Principle Code of Loan and Standards of Loan Practice

KB 국민은행

KB금융그룹

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"Principle Code of Loan" and "Standards of Loan Practice"

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Principal Code of Loan is the code of highest ethical standards by which KB Kookmin Bank and its loan officers abide in making all loan-related value judgments and decisions, as well as a value developed to contribute to cultivate a healthy credit culture.

Principal Code of Loan Prescribes that all loan officers shall:

- Conduct lending operations with a focus on safety, profitability and growth and in such a way as to contribute to the uniform growth of national economy and industry.
- Reject short-term goals in the interest of sustainable management by making balanced decisions in risk and return.
- Stay at the forefront of ethical management by putting bank and customer interests first without individual preferences or conflicts of interest and by shunning unethical loan practices.
- Conduct themselves with an attitude that is sincere, professional, respectful and ethical and fulfill their responsibilities toward society, customers and the Bank.
- Remain aware that all of their individual decision makings and actions are fundamental to the soundness and reputation of the Bank's assets; and become the representation of a model loan officer by cultivating an exemplary work posture.

II. Standards of Loan Practice

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Standards of Lending Practices represent a value system that governs loan origination and management, constitute the foundation of the Bank's loan culture and policy, and are the fundamental principles by which all loan offers must abide.

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1. Ethic Standards

A. Compliance Responsibility

- As a bank established in accordance with the Banking Act as well as a corporation with the Business Act, KB Kookmin Bank shall conduct business in accordance with related banking, business and civil laws.
- All loan officers conducting loan-related work shall comply with all relevant rules and guidelines.
- All loan officers shall have a full knowledge of all procedural forms of loans for which they are responsible and follow the instructions contained therein to the letter in executing the lending.
- In handling all matters neither specified in the loan procedural forms nor covered by rules or regulations, loan officers shall follow general financial practices or exercise common sense in a prudent manner.

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1. Ethic Standards

B. Professionalism

- Loan officers shall, with the self-esteem of the highest level professionalism, make dispassionate decisions necessary for securing risk-weighted asset growth, maximum profits, and asset soundness.
- Loan officers shall possess the abilities to follow through the entire loan process, from consulting to post management, as well as to collect and analyze all information and data necessary for making loan decisions.
- Loan officers shall, through constant self-development, gain and maintain the professional skills to find funding and operating methods optimal for their customers' needs and to measure future uncertainties.

1. Ethic Standards

C. Independence and Objectivity

- Loan officers shall conduct their responsibilities as a professional by making fair and rational loan decisions free of personal bias, conflicts of interest, undue influence or pressure by maintaining an independent stance anchored on the fundamentals.
- All loan decisions shall be rational enough for third parties to understand and be free of discrepancies in objectivity, rationale and logic.
- All loan documents, including evaluation reports, on which loan decisions are based, shall be produced in a manner analytical, objective and comprehensive of all factors including those deemed negative and risky.
- Loan officers shall seek to obtain all information necessary for making sound loan decisions and, by sharing such information with decision makers, strive to prevent asymmetric information.

1. Ethic Standards

D. Prevention of Moral Hazard and Conflict of Interest

- Loan officers shall neither conduct lending as a way to achieve short-term goals nor handle loans to simply satisfy borrowers' needs at the expense of Bank and customer interests.
- Loan officers shall conduct business free of all private relationships formed of regional, school or family ties; handle no loans as a favor for benefits received, as a response to solicitation, or as a deference to retired superiors; and receive no money, valuables, treats or any other irregular rewards for the loan services they perform. In particular, a "behind-the-door" request for a loan should be regarded as egregious as requesting for a job position as a favor.
- In case The Bank's interest is in conflict with the customer's, the former shall take precedence over the latter; and when a conflict of interest arises in the making of loan decisions, loan officers shall consult all decision makers and seek to derive solutions in favor of the Bank's interest.
- Loan officers shall refrain from conducting loan business in a conventional practice or being enmeshed in mannerism; make constant efforts to improve work procedures with an attitude sincere, upright and ethical; and make every effort possible to preempt unethical activities.

1. Ethic Standards

E. Lender Liability

- Loan officers shall be held accountable for the lending practices they perform during the entire process ranging from loan consulting to repayment, and make no petty efforts to shun or shift their responsibilities onto others.
- When signing a loan agreement with a borrower, the loan officer shall make sure the borrower is aware of all terms important for making his/her final decision; and, as a professional fully aware of the legal clout of all contract-related actions, carry out the obligation to inform.
- Loan officers shall remain fully aware that all bank loans are properties dear to customers and investors; conduct all loan decisions with utmost sincerity; and make every effort possible to fully protect loans from all inherent risks.

1. Ethic Standards

F. Accountability

- Loan officers shall exercise the rights, with which they are assigned as a professional, in a manner fair and rational, and comply with all rules and standards of conduct expected of professionals to follow.
- Loan officers shall make the best effort possible to prevent unfair business practices and protect financial consumer rights.
- Loan officers shall be held responsible for any intentional wrongdoings which result from their business conduct and cause the Bank or customers a financial loss.
- Loan officers shall be protected from the threats of retaliation by superiors for refusing to obey the latter's work requests or orders they deem unreasonable or unethical.

Standards of Loan Practice

2. Credit Analysis Standards

A. Systematic and Rational Approach

B. Decision Making Based on Repayment Ability

C. Rational Credit Ratings and Limits

2. Credit Analysis Standards

A. Systematic and Rational Approach

- In measuring the creditworthiness of prospective borrowers, a top-down approach shall be employed analyzing market, industry and business risks with a focus on the strengths, weaknesses, opportunities, and threats of each sector.
- Credit analysis shall include a due diligence involving site inspections, interviews with CEO and employee, and other investigations of basic material factors.
- In evaluating long-distance loans and others potential problem loans such as those on demarketing lists of other banks, evaluators shall employ an intent scrutiny not only of the borrowers themselves but also of other corporations with whom they have business relationships, so as to prevent a further incurrence of potential problem loans.
- For lending being a business of recurrence, loan evaluation shall be conducted involving a rational estimation of future rather than present conditions on an objective basis.

2. Credit Analysis Standards

B. Decision Making Based on Repayment Ability

- Credit evaluation shall focus primarily on prospective borrowers' future ability to repay loans by analyzing their financial and business data with a particular attention to the profit performance, cash-generating ability and financial flexibility.
- The analysis of financial data shall begin with establishing the credibility of submitted data and be directed toward evaluating sales performances, income structure, financial stability and other materials relevant to determining borrowers' ability to repay loans.
- Operating cash flow shall be considered as a financial source with which borrowers can repay their loans; however, non-business investments or financial activities, and other incidental cash flows shall not be included in the assessment of borrowers' repayment ability.
- Borrowers' repayment ability and timetables shall be evaluated not only in a quantitative method focusing on figures but also in a qualitative manner measuring the quality of relevant indicators.

2. Credit Analysis Standards

C. Rational Credit Ratings and Limits

- Credit evaluators shall rate the credit worthiness of prospective borrowers in a rational and coherent manner based on all data analyses and the evaluation standards of the Bank.
- In case existing credit ratings are found to be unreasonable or inadequate in reflecting borrowers' repayment ability, readjustment shall be conducted in a timely fashion based on objective validity.
- Efforts shall be made to secure objective data that reveal the use and amount of expenditures and to extend loans appropriate to assigned ratings and assessed repayment abilities.
- Loan shall be extended in strict accordance with defined lending policies including legal or internally-set limits so as to create the soundest possible both the loan portfolio and the quality of assets.

Standards of Loan Practice

3. Operating Standards

A. Asset Soundness and Profitability

B. Credit Reinforcement and Preservation

C. Loan Reevaluation for Risk Management

3. Operating Standards

A. Asset Soundness and Profitability

- Loan growth should be viewed not as a means to achieve short-term goals but as a progress of efforts made to secure both profitability and soundness through the conduct of prudent risk management practices.
- Bank assets should be secured sound by efforts made to prevent assets from going bad and extend loans to borrowers of proven creditworthiness ; and efforts should be exerted to recall potential problem loans in a timely fashion.
- Loan durations and repayment methods should reflect borrowers' repayment ability and cash flows; and amortization should be extensively used to prevent loans from sliding into a long-term delinquency and prepare for future uncertainties.
- The interest rates of loans should reflect borrowers' credit ratings and lien status, and funding costs; and any aggressive business practices should be avoided that could cause the Bank a financial loss.
- A timely provision of loans that meet customer needs should be pursued in tandem with efforts to generate income through additional services, as ways to attract long-term primary customers.

3. Operating Standards

B. Credit Reinforcement and Preservation

- The callability of loans shall be maintained through credit reinforcement and lien establishment based on loan evaluations.
- Loan guarantee and collateralization shall be arranged in accordance with laws and evaluated in a conservative method with an eye toward recovering loans in full. Moreover, collateralized properties shall be regularly managed and evaluated so as to ascertain that they retain their appraised value.
- Collateral shall be secured prior to the extension of loans and appraisal conducted not only of collateral's present market value but also of its future worth, with a view toward recouping the full amount of loans in the event of liquidation.
- Credit enhancement or lien establishment should be considered not as a means of primary importance to make loan decisions or determine repayment resources, but as a mechanism to minimize losses in the event of delinquency.

3. Operating Standards

C. Loan Reevaluation for Risk Management

- Efforts shall be made to regularly reevaluate borrowers' financial conditions, ability to repay, business prospects, collateral value, loan callability and other variables, so as to secure adequate returns till loans reach their maturities and, at the same time, to minimize the chance of loans going bad.
- All steps shall be taken to ensure that such loan terms and conditions are followed by borrowers as those covering the use and misuse of loans; and any loans that have transgressed their agreed-upon uses shall be promptly recalled.
- Economic and industry environments should be closely observed for signs of change; professional relationships with loan customers continuously cultivated with an eye toward spotting unexpected changes in their business operations; and thus collected information reflected in the decision making process.
- For risk being the potential of gaining or losing something of value, preemptive efforts should take place to reduce loan exposure at first signs of problem.
- Bad or delinquent loans shall be promptly recalled at first signs of trouble so as to minimize provisioning expenses associated with protracted bad debts; and efforts should be made to recover loans classified as NPLs and thus contribute to increase incomes.

Standards of Loan Practice

4. Corporate Social Responsibility

A. Contribution of Public Interest

B. Environmental Risk Management

C. Respect of Human Right and Affirmative Action

4. Corporate Social Responsibility

A. Contribution of Public Interest

- No activities shall be funded through either loan or investment that are designed to harm public interest, support crimes, or promote evasion of laws in any shape or form.
- Loan officers shall be fully aware of that borrowers convicted of drug, pornography and sex, illegal arms, contraband and other unlawful trades are liable to have their assets forfeited by an amount equivalent to profits they have gained illegally and thus to suffer a drastic deterioration in terms of both repayment ability and value of the collateral secured against the loan; accordingly, loan officers shall scrutinize loan applications for the possibility of loans being used other than stated purposes and thus prevent the Bank from incurring potential problem loans.
- In evaluating corporate loan applications, decision makers shall consider applicants' track record in such CSR activities as ethical management and environmental protection practices, social welfare contributions, job creation.
- Active efforts shall be made toward discovering and financially supporting companies that have promising technology, innovative income models, or high growth potential, as well as small business owners, sole-proprietor creative enterprises, and other business entities in need of an encouragement in the form of financial support.

4. Corporate Social Responsibility

B. Environmental Risk Management

- Environmental risk shall be reflected in all evaluations of loans for or investments in corporations that have large pollution footprints and are thus expected to carry substantial environmental costs.
- When an issue is observed by the Bank's environmental risk monitoring system, all risk factors related to the management of current loans and to loan origination should be analyzed and, if a source(s) has been identified, all remedial steps shall be taken promptly.
- Continuous efforts shall be made toward providing financial support in a fluid fashion to industries or corporations with an excellent track record in environmental improvement or green growth.

4. Corporate Social Responsibility

C. Respect of Human Rights and Affirmative Action

- In loan origination and management, conscious efforts should be made toward discouraging actions or factors that can negatively impact human rights and promoting affirmative action.
- Efforts should be in force all time toward preempting actions deemed discriminatory in the recommendation or provision and loan products or services; if such an action(s) is found, no efforts shall be spared to lessen the damage thus created as well as to eradicate the action itself.

  *Actions deemed discriminatory: those that give preference to, exclude, differentiate or discriminate against, certain groups of customers based on their sex, religion, physical disability, age, place of origin, nationality, appearance, marriage status, political or sexual orientation, or education level.

- In recalling loans as a result of default, steps shall be taken to prevent unlawful, unjust or unfair actions from taking place; and efforts made that are in compliance with legal procedures toward helping borrowers lead stable and dignified lives.