

International Banking

In 2001, the KDB further strengthened its expertise in both the international finance and investment banking fields. It has also satisfied their diverse needs by providing financially engineered products and lower rates in trade finance.

Despite the global downturn, the KDB has solidified its position in international operations by aggressively penetrating major financial markets and actively hedging against accompanying risks.

Major rating agencies have rewarded the Bank for its efforts through upgrading its credit rating. In November 2001, S&P upgraded the KDB to "BBB+" and in March 2002, Moody's upgraded its rating from "Baa2" to "A3".

INTERNATIONAL INVESTMENT BANKING

Faced with the global recession and its negative influence on the overall Korean economy, large Korean companies - the KDB's main clients - reduced their demand for offshore and foreign investment funds. This was mainly due to corporate restructuring undertaken during the year amid a worsened investment environment in the aftermath of the terrorist attacks on the United States. Against this backdrop, the Bank concentrated primarily on providing financial services to Korean companies, with its core operations continuing to center on the syndication of loans and securities for companies.

The Bank has five branches and two subsidiaries abroad engaged in a variety of international capital market operations, such as managing and underwriting international securities issues and syndicated loans.

The KDB has played a significant role in arranging major deals for Korean borrowers. During the year, it arranged 22 transactions in international syndicated loans and securities worth US\$1,588 million for both Korean and foreign clients while directly taking US\$288 million of the total.

The Bank extended offshore loans in foreign currencies for the purchase of industrial

equipment and the implementation of industrial projects abroad by overseas subsidiaries and branches of Korean companies. Its overseas network provided foreign currency-denominated loans to clients such as Korean companies and their overseas subsidiaries, financial institutions and foreign companies.

In 2001, the KDB provided its clients with US\$1,326 million in credit support - US\$1,019 million in bilateral loans and US\$307 million in guarantee services, down 41.3 percent from the prior year. The transactions included credit support to Korea First Bank and other short-term operational funds extended to Korean companies.

INTERNATIONAL TREASURY

As a leading provider of value-added risk management solutions, the KDB is a long established market maker in the local and international foreign exchange markets. It offers global execution in quoting competitive prices in all tradable currencies as well as the Korean won, and acts as a primary provider of liquidity. The Bank's range of foreign exchange products includes spots, forwards, swaps and KRW non-deliverable forwards and swaps.

During 2001, the Bank traded US\$103 billion in the international money market. The overall



trading volume did not change from 2000 as foreign currency demand failed to recover due to ongoing corporate and financial restructuring. However, the Bank expanded its money market line to US\$1.3 billion from US\$1 billion to enhance its foreign currency liquidity.

In bond trading, the KDB in 2001 employed sophisticated trading strategies in dealing a variety of bonds including straight bonds, convertible securities and bonds with embedded options. For the year, it traded US\$5.2 billion in bonds. In addition to being a market leader, the Bank was a market maker in Korean bonds and an influential investment institution in Asian bonds by posting the prices of its bond holdings on Reuters and Bloomberg.

The volatility of foreign exchange rates has increased since the lifting of restrictions on cross-border currency transactions. Consequently, companies bearing foreign assets and liabilities have begun paying close attention to the risk management of foreign exchange and related financial products. In response to market demand, the KDB has created and provided corporations with various foreign exchange risk management services. Through these efforts, the Bank has become one of the top five players in Korean corporate FX market trading,

with a total trading volume of US\$23 billion in 2001 alone.

In the derivatives business, the Bank's financial engineering team covers a wide range of products and business areas, including new product design, consulting on structured financial products, ABS, ABCP, ELN, business expansion support for other KDB departments, leasing, project financing, and portfolio investments. The Bank also has the largest outstanding balance of derivatives transactions in Korea with US\$60 billion.

TRADE FINANCE

Trade finance has been one of the Bank's main business areas since the 1997 foreign currency crisis. Despite the decline in total exports in 2001, the Bank provided US\$7.3 billion worth of financing to export companies. For import credit, the total volume of L/C issuance amounted to US\$7.9 billion.

With its competitive pricing and outstanding service, the Bank aims to continuously strengthen its market position in various fields related to export-import financing.

BANK RELATIONS

Guest Observer Course

The annual Guest Observer Course (GOC) is an introduction to the Bank and the Korean

economy to participants from leading financial institutions around the world. Created in response to Korea's increasing role in the global economy, the GOC has hosted over 1,000 financiers since its inception in 1968.

At the 54th GOC in October 2001, 18 representatives from leading financial institutions were invited to learn about the KDB and the dynamic resurgence of the Korean economy. Highlights included the lectures "Changes in the Korean Financial Market and the KDB's Role" and "The KDB's Major Businesses and Recent Issues", and visits to industrial sites such as POSCO and Hyundai Motor.

Correspondent Banking

The financial needs of customers are becoming increasingly diverse and sophisticated as they seek a wide range of business opportunities globally. The KDB is well prepared to meet these globalized needs. With its strong presence in the Korean economy, it has established correspondent banking relations with over 1,000 financial institutions worldwide over the past several years. Utilizing its strong international network, the Bank will continue to assist customers in reducing business risks and provide the most up-to-date information for business in the global market.

