

LUNCHEON ADDRESS

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Good Afternoon, ladies and gentlemen.
I'm Kang Chung-Won from Kookmin Bank.

I'm honored to be with you today at this marvelous conference jointly organized by IMF, FSC, and FSS.

Today, my speech opportunity before Mr. Callum McCarthy, Chairman of Financial Services Authority, Mr. John Laker, Chairman of APRA, and many of the other distinguished guests certainly proves that even in Korea there is no Free Lunch.

We have witnessed stunning growth of Korea banking industry both in quality and quantity since the financial crisis in 1997. Loans including privately placed bonds which was at KRW 346 trillion as of the end of 2000 doubled to KRW 692 trillion in 6 years. Proportion of consumer loans has climbed to 50% from 30% of the total loan during the same period.

Consumer lending growth, which has been hovering over 40% for three consecutive years from 2000, has stabilized to 10-11% since 2003 credit card crisis, whereas corporate lending growth has been accelerating since 2005 thereby surpassing consumer lending growth this year for the first time since the Asian financial crisis.

Such growth in volume is attributable not only to public fund injections amounting to KRW 70 trillion but also to the concerted efforts that regulatory agencies and banks have made in introducing robust risk management systems and culture.

Looking back, at the initiative of the regulatory agencies, banks introduced implementation of non-executive director and compliance officer thereby

laying down the groundwork for more enhanced corporate governance and internal control, and also made significant improvements in corporate loan management system and procedures.

Since then, CEOs were excluded from making loan decisions yet it took some time to separate credit decision from marketing. Huge investments were made to improve consumer lending system restoring check and balance between credit analysis and marketing only after credit crisis in 2003.

For example, 95% of new consumer loans at KB are screened through Credit Scoring System managed by the Credit Group nowadays, which is a big change compared to just two or three years ago when most decisions were made based on individual experience at branch level.

All these efforts finally paid off, despite rapid asset growth. In 2005 when the negative ramifications of the credit card crisis subsided to a large extent, Korean banks were able to reach the level of advanced banks overseas in terms of financial soundness and profitability.

In 2005, average ROA of the banking industry has exceeded 1%, first time ever. As of the end of June, 2006, the average BIS ratio of the banks is 13.2%, with substandard-and-below loan ratio of 1.02% and ROA of 1.31%. Now, new challenge for the industry is to determine the optimal level of asset quality and profitability in pursuing further growth.

In the meantime, banks, while strengthening credit management systems, have engaged in a fierce competition to grant consumer loans resulting in a rapid surge in household debt. Debt-to-income ratio reached 140% as of 2005, which is far higher than that of US or Japan.

Being aware of the risk factors that may impair financial stability, FSS has recently introduced stricter bank lending rules through Loan to Value(LTV) and Debt to Income(DTI) in order to put a brake on the hyper-growth of mortgages, which account for more than 60% of retail loans.

Difference from 2003 crisis is that banks have now put in place more robust retail credit management system including separation of credit decision from marketing and are better prepared to respond to macro-prudential supervision.

The significance of this gathering is that it underscores macro-prudential supervision as an added safeguard against financial instability to in-house risk management system.

Again, it is a great honor that Kookmin Bank is part of this meaningful event and I wish you all the best in your future endeavors.

Thank you.