

Investment Banking

One of the Bank's main activities is to act as financial advisor. From the initial stage of project development, the KDB assists the structuring of projects to minimize project-specific risks. It also plays an important role in arranging project financing and has the most prominent placing power in the Korean financial market.

PROJECT FINANCE

Since 1994, when the Korean government enacted a law inducing private participation in infrastructure projects, the KDB has maintained a dominant position in the domestic infrastructure project financing market. One of the Bank's main activities is to act as financial advisor. From the initial stage of project development, the KDB assists the structuring of projects to minimize project-specific risks. It also plays an important role in arranging project financing and has the most prominent placing power in the Korean financial market. For the past seven years, the KDB has served as an advisor on 60 projects and successfully completed the financing of 17 projects worth W5.4 trillion.

2001 was one of the Bank's busiest years for project financing as several projects, delayed due to the economic crisis, were rushed onto the market. The KDB arranged the financing for five projects worth W2 trillion, starting with the Chonan-Nonsan Highway Project. This project involved W730 billion of financing and was the first infrastructure project in Korea to be financed under an ABS scheme. The Bank also arranged W900 billion for the Seoul Beltway Project, consisting of a W500 billion long-term infrastructure project bond issue and

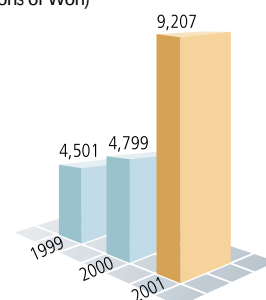
a W400 billion local syndicated loan facility. It also refinanced W160 billion for the Bugok Unified Power Plant project. Through its continuing efforts to diversify avenues for funding and meet client needs, the Bank's market share for project financing in Korea grew to over 84 percent.

CAPITAL MARKET ACTIVITIES

Amid the worldwide trend of low interest rates due to delayed economic recovery and continued restructuring in the private and financial sectors, the flight-to-quality trend made it easier for viable companies to raise funds in the domestic corporate bond market rather than firms with shaky credit. The market's issuance amount increased to W80 trillion, up 36 percent from W59 trillion in 2000.

The KDB's activities in the domestic corporate bond market in 2001 attracted considerable notice in terms of both quantity and quality. In terms of quantity, the Bank arranged the issuance of corporate bonds worth W14.7 trillion, raising its market share from 11.4 percent in 2000 to 18.4 percent in 2001. In terms of quality, it played various roles to activate the domestic bond market. Firstly, the Bank exerted significant efforts to revive the junk bond market by arranging issuance of

> Investments
(Billions of Won)



primary and secondary CBOs, targeting companies that were at credit risk. Secondly, it led the bond market's development by acting as an arranger for diverse bond issues related to the restructuring of financial institutions and SOC investments. The KDB also introduced a variety of new products: SOC bonds combining project finance and ABS in a scheme with a 15-year maturity, the longest period in the domestic market; ABS securitizing the future cash flow of corporations; ABS based on the bad assets of financial institutions; foreign currency-denominated bonds for public subscription; and "Ari-rang Bonds" issued locally by Korean companies operating overseas. All of these activities served as a foundation for a streamlined capital market in Korea.

In 2001, IFR Asia named the KDB the "South Korea Bond House of the Year" in recognition of its contributions and achievements in the domestic bond market.

EQUITY INVESTMENTS

Domestic equity investments at the end of 2001 skyrocketed 189.2 percent to W3,759 billion. Of this amount, W3,000 billion was invested in KEPCO as stocks in kind received from the government. General equity

investments accounted for W372 billion, increasing 31 percent from W249 billion in 2000. Comprising this amount, W138 billion was invested in KDB Capital Corp. and W167 billion was converted to equity from bonds issued by private placements. W99 billion was converted to equity from loans to restructuring companies, a major drop from the 2000 figure of 924 billion. Lastly, the KDB continued to support the government's programs geared at nurturing venture companies and SMEs through investing in this sector. The bearish stock market, however, caused equity investments in venture companies and SMEs to fall from W127 billion in 2000 to W79 billion in 2001.

MERGERS & ACQUISITIONS

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

In 2001, KDB demonstrated its expertise by providing consulting services for the sale of two business buildings by Hyundai Merchant Marine and the equity of Keumkang

Broadcasting by Korea Data Systems. It maintains strong business alliances with leading foreign M&A advisory firms.

MUTUAL FUND INVESTMENTS

In step with the government's emergency rescue efforts to deal with the financial crisis, the Bank in 1998 helped to establish four corporate restructuring funds worth W1.6 trillion in a consortium with 25 financial institutions. The funds were designed to assist promising businesses suffering from a temporary liquidity bind.

At the end of 2001, W2 trillion was invested in 137 businesses suffering from cash flow problems. Of the 137 recipients of working capital, 103 were SMEs that received W1,116 billion, or 56.1 percent of the total investments. Moreover, the Bank supported the state policy of fostering the then fledgling KOSDAQ market and channeled W714 billion, or 35.9 percent of the total figure, into KOSDAQ-listed firms.

