

Domestic Operations

The Bank's domestic operations center on providing financing services to promising SMEs, start-ups, and large corporations with long-term facilities financing, and on funding public projects to expand the nation's infrastructure.

In 2000, an increase in business capital investment riding on the economic recovery saw KDB record a 10.4 percent increase in loans and investments over the previous year to total W14.8 trillion. The Bank also remained a leader in the financial bonds market in 2000 in terms of issuance and distribution, accounting for 64.0 percent of bonds issued. A W1 trillion increase in the Bank's deposits to W8.9 trillion was a result of the Bank's high credit ratings and strengthened marketing activities. The year proved a particularly brisk one in the area of project financing as projects delayed due to the economic crisis went into operation.



Loans

In 2000, equipment capital loans increased 22.4 percent to W5,961 billion. Excluding borrowings from the government, special purpose funds and loans from IBRD and ADB, capital loans reached W4,921 billion. In the midst of a recovery in company capital investment in 2000, loans for equipment capital dramatically increased as a result of aggressive sales activities and the operation of special purpose funds for seeking out new clients.

Equipment capital loans to SMEs in 2000 showed a considerable increase as a result of these initiatives. Working capital loans in 2000 remained at the same level as in 1999, amounting to W4,037 billion.

While loans to manufacturing industry in 2000 recorded a 25.4 percent increase to W5,909 billion, loans to the non-manufacturing sector decreased by 2.5 percent

to W4,089 billion. As a result, the proportion of manufacturing industry in the loan portfolio increased from 52.9 percent in 1999 to 59.1 percent in 2000.

Within manufacturing industries, the machinery sector including fabricated metal products, machinery & equipment took up the largest portion of 27.7 percent, amounting to W1,636 billion. The petrochemical sector, including refined petroleum products, chemicals, rubber & plastic products followed with 26.4 percent, amounting to W1,558 billion.

As for the non-manufacturing industries, the transport, storage & communications sector received 16.9 percent of total loans at a value of W1,694 billion while the electricity, gas & water industries received 10.0 percent of total loans at a value of W996 billion.

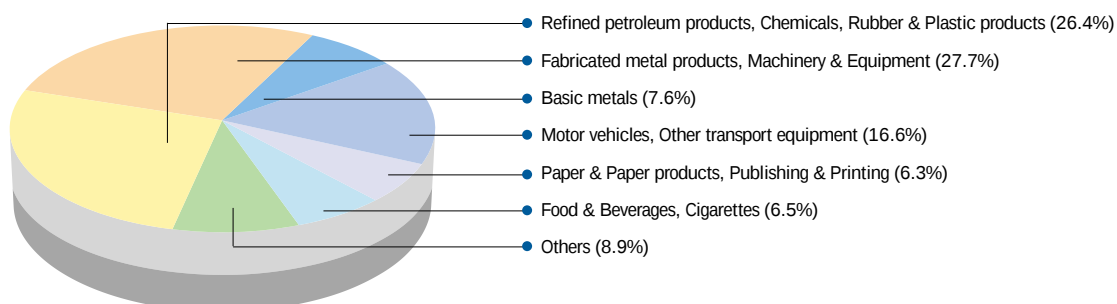
New Loans and Investments by Industry

(Billions of Won)

	Loans			Investments	Total
	Equipment Capital	Working Capital	Sub-Total		
Agriculture, Forestry & Fishing	0.5	–	0.5	–	0.5
Mining	17.1	82.5	99.6	–	99.6
Manufacturing	2,565.9	3,342.9	5,908.8	1,766.7	7,675.5
Electricity, Gas & Water	991.2	4.7	995.9	–	995.9
Construction	5.6	20.1	25.7	172.0	197.7
Wholesale & Retail Trade, Restaurants & Hotels	150.0	222.7	372.7	69.4	442.1
Transport, Storage & Communication	1,371.0	322.8	1,693.8	207.0	1,900.8
Finance, Insurance & Services	619.6	15.2	634.8	2,544.9	3,179.7
Other services	239.7	26.2	265.9	39.3	305.2
Total	5,960.6	4,037.1	9,997.7	4,799.3	14,797.0

Notes: 1) Borrowings from government, special purpose funds, loans from IBRD and ADB included.
2) Securities trading excluded.

New Loans in the Manufacturing Sector



Investments

Project Finance

Since 1994, when the Korean government enacted the law inducing private participation in infrastructure projects, KDB has maintained a dominant position in the domestic infrastructure project financing market. One of the main activities of the Bank is to act as financial advisor. Starting from the initial stages of project development, the Bank assists in the structuring of projects to minimize project-specific risks. KDB also plays an important role in arranging financing for projects and has the most prominent placing power in the domestic financial market. For the past six years, KDB has had an advisory role on 55 projects and successfully completed the financing of 14 projects totaling W4.3 trillion.

The year 2000 was one of the Bank's most vigorous years for project financing as several postponed projects were rushed onto the market, having previously been delayed due to the economic crisis. KDB arranged the financing for five projects totaling W1.8 trillion, starting with the Anyang/Buchon Cogeneration Power Project. This project involved W529 billion of financing and was the first financing of a non-greenfield power project. As a result of the Bank's continuing efforts to diversify avenues for funding, the financing for the Daegu-Busan expressway project with a total of W1.1 trillion was successfully secured. The financial package included a W500 billion long-term infrastructure project bond issue, a US\$100 million offshore tranche and a local syndicated loan facility for the remainder. To secure against exchange rate risk stemming from the offshore loan, KDB also provided the borrower with a long-term KRW/USD swap facility.

Equity Investment

A majority of the Bank's domestic equity investment was made through direct investment or through loans converted to equity in the process of corporate restructuring. Of particular note in 2000 was the dramatic increase in investment in venture companies and SMEs. In 2000, W923.5 billion of loans were converted to equity for workout companies in the process of restructuring. In terms of general equity investment, W127 billion was invested in venture companies and SMEs, while other equity investments to the value of W249.3 billion were made, including W177.3 billion in Daewoo Securities.

Since 1998, KDB has been supporting the government's policy to seek out and nurture promising venture companies and SMEs through a venture and SME investment fund. In 2000, equity investment in venture companies and SMEs recorded a dramatic increase, more than doubling the W58.6 billion recorded in 1999.

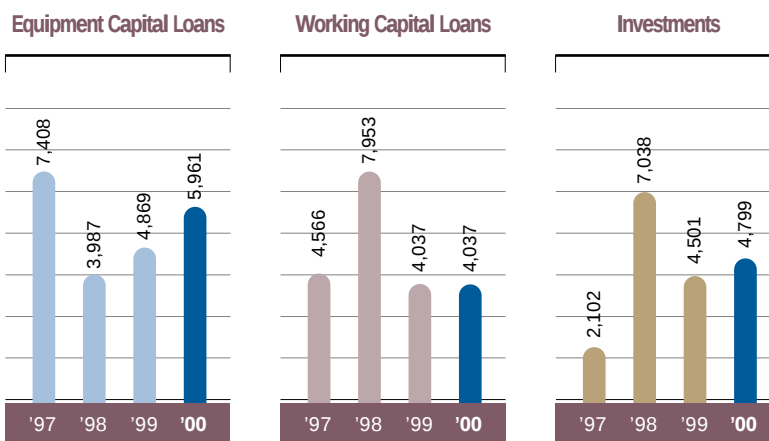
Capital Market Activities

In response to favorable market developments in 2000, including asset securitization, corporate restructuring and privately-funded projects, the Bank offered lead management services for asset-backed securitization, SOC bond issuance and convertible bond issuance. The new services were aggressively marketed through business ties with leading securities firms and improved relationships with institutional investors.

The total bonds underwritten by KDB amounted to W6.5 trillion. The Bank's aggressive marketing strategy was instrumental in helping it overcome unfavorable market conditions stemming from the Daewoo crisis and unstable interest rates. The Bank managed to reduce associated risks by selling off most of its bond portfolio.

New Loans and Investments

(Billions of Won)



Considering its brief history in the area of arranging corporate bond issues, this record testifies to the Bank's ability to satisfy corporate financing needs. Furthermore, KDB underwrote Korean Treasury Bonds of W477 billion in 2000 in a bid to position itself as a big player, as the government bond market is becoming more active with its increasing importance. KDB earned a primary dealership to form the first-ever group of privileged dealers and as a consequence can conduct the government bond treasury business from a more advantageous position. KDB intends to strategically maximize the synergy effects of integrating the know-how it has accumulated in the government, corporate and KDB bond businesses.

Mergers & Acquisitions

Utilizing its advantages in industry research and its credit review capabilities, its global network and a vast array of Korean business contacts, KDB provides comprehensive M&A and financial consulting services ranging from extensive analysis of profitability of projects and compatibility with clients' strategy to tax and legal considerations.

In 2000, KDB demonstrated its expertise by successfully completing a consultation for the disposal of Illeun Securities Co., Ltd. by the Korea Deposit Insurance Corporation. KDB has maintained strong business alliances with leading foreign M&A advisory firms including RECOF in Japan, by completing several cross-border M&A transactions with those partners.

Mutual Fund Investment

In 1998, in step with the government's emergency rescue efforts to deal with the financial crisis, the Bank participated in establishing four corporate restructuring funds totaling W1.6 trillion in consortium with 22 financial institutions. These funds were designed to tide over promising businesses caught in a temporary liquidity bind.

As of the end of 2000, a total of W1.9 trillion was invested in 124 businesses suffering from cash flow problems. Of the 124 recipients of operation capital, SMEs numbered 92 and received W1,018 billion, or 53 percent of the total investments. Moreover, the Bank supported the government policy of fostering the then fledgling KOSDAQ market and channeled W686 billion, or 36.1 percent of the total figure, into KOSDAQ-listed firms, thereby contributing a great deal to the growth of the OTC market.

Fund Raising

Industrial Finance Bonds

In 2000, the nation's bond market saw a stabilization of long-term interest rates. The market enjoyed a stable fund supply throughout the year and saw a rapid growth in the magnitude of transactions centered on short-term dealings. However, the bond market's role of supplying funds to businesses decreased due to a consistent market preference for low risk bonds.

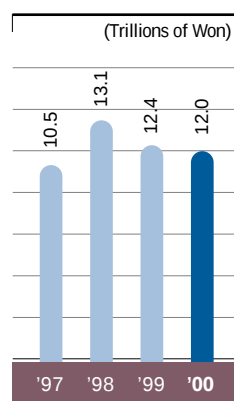


The Industrial Finance Bonds also remained at the top in the financial bonds market in 2000, in terms of the amounts of issuance and distribution.

KDB sought to maintain sales of its Industrial Finance Bonds in the wholesale market, marketing on its credit ratings, the highest in Korea, and adopting flexible sales tactics. The Bank also made efforts to expand its individual customer base by means of consignment-based sales through domestic securities companies.

The Industrial Finance Bonds also remained at the top in the financial bonds market in 2000, in terms of the amounts of issuance and distribution, accounting for 64.0 percent of the total financial bonds issued, although the amount of issuance fell to W12 trillion, a 3.4 percent year-on-year decrease. The share of long-term funds with a maturity of three years or longer was 45.1 percent of the total, revealing customer preference for stable long-term funds.

Won-denominated IFB Issues



Borrowings

In 2000, KDB borrowed W162 billion from the government to support public projects such as the construction of a filtration plant and development of a distribution complex, and W401.8 billion from diverse funding institutions to support SMEs, tourism business, information technology and energy saving projects.

Deposits

In 2000, the difference in credit ratings between banks in Korea became more conspicuous as a result of ongoing financial restructuring. Amidst such a market environment, funds tended to show a preference for safety, rushing to the well-performing banks. The bearish stock market, the planned implementation of the global financial income tax system, and the planned changes in the system for protection of depositors also contributed to the concentration of funds at well-performing banks.

KDB posted a high growth in deposits in the first half of the year, assisted by the highest credit ratings in the nation and improved marketing tactics centered on VIP customers and institutional investors. On the basis of these results, rather than seeking a further increase in deposit quantity, in the second half of the year the Bank focused on strengthening the foundations of a qualitative deposit structure. To that end, the Bank sought to reduce funding costs by concentrating on attracting short-term deposits. At the end of 2000, KDB's total balance for deposits came to W8,905 billion (W8,590 billion in Korean Won and W315 billion in foreign currencies), which was a W1 trillion increase over the previous year.

