

Governor's Message



Rak-Yong Uhm
Governor

Amid the ever-changing and challenging business environment, the Korea Development Bank continues its intense efforts to revitalize and support the Korean economy and its growth potential.

In 2000, the KDB aggressively expanded its bond underwriting activities to alleviate the credit crunch in the corporate bond market, and increased its direct equity investment in SMEs and venture businesses.

The Korean economy enjoyed a banner year in 2000 thanks to brisk facility investment and increased exports. GDP grew 8.8 percent and improvements in macroeconomic indicators such as growth rate, inflation and the current account balance buoyed the favorable business atmosphere. However, the worsening of the domestic and international environments, coupled with the latent fragility of the Korean financial sector, resulted in a rapid slowdown in growth and a weakening of the economy after the last quarter of 2000.

Amid the ever-changing and challenging business environment, the Korea Development Bank (KDB) continues its intense efforts to revitalize and support the Korean economy and its growth potential. To secure a foundation for sound management, the Bank is enhancing its financial stability and improving asset quality. As evidence of such efforts, the KDB's non-performing loan amount dropped from W6.5 trillion at year-end 1999 to W2 trillion at year-end 2000.

Moreover, the Bank seeks to introduce advanced banking practices through the expansion of infrastructure, enhancement of risk management and internal control systems and introduction of a responsible management culture based on performance. Despite its overall good performance last year, the Bank suffered a net loss of W1.4 trillion mainly due to the fallout from the financial crisis and its expanded public policy role thereafter.

In 2000, the KDB supplied a total of W14.8 trillion in funds for loans and investments. The Bank concentrated its resources on facilitating corporate restructuring, funding corporate investments that contributed to improved

productivity, supporting promising SMEs including venture businesses and stimulating national infrastructure development. In the investment arena, it aggressively expanded its bond underwriting activities to alleviate the credit crunch in the corporate bond market, and increased its direct equity investment in SMEs and venture businesses.

In 2000, the KDB raised W18.5 trillion in domestic and overseas markets. Dramatic increases in deposits in the first half of 2000 further attested to the Bank's high credit rating, and strengthened marketing strategies aimed at high net worth customers and institutional investors. In the second half, the KDB also increased its quality deposits by concentrating on short-term deposits and thereby reducing procurement costs. Industrial financial debentures, which comprise the largest portion of internal financing, recorded W12 trillion in sales thanks to aggressive marketing that highlighted the Bank's market flexibility and underwriting sales.

On the international front, the Bank solidified its role as Korea's flagship borrower in the international capital markets. The KDB became the first Korean financial institution to release euro-denominated bonds when it released bonds worth 500 million euros. The Bank also assumed the role of prime borrower when it borrowed US\$300 million from the euro market at the lowest interest rates since the currency crisis. And the KDB's entry into the euro market became the benchmark for foreign borrowing among Korean financial institutions. Thanks to its outstanding performance, the Bank was named Best Asian Sovereign Borrower by *Euromoney* for the second consecutive year.

The Bank aims to stabilize the Korean capital market and to help promote corporate restructuring by reinforcing financial support for companies and bolstering the investment banking sector.

In 2000, the Bank's paid-in capital decreased by W860 billion to W4,112 billion due to losses incurred in the process of corporate and financial restructuring. The Bank and the Korean Government are closely discussing a capital increase in the form of cash or liquid securities. In addition, the KDB has continued to reshuffle its organization to cope with Korea's rapidly-changing financial environment since the financial crisis in 1997. In 2000, it carried out the second phase of restructuring with the aim of strengthening its independent business division system and establishing a firm basis for promptly and flexibly dealing with any potential challenges in the future.

The year 2001 will serve as a touchstone on whether the Korean economy can continue to progress despite a number of negative factors or fall into recession. Uncertainty in the domestic and international economies is expected to bring considerable challenges.

In addition to strengthening its industrial development finance role of stimulating economic growth, the KDB also seeks to emerge as a profitable commercial bank intent on maximizing its corporate value. Thus, it will continue to focus on corporate finance in supporting venture

businesses and SMEs. The KDB also plans to invigorate provincial economies in Korea through the expansion of funding support and its capital base by developing new fee-based services and products.

The Bank aims to stabilize the Korean capital market and to help promote corporate restructuring by reinforcing financial support for companies and bolstering the investment banking sector. By adopting universal banking standards and taking on international investment projects, the Bank can realize its goal of becoming a world-class investment bank and Korea's representative in the world financial market. Efforts to institute advanced credit standards and ensure stable profits will further solidify and develop the KDB's role in the economy. Continued management innovation and sound financial infrastructure will ensure adaptability to changes in the financial industry. Through these efforts, the Bank will reaffirm its status as an industrial development specialist and a corporate and financial restructuring leader.

Finally, we express our sincere gratitude to all of our esteemed clients and associates for their steadfast support and cooperation, which we trust will continue for years to come.

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