

Risk Management

In 2001, the Bank applied innovative measures to strengthen its risk management operations. Fundamentally, it focused on maintaining a suitable level of risk by effectively putting the risk management framework adopted during the financial crisis into practice, and forming and cultivating a risk management culture throughout the Bank.

CREDIT RISK MANAGEMENT

The KDB places the utmost importance on managing credit risk since it is the largest single risk. The Bank adopted a micro approach to manage credit risk of individual customers and a macro approach to deal with portfolio credit risks.

Various efforts were directed towards micro risk management control. Notably, the CO (credit officer) and RM (relationship manager) systems adopted in 1999 are gradually taking root. Furthermore, the two systems have become more specialized and their once-shared roles have been separated under the principle of mutual checks and balances. To decrease the default risk of long-term facility loans and to promptly grasp any changes in a customer's credit quality, the Bank strengthened its follow-up loan management by improving the checklist on the current financial and non-financial status of a client.

The controls for macro risk management are focused on three areas. Firstly, the Bank manages portfolios through a system of credit ratings. It closely examines the rating profile of portfolios to prevent increased exposure to lower ratings and applies more rigorous limits to clients with lower credit ratings than high-grade customers.

Secondly, the Bank focuses on avoiding exposure concentration not only by setting internal credit limits for a single borrower and

conglomerates, but also by complying with regulations for large exposures. Moreover, it analyzes and manages portfolios by sector to prevent exposure concentration to any specific industry.

Thirdly, the Bank strives to control industry-specific risks. The industrial rating and signal systems adopted in 1999 have proven instrumental to the Bank's efforts to improve the risk profile of credit portfolios by sector. With this standardized tool, the KDB analyzes risks of low-rated and high-risk industries and takes countermeasures when necessary.

MARKET RISK MANAGEMENT

In order to manage market risk, the KDB sets limits for aggregate VaR, stop loss, and exposure, to ensure a suitable level of marketable securities (including trading assets). In 2001, it allocated VaR limits to divisions, departments and products, thus making the management of marketable securities more efficient. Additionally, the Bank laid the foundation for systematic management of market risk by adopting new regulations and integrating various rules related to market risk management in July 2001.

LIQUIDITY RISK MANAGEMENT

To control liquidity risk, the Bank thoroughly complies with the minimum liquidity ratio guidelines set by financial authorities. It has



also established a system to simultaneously manage the maturities of assets and liabilities to effectively manage the maturity gap and check compliance with limits. Under this system, the daily and monthly status of forthcoming maturities can be checked, identifying when appropriate measures need to be taken.

ESTABLISHMENT OF BANK-WIDE RISK MANAGEMENT SYSTEM

In December 2000, the Bank announced a plan to establish a bank-wide risk management system to improve its risk management process in an innovative fashion. To comprehensively cover management of credit and market risk, assets and liabilities, and risk data mart, the system was adopted based on the recommendations and findings of the business process innovation project carried out in May 2001.

As part of the plan, a model to measure market risk based on the standardized measurement method suggested by the BIS was completed in December 2001. In 2002, further efforts to advance risk management operations will include the improvement of internal systems to manage credit and market risks, bringing the KDB closer to becoming a world-class investment bank.



The Bank has developed a
bank-wide risk management
system to upgrade its risk
management operations to a
level comparable to that of
world-class banks.

