

Governor's Message



Looking back at 2001, any potential signs of Korea's economic recovery were overwhelmed by the global economic downturn and the terrorist attacks on the United States. Nevertheless, the Korean economy grew 3 percent thanks to increases in domestic consumption and construction investment stemming from the government's policy of expanding fiscal expenditure and maintaining low interest rates. Furthermore, the country was able to stave off potential economic instability through consistent corporate and financial restructuring, and this helped the nation's sovereign credit rating to receive upgrades from the major credit rating agencies.

Above all, 2001 will be remembered as a year of landmark improvements in our financial soundness. Last year, we exerted all efforts to enhance profitability by preventing the occurrence of non-performing loans and implementing comprehensive profit management. As a result, the Bank earned net income of over W100 billion. In addition, the Bank's paid-in capital increased to W7.2 trillion due to an additional capital increase of W3 trillion. The BIS capital adequacy ratio increased to 16.9 percent at the end of 2001, testifying to our improved asset quality.

Regarding our management strategy, we continued efforts to improve efficiency in our organization, build advanced management systems and expand our information infrastructure. In addition, we successfully expanded our operation base and achieved noticeable results in corporate banking, such as an improved credit evaluation system. Other developments included the conclusion of strategic alliances with Hanvit Bank and other major regional banks, and the successful amendments of the KDB Act to support emerging businesses.

In 2001, the KDB supplied W18 trillion in industrial funds to expand Korea's growth potential and develop emerging industries. Efforts to jump-start facility investments included the raising of a yen-denominated fund with a low interest rate and the provision of special funds for SMEs. As we continued to expand our support to the SME sector, we pursued our goal of spurring regional development through cooperative alliances with local government entities. Moreover, the Bank was instrumental in enhancing the nation's credit rating through completing the restructuring of Daewoo Heavy Industries and playing a core role in reforming major Korean firms that had continued to damage the Korean economy, including brokering the sale of Daewoo Motor.

In 2001, the KDB raised W21 trillion in the domestic and overseas markets due to increased deposits and the smooth collection of investments and loans. The sale of won-denominated Industrial Finance Bonds reached W10 trillion, easily attaining our annual target for this area, while sales of certificates of deposit and repurchase agreements also rose.

As the leading representative borrower of Korea, the Bank in 2001 made efforts to invigorate domestic facility investments and contribute to domestic firms' cost saving through the raising of high-quality foreign capital. A total of ¥50 billion worth of Samurai bonds was raised in July, and US\$500 million of Global bonds in November at the lowest interest rate since the Bank started to issue public bonds in the United States.

Not only were we the leader in project finance, but we also took top place in arranging corporate bond issues occupying an 18.4 percent market share. As the leading bank in Korea, the KDB retains a long-term credit rating of "A3" from Moody's, the same credit rating as the Korean government.

2002 will be a historic year as Korea will co-host the FIFA World Cup soccer tournament with Japan. Also this year, the Korean economy is forecast to achieve over 5 percent growth as domestic consumption continues to rise and exports and facility investment rebound amid the rapid recovery in the global economy.

In 2002, we will continue to strengthen our role as an institution specializing in corporate finance and accelerate our development by focusing on the following areas.

Firstly, in addition to strengthening the competitiveness of traditional industries, we will also promote the growth of emerging businesses such as the "5T" industries, and continue to expand our support to the SME sector and venture businesses.

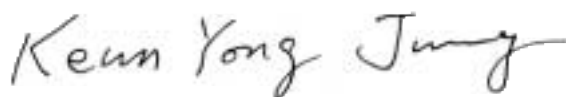
Secondly, we expect that the current restructuring phase of major Korean firms will be completed soon and we, as a leading moderator, will endeavor to continue to promote the competitiveness of domestic firms by encouraging continuous market-oriented corporate restructuring.

Thirdly, to effectively cope with the globalization of the Korean financial market, we will accelerate our development to become a leading investment bank in the world.

Lastly, we will strengthen our customer-oriented management and continue to innovate our management "software" to secure future success.

On behalf of the KDB, I would like to express sincere thanks to our esteemed clients and associates for their cooperation and unsparing support, which we trust will continue in the years to come.

April 2002



Governor **Keun-Yong Jung**