,920.1	9.9	36,630.6	10.1
Metal Goods	22,478.6	7.9	27,172.4	8.3	31,593.7	8.5	38,083.1	9.0	29,875.9	8.2
Machinery & Precision										
Equipment	26,143.2	9.2	28,984.6	8.9	36,163.8	9.7	42,949.8	10.3	32,772.2	9.0
Passenger Cars	27,181.5	9.6	30,497.1	9.4	34,482.8	9.3	31,287.5	7.4	22,399.2	6.2
Ship & Boat	17,362.9	6.1	21,661.9	6.7	26,855.1	7.2	41,293.9	9.8	42,825.2	11.8
Total	284,418.7	100.0	325,464.8	100.0	371,489.1	100.0	422,007.3	100.0	363,533.6	100.0

(1) These entries are derived from trade statistics and are valued on a free on board basis, meaning that the insurance and freight costs are not included.

(2) Preliminary.

Source: The Bank of Korea.

Imports by Major Commodity Groups (C.I.F.)⁽¹⁾

	2005	As % of Total	2006	As % of Total	2007	As % of Total	2008	As % of Total	2009 ⁽²⁾	As % of Total
(millions of dollars, except percentages)										
Industrial Materials and Fuels	141,333.4		54.1 173,915.7		56.2 201,740.4		56.5 268,990.9		61.8 184,404.8	
Crude Petroleum	42,605.8	16.3	55,864.9	18.1	60,323.5	16.9	85,855.4	19.7	50,757.4	15.7
Mineral	9,367.6	3.6	13,049.8	4.2	16,042.6	4.5	19,597.8	4.5	13,660.4	4.2
Chemicals	22,727.0	8.7	25,201.2	8.1	29,172.0	8.8	33,114.9	7.6	28,708.3	8.9
Iron & Steel Products	16,707.8	6.4	17,701.5	5.7	24,075.5	6.7	37,071.7	8.5	21,561.0	6.7
Non-ferrous Metal	8,599.8	3.3	12,329.2	4.0	14,306.1	4.0	13,359.1	3.1	9,110.8	2.8
Capital Goods	94,200.6	36.1	105,055.9	34.0	118,129.4	33.1	124,138.7	28.5	104,546.8	32.4
Machinery & Precision										
Equipment	31,325.6	12.0	35,447.7	11.5	39,292.8	11.0	40,040.8	9.2	33,617.9	10.4
Electric & Electronic										
Machines	55,092.9	21.1	60,087.5	19.4	66,984.5	18.7	70,447.8	16.2	59,782.5	18.5
Transport Equipment	6,394.7	2.4	7,978.2	2.6	9,982.5	2.8	11,650.1	2.7	9,544.6	3.0
Consumer Goods	25,704.3	9.8	30,411.1	9.8	36,975.9	10.4	42,145.1	9.7	34,132.9	10.6
Cereals	3,365.0	1.3	3,470.7	1.1	4,749.7	1.3	7,422.0	1.7	5,298.2	1.6
Goods for Direct										
Consumption	7,154.5	2.7	8,292.6	2.7	9,660.8	2.7	10,164.3	2.3	8,856.1	2.7
Consumer Durable										
Goods	9,744.8	3.7	11,810.4	3.8	14,574.3	4.1	16,358.3	3.8	12,900.3	4.0
Consumer Nondurable										
Goods	5,440.0	2.1	6,835.8	2.2	7,989.8	2.2	8,199.5	1.9	7,077.9	2.2
Total	261,238.3	100.0	309,382.7	100.0	356,845.7	100.0	435,274.7	100.0	323,084.5	100.0

(1) These entries are derived from customs clearance statistics. C.I.F. means that the price of goods includes insurance and freight costs.

(2) Preliminary.

Source: The Bank of Korea.

In 2005, the Republic recorded a trade surplus of US\$23.2 billion. Exports increased by 12.0% to US\$284.4 billion and imports increased by 16.4% to US\$261.2 billion from US\$253.8 billion of exports and US\$224.5 billion of imports, respectively, in 2004.

In 2006, the Republic recorded a trade surplus of US\$16.1 billion. Exports increased by 14.5% to US\$325.5 billion and imports increased by 18.5% to US\$309.4 billion from US\$284.4 billion of exports and US\$261.2 billion of imports, respectively, in 2005.

In 2007, the Republic recorded a trade surplus of US\$14.6 billion. Exports increased by 14.1% to US\$371.5 billion and imports increased by 15.3% to US\$356.8 billion from US\$325.5 billion of exports and US\$309.4 billion of imports, respectively, in 2006.

In 2008, the Republic recorded a trade deficit of US\$13.3 billion. Exports increased by 13.6% to US\$422.0 billion and imports increased by 22.0% to US\$435.3 billion from US\$371.5 billion of exports and US\$356.8 billion of imports, respectively, in 2007.

Based on preliminary data, the Republic recorded a trade surplus of US\$40.4 billion in 2009. Exports decreased by 13.9% to US\$363.5 billion and imports decreased by 25.8% to US\$323.1 billion from US\$422.0 billion of exports and US\$435.3 billion of imports, respectively, in 2008.

Based on preliminary data, the Republic recorded a trade surplus of US\$17.6 billion in the first half of 2010. Exports increased by 34.4% to US\$221.5 billion and imports increased by 40.2% to US\$203.9 billion from US\$164.8 billion of exports and US\$145.4 billion of imports, respectively, in the first half of 2009.

The following table sets forth the Republic's exports trading partners:

	Exports									
	2005	As % of 2005 Total	2006	As % of 2006 Total	2007	As % of 2007 Total	2008	As % of 2008 Total	2009 ⁽¹⁾	As % of 2009 Total ⁽¹⁾
	(millions of dollars, except percentages)									
China	61,915.0	21.8	69,459.2	21.3	81,985.2	22.1	91,388.9	21.7	86,703.2	23.9
United States	41,342.6	14.5	43,183.5	13.3	45,766.1	12.3	46,376.6	11.0	37,649.9	10.4
Japan	24,027.4	8.4	26,534.0	8.2	26,370.2	7.1	28,252.5	6.7	21,770.8	6.0
Hong Kong	15,531.1	5.5	18,978.9	5.8	18,654.5	5.0	19,771.9	4.7	19,661.1	5.4
Singapore	7,406.6	2.6	9,489.3	2.9	11,949.5	3.2	16,293.0	3.9	13,617.0	3.7
Taiwan	10,862.9	3.8	12,995.7	4.0	13,027.1	3.5	11,462.0	2.7	9,501.1	2.6
Germany	10,304.0	3.6	10,056.2	3.1	11,542.5	3.1	10,522.7	2.5	8,820.9	2.4
India	4,597.8	1.6	5,532.8	1.7	6,600.0	1.8	8,977.1	2.1	8,013.3	2.2
Mexico	3,789.1	1.3	6,284.6	1.9	7,482.0	2.0	9,089.9	2.2	7,132.8	2.0
Vietnam	3,431.7	1.2	3,927.5	1.2	5,760.1	1.6	7,804.8	1.8	7,149.5	2.0
Others ⁽²⁾	101,210.5	35.7	119,023.1	36.6	142,351.9	38.3	172,067.9	40.8	143,514.0	39.5
Total	284,418.7	100.0	325,464.8	100.0	371,489.1	100.0	422,007.3	100.0	363,533.6	100.0

(1) Preliminary

(2) Includes more than 200 countries and regions with lower exports levels than those shown above.

Source: The Bank of Korea.

The following table sets forth the Republic's imports trading partners:

	Imports									
	2005	As % of 2005 Total	2006	As % of 2006 Total	2007	As % of 2007 Total	2008	As % of 2008 Total	2009 ⁽¹⁾	As % of 2009 Total ⁽¹⁾
	(millions of dollars, except percentages)									
China	38,648.2	14.8	48,556.7	15.7	63,027.8	17.7	76,930.3	17.7	54,246.1	16.8
Japan	48,403.2	18.5	51,926.3	16.8	56,250.1	15.8	60,956.4	14.0	49,427.5	15.3
United States	30,585.9	11.7	33,654.2	10.9	37,219.3	10.4	38,364.8	8.8	29,039.5	9.0
Saudi Arabia.....	16,105.8	6.2	20,552.1	6.6	21,163.5	5.9	33,781.5	7.8	19,736.8	6.1
Australia	9,859.1	3.8	11,309.4	3.7	13,232.5	3.7	18,000.3	4.1	14,756.1	4.6
Germany.....	9,774.2	3.7	11,364.6	3.7	13,534.3	3.8	14,769.1	3.4	12,298.5	3.8
Taiwan	8,049.6	3.1	9,287.5	3.0	9,966.5	2.8	10,642.9	2.4	9,851.4	3.0
United Arab Emirates	10,018.3	3.8	12,930.9	4.2	12,656.2	3.5	19,248.5	4.4	9,310.0	2.9
Indonesia	8,184.4	3.1	8,848.6	2.9	9,113.8	2.6	11,320.3	2.6	9,264.1	2.9
Qatar.....	5,599.3	2.1	6,985.2	2.3	8,453.9	2.4	14,374.6	3.3	8,386.5	2.6
Others ⁽²⁾	76,010.3	29.1	93,967.2	30.3	112,227.8	31.4	136,886.0	31.5	106,768.0	33.0
Total	261,238.3	100.0	309,382.7	100.0	356,845.7	100.0	435,274.7	100.0	323,084.5	100.0

(1) Preliminary

(2) Includes more than 200 countries and regions with lower imports levels than those shown above.

Source: The Bank of Korea.

In 2003, the outbreak of severe acute respiratory syndrome, or SARS, and the avian influenza in Asia (including China) and other parts of the world increased uncertainty about prospects for international trade and economic growth for affected countries, as well as world economic prospects in general. The avian influenza carried by migrating wild birds spread to several Asian countries, Russia, Romania and Turkey. In response to these outbreaks of avian influenza, the Government issued an advisory on disease prevention as of October 14, 2005 and conducted special monitoring of poultry farms. In addition, the Government continued to cooperate with regional and international efforts to develop and implement additional measures to contain and prevent SARS, the avian influenza and other diseases. Another outbreak of SARS, the avian influenza or similar incidents in the future may have an adverse effect on Korean and world economies and on international trade.

In April 2007, the Republic and the United States reached an agreement on a bilateral free trade agreement, or FTA, which was subsequently signed by both nations in June 2007. The FTA was submitted for ratification to the Korean National Assembly in September 2007. As of August 20, 2010, the FTA has not been submitted for ratification to the U.S. Congress.

Non-Commodities Trade Balance

The non-commodities trade deficit increased to US\$15.2 billion in 2005, US\$18.4 billion in 2006 and US\$18.8 billion in 2007 but decreased to US\$10.8 billion. Based on preliminary data, in 2009, the non-commodities trade deficit increased to US\$12.6 billion.

Foreign Currency Reserves

The following table shows the Republic's total official foreign currency reserves:

Total Official Reserves					
December 31,					
	2005	2006	2007	2008	2009
	(millions of dollars)				
Gold ⁽¹⁾	\$ 73.6	\$ 74.2	\$ 74.3	\$ 75.7	\$ 79.0
Foreign Exchange	209,967.7	238,387.9	261,770.7	200,479.1	265,202.3
Total Gold and Foreign Exchange	210,041.6	238,462.1	261,845.0	200,554.8	265,281.3
Reserve Position at IMF	305.8	440.0	310.5	582.6	981.6
Special Drawing Rights	43.3	54.0	68.6	86.0	3,731.8
Total Official Reserves	\$210,390.7	\$238,956.1	\$262,224.1	\$201,223.4	\$269,994.7

(1) For this purpose, domestically-owned gold is valued at US\$42.22 per troy ounce (31.1035 grams) and gold deposited overseas is calculated at cost of purchase.

Source: The Bank of Korea.

The Government's foreign currency reserves increased to US\$262.2 billion as of December 31, 2007 from US\$8.9 billion as of December 31, 1997, primarily due to continued balance of trade surpluses and capital inflows. In 2008, the Government's foreign currency reserves decreased, falling to US\$201.2 billion as of December 31, 2008, partially as a result of the Government's use of the foreign currency reserve to provide foreign currency liquidity to Korean financial institutions and to defend the value of the Won against depreciation. The amount of the Government's foreign currency reserve was US\$286.0 billion as of July 31, 2010.

Government Finance

The Ministry of Strategy and Finance prepares the Government budget and administers the Government's finances.

The Government's fiscal year commences on January 1. The Ministry of Strategy and Finance must submit the budget to the National Assembly not later than 90 days prior to the start of the fiscal year and may submit supplementary budgets revising the original budget at any time during the fiscal year.

The following table shows consolidated Government revenues and expenditures:

Consolidated Central Government Revenues and Expenditures

December 31,

	2004	2005	2006	2007	2008	2009 ⁽¹⁾
	(billions of Won)					
Total Revenues	178,784	191,446	209,573	243,633	250,713	255,252
Current Revenues	177,453	190,165	208,091	241,693	248,809	252,720
Total Tax Revenues	117,796	127,466	138,044	161,459	167,306	N/A ⁽²⁾
Income Profits and Capital Gains	48,112	54,456	60,367	74,273	75,510	N/A ⁽²⁾
Tax on Property	2,996	4,683	6,281	8,725	7,694	N/A ⁽²⁾
Tax on Goods and Services	51,800	53,401	54,996	59,835	63,060	N/A ⁽²⁾
Customs Duties	6,796	6,318	6,858	7,411	8,776	N/A ⁽²⁾
Others	8,090	8,608	9,542	11,216	12,267	N/A ⁽²⁾
Social Security Contribution	22,848	24,905	27,315	29,739	32,896	N/A ⁽²⁾
Non-Tax Revenues	36,788	37,795	42,733	50,495	48,607	N/A ⁽²⁾
Capital Revenues	1,331	1,281	1,482	1,940	1,904	2,532
Total Expenditures and Net Lending	173,538	187,946	205,928	209,810	238,834	272,873
Total Expenditures	172,140	184,922	200,181	202,703	233,354	254,823
Current Expenditures	144,148	160,274	173,688	169,658	196,879	209,689
Goods and Services	33,869	36,165	38,987	34,496	37,375	N/A ⁽²⁾
Interest Payments	8,710	10,094	12,150	13,444	14,356	N/A ⁽²⁾
Subsidies and Other Transfers ⁽³⁾	99,537	111,448	119,997	119,565	142,782	N/A ⁽²⁾
Subsidies	748	724	764	680	730	N/A ⁽²⁾
Other Transfers ⁽³⁾	98,789	110,724	119,233	118,885	142,052	N/A ⁽²⁾
Non-Financial Public Enterprises	3,031	2,566	2,554	2,153	2,366	N/A ⁽²⁾
Expenditures						
Capital Expenditures	26,992	24,648	26,493	33,045	36,475	45,134
Net Lending	1,398	3,024	5,746	7,107	5,480	18,049

(1) Preliminary.

(2) Not available.

(3) Includes transfers to local governments, non-profit institutions, households and abroad.

Source: Ministry of Strategy and Finance; Korea National Statistical Office.

The consolidated Government account consists of a General Account, Special Accounts (including a non-financial public enterprise special account) and Public Funds. The Government segregates the accounts of certain functions of the Government into Special Accounts and Public Funds for more effective administration and fiscal control. The Special Accounts and Public Funds relate to business type activities, such as economic development, road and railway construction and maintenance, monopolies, and communications developments and the administration of loans received from official international financial organizations and foreign governments.

Revenues derive mainly from national taxes and non-tax revenues. Taxes in Korea can be roughly classified into the following types:

- income tax and capital gains tax,
- property tax,
- value-added tax,
- customs duty tax, and
- other taxes.

Income tax and capital gains tax are imposed on income derived from labor, business operation and ownership of assets and profits derived from capital appreciation. Income tax and capital gains tax, depending on the type of taxpayer, can be further classified into corporate income tax and individual income tax. Property tax is imposed on exchange or ownership of property and includes inheritance tax and gift tax. Value-added tax is imposed on value added to goods and services. Customs duty tax is imposed on imported goods. Other taxes include tax on certain securities transactions and a stamp tax for certain documents.

Expenditures include general administration, national defense, community service, education, health, social security, certain annuities and pensions and local finance, which involves the transfer of tax revenues to local governments.

For 2004, revenues increased by approximately 4.0%, which represented 22.9% of the Republic's GDP, principally due to higher tax revenues. Tax revenues increased principally as a result of the country's export growth and the accompanying increase in corporate income. The Republic had a fiscal surplus of ₩5.2 trillion in 2004.

For 2005, revenues increased by approximately 7.1 %, which represented 23.6% of the Republic's GDP, principally due to higher tax revenues. Tax revenues increased principally as a result of the country's export growth and the accompanying increase in corporate income. The Republic had a fiscal surplus of ₩3.5 trillion in 2005.

For 2006, revenues increased by approximately 9.5%, which represented 24.7% of the Republic's GDP, principally due to higher tax revenues. Tax revenues increased principally as a result of the country's export growth and the accompanying increase in corporate income. The Republic had a fiscal surplus of ₩3.6 trillion in 2006.

For 2007, revenues increased by approximately 16.3%, which represented 27.0% of the Republic's GDP, principally due to higher tax revenues. Tax revenues increased principally as a result of the country's export growth and the accompanying increase in corporate income. The Republic had a fiscal surplus of ₩33.8 trillion in 2007.

For 2008, revenues increased by approximately 2.9% principally due to higher tax revenues. Tax revenues increased principally as a result of the country's export growth and the accompanying increase in corporate income. The Republic had a fiscal surplus of ₩1 1.9 trillion in 2008.

Based on preliminary data, the Republic recorded total revenues of ₩255.3 trillion and total expenditures and net lending of ₩272.9 trillion in 2009. The Republic had a fiscal deficit of ₩17.6 trillion in 2009.

Debt

External and Internal Debt of the Government

The following table sets out, by currency and the equivalent amount in U.S. Dollars, the estimated outstanding direct external debt of the Government as of December 31, 2009:

Direct External Debt of the Government

	Amount in Original Currency	Equivalent Amount in U.S. Dollars ⁽¹⁾
	(millions)	
US\$	US\$ 7,977.4	US\$ 7,977.4
Japanese Yen (¥)	¥ 18,031.3	195.0
Euro (EUR)	EUR 878.0	1,259.1
Total		US\$ 9,431.5

(1) Amounts expressed in currencies other than US\$ are converted to US\$ at the arbitrage rate announced by the Seoul Money Brokerage Services, Ltd. in effect on December 31, 2009.

The following table summarizes, as of December 31 of the years indicated, the outstanding direct internal debt of the Republic:

Direct Internal Debt of the Government

	(billions of Won)
2005	227,066.3
2006	262,380.6
2007	278,800.8
2008	288,719.8
2009	331,904.1

The following table sets out all guarantees by the Government of indebtedness of others:

	December 31,				
	2005	2006	2007	2008	2009
	(billions of Won)				
Domestic	54,667.7	36,436.6	33,031.1	28,112.8	28,154.5
External ⁽¹⁾	310.2	73.4	31.8	—	1,508.4
Total	54,977.9	36,510.1	33,062.9	28,112.8	29,662.9

(1) Converted to Won at foreign exchange banks' telegraphed transfer selling rates to customers or the market average exchange rates in effect on December 31 of each year.

For further information on the outstanding indebtedness, including guarantees, of the Republic, see “— Tables and Supplementary Information.”

External Debt

The following tables set out certain information regarding the Republic's external debt calculated under the criteria published in a compilation by nine international organizations including the IMF and the World Bank in 2003. Starting from June 2003, in particular, the Republic's total external debt calculation under the new criteria excludes offshore borrowings by overseas branches and subsidiaries of Korean banks but includes Won-denominated liabilities such as bank deposits by nonresidents and also includes international finance lease liabilities.

	December 31,				
	2005	2006	2007	2008	2009
	(billions of dollars)				
Foreign Currencies	176.3	246.4	327.9	323.9	401.9
Korean Won	11.6	13.7	54.3	56.6	—
Total External Liabilities	187.9	260.1	382.2	380.5	401.9

	December 31,				
	2005	2006	2007	2008	2009
	(billions of dollars)				
Long-term Debt	122.0	146.3	221.9	229.4	252.0
General Government	8.5	10.3	31.9	21.1	27.8
Monetary Authorities	4.8	5.7	13.2	13.0	26.8
Banks	32.2	40.4	60.2	58.7	65.7
Other Sectors	76.5	89.9	116.5	136.6	131.6
Short-term Debt	65.9	113.8	160.3	151.1	150.0
Monetary Authorities	2.2	3.9	8.2	17.1	12.8
Banks	51.3	96.1	133.8	113.0	115.2
Other Sectors	12.4	13.7	18.3	21.0	22.0
Total External Liabilities	187.9	260.1	382.2	380.5	401.9

Debt Record

The Government has always paid when due the full amount of principal of, interest on, and amortization of sinking fund requirements of, all of its indebtedness.

Tables and Supplementary Information

A. External Debt of the Government

(1) External Bonds of the Government

Series	Issue Date	Maturity Date	Interest Rate (%)	Currency	Original Principal Amount	Principal Amount Outstanding as of December 31, 2009
2003-001 ...	June 3, 2003	June 1, 2013	4.25	USD	1,000,000,000	1,000,000,000
2004-001 ...	September 22, 2004	September 22, 2014	4.875	USD	1,000,000,000	1,000,000,000
2005-001 ...	November 2, 2005	November 3, 2025	5.625	USD	400,000,000	400,000,000
2005-002 ...	November 2, 2005	November 2, 2015	3.625	EUR	500,000,000	500,000,000
2006-001 ...	December 7, 2006	December 7, 2016	5.125	USD	500,000,000	500,000,000
2006-002 ...	December 7, 2006	December 7, 2021	4.25	EUR	375,000,000	375,000,000
2009-001 ...	April 16, 2009	April 16, 2014	5.75	USD	1,500,000,000	1,500,000,000
2009-002 ...	April 16, 2009	April 16, 2019	7.125	USD	1,500,000,000	1,500,000,000
Total External Bonds in Original Currencies .					USD	5,900,000,000
					EUR	875,000,000
Total External Bonds in Equivalent Amount of Won⁽¹⁾ ₩						8,353,835,000,000

(1) U.S. dollar amounts are converted to Won amounts at the rate of US\$1.00 to Won 1,167.6, the market average exchange rate in effect on December 31, 2009, as announced by Seoul Money Brokerage Services, Ltd. Euro amounts are converted to Won amounts at the rate of EUR1.00 to Won 1,674.3, the market average exchange rate in effect on December 31, 2009, as announced by Seoul Money Brokerage Services, Ltd.

(2) External Borrowings of the Government

a. Borrowings in U.S. Dollars

Original Maturity Date of Borrowing	(Years)	Rate (%)	Original Principal Amount (USD)	Principal Amount Outstanding as of December 31, 2009 (USD)
June 26, 1968	42	2.5	15,000,000	255,613
October 29, 1968	42	3	5,000,000	245,764
February 26, 1969	42	3	5,000,000	265,075
February 26, 1969	41	3	7,000,000	208,328
September 25, 1969	41	3	5,000,000	243,553
March 20, 1970	40	3	4,400,000	130,942
March 20, 1970	40	3	4,000,000	239,258
March 20, 1970	39	3	40,500,000	1,270,795
June 3, 1970	41	3	10,000,000	634,844
January 29, 1971	40	3	29,300,000	1,887,806
January 29, 1971	41	3	29,200,000	2,818,216
March 6, 1971	40	3	35,000,000	2,330,570
April 12, 1971	40	3	29,600,000	1,790,898
April 12, 1971	30	3	400,000	32,665
June 24, 1971	40	3	14,000,000	1,683,035
August 31, 1971	41	3	6,000,000	711,213
January 20, 1972	41	3	2,000,000	347,297
February 14, 1972	41	3	40,000,000	4,613,888
February 14, 1972	40	3	162,200,000	15,096,124
March 16, 1972	41	3	17,000,000	2,819,500
June 27, 1972	40	3	5,000,000	691,263
September 13, 1972	41	3	2,500,000	395,462
February 28, 1973	40	3	25,000,000	4,544,194

Date of Borrowing

	Original Maturity (Years)	Interest Rate (%)	Original Principal Amount (USD)	Principal Amount Outstanding as of December 31, 2009 (USD)
April 12, 1973	42	3	96,300,000	18,051,396
April 12, 1973	43	3	5,300,000	1,156,458
April 12, 1973	40	3	25,200,000	3,156,765
January 28, 1974	40	3	5,000,000	811,885
April 19, 1974	40	3	2,800,000	583,551
September 11, 1974	41	3	25,700,000	6,505,904
September 13, 1975	41	3	5,000,000	1,146,769
September 13, 1975	41	3	5,000,000	1,145,511
September 13, 1975	41	3	5,000,000	1,562,352
February 18, 1976	40	3	11,900,000	2,128,621
February 18, 1976	40	3	27,900,000	5,418,244
February 18, 1976	40	3	23,400,000	6,662,055
February 18, 1976	40	3	90,800,000	19,283,656
July 21, 1977	41	3	59,500,000	16,143,052
July 21, 1977	40	3	43,800,000	10,592,975
June 7, 1979	30	3	40,000,000	12,091,419
January 25, 1980	40	3	30,000,000	9,975,706
May 18, 1981	40	3	27,000,000	9,588,261
October 12, 1994	20	6.25	1,640,370,000	628,853,549
March 27, 1998	15	LIBOR+0.75	2,000,000,000	468,856,448
September 14, 1998	16	LIBOR+0.5	48,000,000	10,416,989
October 23, 1998	15	LIBOR+0.75	2,000,000,000	800,000,000
Subtotal in Original Currency				USD 2,077,387,867
Subtotal in Equivalent Amount of Won ¹				₩ 2,425,558,073,950

(1) U.S. dollar amounts are converted to Won amounts at the rate of US\$1.00 to Won 1,167.6, the market average exchange rate in effect on December 31, 2009, as announced by Seoul Money Brokerage Services, Ltd.

b. Borrowings in Euro

Date of Borrowing	Original Maturity (Years)	Interest Rate (%)	Original Principal Amount (EUR)	Principal Amount Outstanding as of December 31, 2009 (EUR)
October 7, 1980	30	2	1,876,441	181,509
November 27, 1980	30	2	4,254,971	447,892
April 19, 1982	39	2	7,029,215	1,596,739
March 27, 1985	30	2	2,039,087	804,317
Subtotal in Original Currency				EUR 3,030,456
Subtotal in Equivalent Amount of Won ¹				₩ 5,073,832,600

(1) Euro amounts are converted to Won amounts at the rate of EUR1.00 to Won 1,674.3, the market average exchange rate in effect on December 31, 2009, as announced by Seoul Money Brokerage Services, Ltd.

c. Borrowings in Japanese Yen

Date of Borrowing	Original Maturity (Years)	Interest Rate (%)	Original Principal Amount (JPY)	Principal Amount Outstanding as of December 31, 2009 (JPY)
May 23, 1980	20	3	6,318,121,002	315,906,050
July 30, 1980	20	3	8,218,688,814	410,934,440
December 20, 1985	25	5	15,200,000,000	653,234,000
December 20, 1985	25	5	4,100,000,000	217,744,000
December 20, 1985	26	5	2,700,000,000	112,042,000
August 18, 1987	25	4.25	7,750,000,000	1,256,754,000
August 18, 1987	25	4.25	12,911,000,000	1,960,866,000
December 31, 1987	24	Floating	3,509,195,236	658,675,936
May 24, 1988	24	Floating	7,567,732,075	1,985,772,875
June 22, 1988	25	4.25	2,679,000,000	500,255,000
June 22, 1988	25	4.25	5,920,000,000	1,088,325,000
June 22, 1988	25	4.25	5,254,000,000	726,019,000
June 22, 1988	25	4.25	4,440,000,000	838,775,000
December 13, 1989	25	Floating	8,745,658,966	4,535,498,666
October 31, 1990	25	4	4,320,000,000	1,351,932,000
October 31, 1990	25	4	5,414,000,000	718,488,000
October 31, 1990	25	4	2,160,000,000	700,068,000
Subtotal in Original Currency				JPY 18,031,289,967
Subtotal in Equivalent Amount of Won ⁽¹⁾				227,702,735,960

Total External Debt in Equivalent Amount of Won..... ₩ 2,658,334,642,510

(1) Japanese yen amounts are converted to Won amounts at the rate of JPY100.00 to Won 1,262.8, the market average exchange rate in effect on December 31, 2009, as announced by Seoul Money Brokerage Services, Ltd.

B. External Guaranteed Debt of the Government

Borrower	Issue Date	Maturity Date	Interest Rate (%)	Currency	Original Principal Amount	Principal Amount Outstanding as of December 31, 2009
Hana Bank	April 9, 2009	April 9, 2012	65	USD	1,000,000,000	1,000,000,000
Hana Bank	June 30, 2009	December 30, 2011	48	MYR	710,000,000	710,000,000
Hana Bank	June 30, 2009	June 29, 2012	4.85	MYR	290,000,000	290,000,000
Total External Guaranteed Debt in Original Currencies						USD 1,000,000,000
						MYR 1,000,000,000
Total External Guaranteed Debt in Equivalent Amount of Won⁽¹⁾						1,508,410,000,000

(1) U.S. dollar amounts are converted to Won amounts at the rate of US\$1.00 to Won 1,167.6, the market average exchange rate in effect on December 31, 2009, as announced by Seoul Money Brokerage Services, Ltd. Malaysian ringgit amounts are converted to Won amounts at the rate of MYR1.00 to Won 340.8, the market average exchange rate in effect on December 31, 2009, as announced by Seoul Money Brokerage Services, Ltd.

C. Internal Debt of the Government

Title	Range of Interest Rates (%)	Range of Years of Issue	Range of Years Outstanding as of Original of Maturity	Principal Amounts Outstanding as of December 31, 2009 (billions of Won)
1. Bonds				
Interest-Bearing Treasury Bond for Treasury Bond				
Management Fund	2.75-8.35	2000-2009	2010-2029	280,853.3
Interest-Bearing Treasury Bond for National Housing I	3.0	2000-2009	2005-2014	43,091.0
Interest-Bearing Treasury Bond for National Housing II	0.0-3.0	1985-2009	2005-2029	4,592.3
Interest-Bearing Treasury Bond for National Housing III	0	2005	2015	594.2
Non-interest-Bearing Treasury Bond for Contribution to International Organizations ¹⁾	—	1967-1985	—	11.3
Total Bonds				329,142.1
2. Borrowings				
Borrowings from The Bank of Korea	0.0-2.25	2009	—	1,117.2
Borrowings from the Sports Promotion Fund	3.95-5.0	2009	2012-2015	220.0
Borrowings from the Private School Teachers' Pension Fund.....	4.2-5.27	2005-2006	2010-2011	145.0
Borrowings from the Korea Foundation Fund	4.31	2009	2014	30.0
Borrowings from the Korea Student Aid Foundation Fund.....	4.65-5.59	2009	2011-2016	1,249.8
Sub-Total				2,762.0
Total Borrowings				
Total Internal Funded Debt				331,904.1

(1) Interest Rates and Years of Maturity not applicable.

D. Internal Guaranteed Debt of the Government

Title	Range of Interest Rates (%)	Range of Years of Issue	Range of Years Outstanding as of Original of Maturity	Principal Amounts Outstanding as of December 31, 2009 (billions of Won)
1. Bonds of Government-Affiliated Corporations				
Korea Deposit Insurance Corporation.....	4.13-5.0	2005-2009	2010-2014	27,320.5
KAMCO	Floating-5.27	2009	2012-2014	834.5
Total Bonds				28,154.5
2. Borrowings of Government-Affiliated Corporations				
Rural Development Corporation and Federation of Farmland	5.5	1967	2000-2023	137.9
Total Borrowings				137.9
Total Internal Guaranteed Debt ..				28,292.4

OFFICIAL STATEMENTS AND DOCUMENTS

Our President and Chairman of the Board of Directors, in his official capacity, has supplied the information set forth under “The Korea Development Bank” (except for the information set out under “The Korea Development Bank—Business—Government Support and Supervision”). Such information is stated on his authority.

The Minister of Strategy and Finance of The Republic of Korea, in his official capacity, has supplied the information set out under “The Korea Development Bank—Business—Government Support and Supervision” and “The Republic of Korea.” Such information is stated on his authority. The documents identified in the portion of this prospectus captioned “The Republic of Korea” as the sources of financial or statistical data are official public documents of the Republic or its agencies and instrumentalities.

EXPERTS

Our non-consolidated financial statements as of December 31, 2009 and for the year ended December 31, 2009, appearing in this prospectus, have been audited by Ernst & Young Han Young, independent auditors, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

FORWARD-LOOKING STATEMENTS

This prospectus includes future expectations, projections or “forward-looking statements”, as defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The words “believe”, “expect”, “anticipate”, “estimate”, “project” and similar words identify forward-looking statements. In addition, all statements other than statements of historical facts included in this prospectus are forward-looking statements. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we can give no assurance that such expectations will prove correct. This prospectus discloses important factors that could cause actual results to differ materially from our expectations (“Cautionary Statements”). All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the Cautionary Statements.

Factors that could adversely affect the future performance of the Korean economy include:

- continuing difficulties in the housing and financial sectors in the United States and elsewhere and the resulting adverse effects on the global financial markets;
- adverse changes or volatility in foreign currency reserve levels, commodity prices (including oil prices), exchange rates (including fluctuation of the U.S. dollar or Japanese yen exchange rates or revaluation of the Chinese renminbi), interest rates and stock markets;
- adverse developments in the economies of countries that are important export markets for the Republic, such as the United States, Japan and China, or in emerging market economies in Asia or elsewhere;
- substantial decreases in the market prices of Korean real estate;
- increasing delinquencies and credit defaults by consumer and small and medium sized enterprise borrowers;
- declines in consumer confidence and a slowdown in consumer spending;
- the continued emergence of the Chinese economy, to the extent its benefits (such as increased exports to China) are outweighed by its costs (such as competition in export markets or for foreign investment and the relocation of the manufacturing base from the Republic to China);
- social and labor unrest;
- a decrease in tax revenues and a substantial increase in the Government’s expenditures for fiscal stimulus measures, unemployment compensation and other economic and social programs that, together, would lead to an increased government budget deficit;
- financial problems or lack of progress in the restructuring of Korean conglomerates, other large troubled companies, their suppliers or the financial sector;
- loss of investor confidence arising from corporate accounting irregularities and corporate governance issues at certain Korean conglomerates;
- the economic impact of any pending or future free trade agreements;
- geo-political uncertainty and risk of further attacks by terrorist groups around the world;
- the recurrence of severe acute respiratory syndrome, or SARS, or an outbreak of swine or avian flu in Asia and other parts of the world;
- deterioration in economic or diplomatic relations between the Republic and its trading partners or allies, including deterioration resulting from trade disputes or disagreements in foreign policy;
- political uncertainty or increasing strife among or within political parties in the Republic;

- hostilities involving oil producing countries in the Middle East and any material disruption in the supply of oil or increase in the price of oil; and
- an increase in the level of tension or an outbreak of hostilities between North Korea and the Republic or the United States.

SOURCE OF FUNDS FOR REPAYMENT OF THE BONDS

The Issuer plans to pay principal and interest on the Bonds from income generated from normal operations of the Issuer.

THE ISSUER'S REPRESENTATIVE IN THAILAND

The Issuer has appointed KDB Bangkok Representative, a company having its registered office at Room 15A, Grand Mercure Asoke Residence, 50 Sukhumvit Soi 19, Khlongtoey nua, Wattana, Bangkok 10110 , Thailand, Tel: +070-8262-5254, as its representative in Thailand for service of process for the purposes of:

- (i) Receiving writ summon, letters, orders or any other documents relating to the Bonds in Thailand on behalf of the Issuer; or
- (ii) Contacting relevant government authorities in relation to the issue and offer of the Bonds in Thailand on behalf of the Issuer.

RATING

Credit Ratings of the Issuer

The Issuer was rated 'A1' by Moody's Investors Service on 14 April 2010, 'A' by Standard & Poor's Ratings Services on 27 July 2005, and 'A+' by Fitch Ratings on 24 October 2005. The outlook on KDB's long term counterparty credit rating is negative by Moody's Investors Service, negative by Standard & Poor's Ratings Services and stable by Fitch Ratings. Please refer to the rating definitions in Attachment 5 for more details.

Credit Rating of the Bonds

The Bonds were assigned a credit rating of A1 by Moody's Investors Service on 19 May 2011 with stable outlook. Please refer to the rating definitions in Attachment 5 for more details.

ENCUMBRANCES ON THE PROPERTY OF THE BANK

As of the date of this document, there are no encumbrances existing against the property of the Issuer.

TOTAL OUTSTANDING DEBTS OF THE BANK UNDER DEBT INSTRUMENTS

As of 31 December 2010, the total outstanding debts under all bonds, debentures, notes or other debt instruments issued by the Issuer appearing in the balance sheet of the Issuer is KRW66,808.2 billion based on its yearly audited financial statements.

DUTY ON SUBMISSION OF FINANCIAL STATEMENT

1. The Issuer has no duty to submit its audited annual financial statement in Korea.
2. The Issuer will prepare and submit its audited annual financial statement in English language to the Office of the Securities and Exchange Commission of Thailand.