

KDB's Strategies in a Challenging Market Environment



Enhancing Risk Management

In 2000, through the Risk Management Committee established in June 1998, the KDB strengthened the function of the "Control Tower", which examines financial risk and develops management strategies. Each month the committee examines aspects of risk, asset and liability management, and profitability, while promoting risk management based on balance and restraint through the establishment of a management plan.

The Bank constantly promotes the effectiveness of risk management through the periodic examination, reporting and control of risk. The Bank has strengthened the systematic management and avoidance of risks that accompany business activities through the periodic monitoring of the chief risks that arise in the process of operations, such as credit, interest rate, liquidity and price risk, and by ensuring the risk does not exceed tolerance levels. Furthermore, the Bank has amplified its risk measurement methods through a post-factum analysis of the effectiveness rate of risk measurement models. Risk management systems have also been developed for the Bank's two subsidiaries (Hong Kong, Ireland) and the five overseas branches (New York, London, Tokyo, Singapore and Shanghai) as part of our comprehensive domestic and overseas risk management system.

KDB has created its own internal model for the most important form of risk - credit risk - and analyzes fluctuations in the volume of risk on a monthly basis. In order to prevent an excess of credit risk, the Bank fixes and manages net exposure limits for each company according to credit levels and size of the company. In the event that limits are exceeded, the authority to approve the loan is moved to a higher level to ensure a prudent credit decision.

To improve the industrial portfolio, in 2000 the Bank upgraded the credit risk management system. This included the establishment of credit management

guidelines under which industries are divided into 5 ranks: active expansion, moderate expansion, no change, moderate reduction, and active reduction. The Bank will continue to monitor and enhance risk management in all areas.

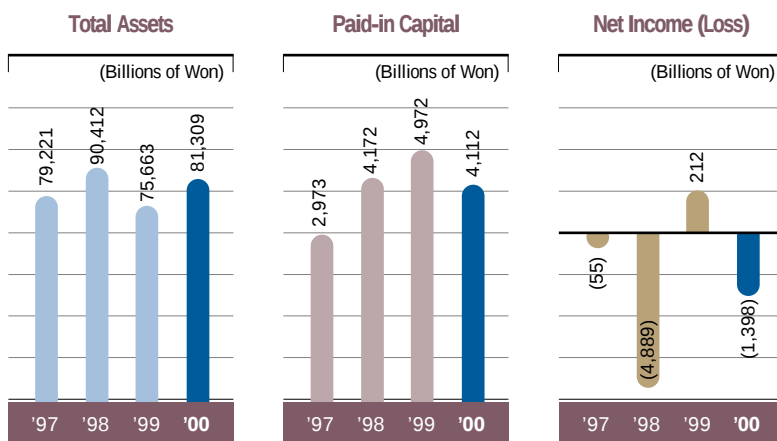
Reengineering Loan Business Processes

In order to enhance efficiency and transparency in credit management, new credit practices have been introduced throughout the credit operations, from loan consultation to credit decision-making and follow-up management based on the credit analysis and review system. The major changes are as follows:

A Corporate Banking Planning Department was newly established to support and encourage efficiency in the credit operation. CO (Credit Officer) and RM (Relationship Manager) systems are in operation to heighten professionalism and ensure rational credit decision-making through mutual cooperation and cross-checking. KDB also has a Credit Review Committee, Head Office Credit Review Committee and Credit Review Sub-Committee to ensure transparency in credit decision-making.

The Bank adopted a corporate credit evaluation system based on the Forward Looking Criteria (FLC) to be applied as a starting point for making all loan-related decisions. The early-warning team was expanded and rearranged into a follow-up management team and loan review team. The Bank operates a new follow-up management system that includes initiatives such as detailed corporate analysis by the loan review team to ensure rational decision-making.

Finally, the Bank has completed the credit analysis and review system in 11 areas, including a credit information access system to support effective decision-making on loan consultation, credit evaluation and follow-up management.



Reshaping Internal Organization

KDB has continued to reshuffle the organization as a way of positively coping with the rapid changes taking place in the country's financial environment since the foreign exchange crisis in 1997. In 2000, the Bank carried out the second phase of restructuring with the aim of strengthening the independent business division system and establishing a firm basis for dealing with any challenges that may arise in the future in a prompt and flexible way.

The duties of the Deputy Governor changed following reorganization in 2000. The Deputy Governor now assumes general responsibilities concerning management strategies, control of funds and risk management, in addition to ensuring that each division in the operation sector establishes yearly objectives and that the heads of these divisions signs an MOU concerning the objective.

The Bank has enhanced its ability to cope with changes in the financial environment actively and flexibly through the integration of funds supply and planning functions into the new Management Planning Division. To heighten independent credit risk management, the Bank transferred the position of Credit Officer, which previously belonged to the Corporate Banking Division, to the credit office under the Risk Management Division. The Bank has also given each Credit Risk Management Committee at the department and branch level the authority to make independent decisions in cases where a prompt decision is required without the involvement of a Credit Officer in a bid to speed up the loan-related process.

Elsewhere, the Bank inaugurated a second and additional Investment Banking Department as a way of strengthening internal operations through encouraging inter-department competition. The Small & Medium Corporate Banking Division was also divided into two departments for the same reason. A Classified Assets Management Division was newly established to gather operations associated with non-performing loans under one division. A Workout Management Department was established to manage operations concerning firms in the process of workout programs.

Nurturing Progressive Corporate Culture

Since KDB's introduction of a knowledge-based management system for the first time in the Korean financial industry, the Bank has been taking the lead in this area. In 2000, KDB took the initiative in organizational innovation by introducing the CreBiz Club. The CreBiz Club is a program where small groups of employees are encouraged to creatively focus on their usual business line. In the groups, employees share creative and diverse business knowledge and know-how. As a basic unit of the

knowledge management system, it is designed to strengthen organizational capacity and encourage employees to regard themselves as professionals. The program is expected to contribute to increasing the Bank's competitiveness in the future.

Paid-in Capital and BIS Capital Ratio

In 2000, paid-in capital decreased by W860 billion to a total of W4,112 billion due to losses attendant with corporate and financial restructuring. In order to cushion the impact of its sizable losses, the KDB needed fresh capital to supplement its existing reserves.

To allow adequate time for the government to smoothly implement the capital increase, the Bank planned a two-step approach. First, the KDB decreased its paid-in capital by W959.8 billion on December 29, 2000 as a preemptive action to absorb its losses in 2000. Second, the KDB has continued to hold close discussions with the government in order to receive the capital in the form of cash or liquid securities. Thanks to the government's full commitment to and support for the Bank, a cash injection of W50 billion is expected in the near future. In addition, a paid-in capital increase ranging from W1.4 trillion to W3 trillion is currently underway.

As of the end of 2000, the Bank's total capital based on consolidated statements in terms of BIS standards stood at W7.0 trillion, 27.3 percent less than the year before. Risk-weighted assets, on the other hand, increased 12.4 percent to W61.1 trillion. As a result, the BIS capital ratio decreased to 11.38 percent over the year.

BIS Capital Adequacy Ratio

(Billions of Won)

	2000	1999	1998
Capital	6,952	9,559	7,338
- Tier 1 Capital	4,592	6,187	4,156
- Tier 2 Capital	2,360	3,372	3,182
Risk-weighted Assets	61,075	54,332	64,826
BIS Ratio	11.38%	17.59%	11.32%