

Funding

OVERSEAS FUNDING

As the nation's representative borrower and funding vehicle, the KDB has arranged many successful issues such as those of Global, Samurai and euro-denominated bonds. It has established important benchmarks in most major markets as the first Korean financial institution to enter them, and played a crucial role in Korea's recovery from the 1997 financial crisis.

During 2001, the Bank raised US\$1,673 million in funds from overseas, up 14.7 percent from the previous year.

In the first half of 2001, the Bank sought to optimize its overseas funding allocation by mixing its traditional bond issuance with term loan borrowings. In response to growing client demand for yen, it opened an overseas funding program for the year through the borrowing of a ¥25 billion term loan facility due in 2004. Furthermore, it re-entered the Samurai bond market after a one-and-a-half year absence through its 19th issuance of Samurai bonds worth ¥50 billion.

Over the same period, the Bank also sought to lower its funding costs by taking full advantage of market opportunities. In May, it issued three Euro MTNs worth US\$100 million and borrowed US\$150 million through a bilateral loan facility in June.

In the second half of 2001, the Bank's funding activities were marked by re-entry into the US\$ syndicated loan and Global bond markets, the latter coming after a two-and-a-half year absence. The KDB re-entered the US\$ syndicated loan market in September by borrowing a US\$200 million syndicated debt facility due in 2003. Fourteen banks participated in the syndicated loan facility, which was a new benchmark for other Korean

banks whose main funding sources are Asian syndicate markets.

In November, the Bank tapped US\$ markets with a US\$500 million five-year Global bond, over two and a half years since its last Global bond deal in April 1999. The intent was to capitalize on low US interest rates. It successfully issued the bonds with a coupon rate of 5.25 percent. To support the KDB's US\$500 million Global bond issue, the Bank held a week-long road show in November 2001 in London, New York and other major financial hubs.

2001 also saw the Bank solidify its role as Korea's benchmark issuer and lower its funding costs by taking advantage of developments in the global financial markets.

DOMESTIC FUNDING

Industrial Finance Bonds

Despite the downward trend of interest rates, the domestic bond market appeared rather unstable in 2001.

In the first half of 2001, mass MMF redemptions at investment trust companies were caused by the sharp rise in interest rates. In the second half, a sharp decrease occurred in the amount of issue and circulation of corporate bonds due to the preference for safe assets, and the floating and maturity shortening of market funds amid the continued recession and increased credit risks. With the rush for short-term financial products in the bearish stock market and low rates, institutional investors showed a preference for Treasury and public bonds due to their relative safety and high degrees of liquidity.

The KDB is funding industrial funds primarily through issuing Industrial Finance Bonds (IFBs)

whose domestic credit rating is "AAA," the highest among bonds issued in the nation. In recent years, the Bank has gradually increased its issue amount of IFBs to meet the growing demand for industrial funds. In 2001, however, the Bank issued W10 trillion in IFBs, down 17 percent from the year before following decreased demand resulting from an overall fall in corporate facility investments. Looking at the sales record of IFBs by maturity, those with a maturity of three years or longer showed a considerable decrease to 30.5 percent from 45.1 percent the year before. Those with a maturity of one year rose to 60.3 percent from 54.8 percent in the previous year, reflecting the market preference for short-term bonds.

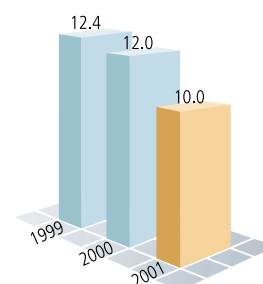
Borrowings

In 2001, the KDB borrowed W521.9 billion from a variety of public funds to support productivity improvement, energy-saving facilities and the tourism industry. Additionally, it borrowed W397.3 billion from the government to support public projects such as the construction of water purification plants, air freight businesses and loans to the Korea Coal Corp.

Deposits

In 2001, market funds flowed into performance-dividend type products of non-

> Won-denominated IFB Issues
(Trillions of Won)



bank financial institutions owing to the drop in interest rates. This resulted in a serious reduction in the gap in the volume of deposits among financial institutions from the previous year. With the general preference for short-term funds, there was also an increase in short-term deposits while long-term deposits remained sluggish.

The KDB has posted an average annual growth rate of 34 percent in deposits since the fourth quarter of 1997, when it entered the market. The robust performance stemmed from intensive marketing to financial institutions and wealthy individual customers, while focusing on the Bank's high rating as a state-run financial institution.

In 2001, the Bank sought to increase the sale of short-term financial products like CDs and RPs to adjust liquidity and reduce funding cost. Simultaneously, it strengthened profitability through aggressive marketing for MMDAs, which have a lower funding cost compared to that of other deposit products. At the end of 2001, the deposit balance amounted to W10,483 billion, an increase of W1,961 billion from the previous year. The total consisted of W8,920 billion worth of won deposits and W1,563 billion in foreign currencies.



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