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KOREA'S FINANCIAL EVOLUTION: A BANKER'S PERSPECTIVE

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ROBERT FALLON

Chairman, Korea Exchange Bank

When the Asian financial crisis first reared its ugly head in South East Asia, nobody knew how long, how awful, and how catastrophic Asian money centers would be rocked. And rocked they were, especially in Korea, as well as several other economies. Running a trade deficit for several years leading up to 1997, when several firms began to go bankrupt, Korean financial markets panicked, and fear took over. In late 1997, foreign banks, which had extended short-term credit to many Korean financial institutions, left a dust trail as they all bailed out, leaving banks and the Korean central bank clamoring for liquidity. The stock market and the won were devalued by about 50 percent as fear swept through the nation. Newspapers across the globe showed women hawking their jewelry and crying, while nationalism set in and everyone bought Korean instead of foreign goods. The International Monetary Fund and other global financial institutions all joined hands to help, and to this day, economists and other officials argue about how effective the IMF was or was not in the region.



It was a dramatic moment in Korean financial history, but the results were spectacular. The government set high standards in the financial sector and forced banks to merge and restructure. New laws were set in place. And for the first time, the ownership of financial institutes was opened to foreign direct investment.

Enter Robert Fallon, Chairman of Korea Exchange Bank, a \$60 billion institution and the leading international bank in South Korea. In spring 2004 Mr. Fallon became the first foreigner to chair a publicly traded corporation in the history of South Korea after the U.S. investment group Lone Star took over the bank in 2003. He has charismatically led the bank's turnaround through vigorous restructuring, with bank profits reaching \$509 million in 2004, after a \$209 million loss in 2003.

On February 28, 2005, the APEC Study Center (ASC) and the Program on Alternative Investments of the Center on Japanese Economy and Business (CJEB) at Columbia University hosted a symposium featuring Mr. Fallon about the evolution of Korea's financial sector. Lee Branstetter, Daniel W. Stanton Associate Professor of Business, presided, and Mark Mason, Director of the Program for Alternative Investments and Associate Director for Programs of CJEB, was the moderator.

This program was also co-sponsored by the Korean Business Association and the Asian Business Association of Columbia Business School. This report and reports of past programs can be downloaded at the Web site of ASC (www2.gsb.columbia.edu/apec), CJEB (www.gsb.columbia.edu/japan), or the Program on Alternative Investments of CJEB (www.gsb.columbia.edu/japan/alternatives).



Left to right: Lee Branstetter, Robert Fallon, Hugh Patrick, Mark Mason

Introduction



LEE BRANSTETTER

Daniel W. Stanton Associate Professor of Business

It's an honor and a privilege to introduce Robert Fallon, the chairman of the Korea Exchange Bank, a \$70 billion institution and the leading international bank in South Korea. Ro is the first foreigner to chair a publicly traded corporation in the history of South Korea. After receiving an M.B.A. from Harvard Business School, he began his international banking career with Citibank in 1975. Since then, Ro has lived and worked in a number of East Asian countries, and he's been affiliated with a number of leading financial institutions, including Citibank, Drexel Burnham Lambert, Bankers Trust, and Chase Manhattan Bank. He served as the Asia-Pacific division head for Chase Manhattan and was responsible for the bank's activity in 13 countries, multiple time zones, and a plethora of languages and legal systems.

Ro's 28 years in Asian financial markets have given him a very valuable perspective on the financial upheavals of recent years. He moved back to New York to serve as Group Executive of Global Financial Services at JP Morgan Chase, and then he took time out from his very successful private sector career to partner with myself and CJEB in 2002 to develop a set of original case studies on Asian financial markets for a course called "Business and Financial Markets in East Asia" at Columbia Business School. These cases have become the most popular features of my course. His insight and his personal connections were essential in getting these cases written, and his presentations as co-instructor helped provide enormous valuable and practical insight into market realities. Thanks to Ro, this course has consistently been the highest-rated international business elective at Columbia Business School for every semester in which it has been taught.

In late 2003, Ro was tapped by the Lone Star Group to serve as President and Chief Executive Officer of Korea Exchange Bank, an institution acquired through what I believe was the largest private equity investment in any Asian financial institution outside Japan. Over the course of a year, he has led the bank through a wholesale reorganization and

restructuring that restored the bank's capital strength and profitability, achieving a record net income of more than \$500 million in 2004.

It is one of the most dramatic turnarounds in recent Asian financial history, and I look forward to making this a case study for my course in the future. This turnaround is an important component of the larger process of transforming Korea's financial institutions into world-class organizations that can serve the evolving needs of that dynamic economy.

Most of my students at Columbia Business School want to make a good living when they graduate, and there's certainly nothing wrong with that. But my own ambition for my students is for them to go out and make history: to do things that no one has ever done before, to leave the institutions dramatically better than they found them, and in this way, contribute to the greater prosperity of the communities and societies in which they work. It's hard for me to think of anyone I know who has exemplified this ideal better in his own career than our speaker. Please join me in welcoming to the podium the Chairman of the Korea Exchange Bank and a great friend of Columbia Business School, Mr. Robert Fallon.

Presentation



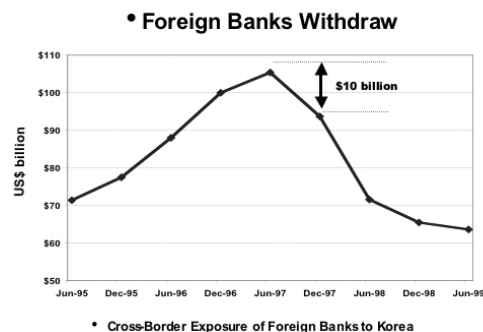
ROBERT FALLON

Chairman, Korea Exchange Bank

Initially, I will speak on the International Monetary Fund crisis in Korea and the subsequent banking sector restructuring that took place and use that as a background for the situation with Korea Exchange Bank (KEB).

Let's start with a snapshot of what Korea's trade situation looked like before the crisis. The country had a chronic trade deficit for the seven years prior to 1997. If you run a trade deficit, you're likely to incur a current account deficit as well, which in fact was the case in six out of seven of those years. It's no surprise that it was the largest in 1996, when the trade account deficit was almost \$25 billion. This was also coupled with the deterioration of the Korean credit market, as we had

Table A

The IMF Crisis: A Brief History: 1997–1998

Source: BIS

KEB 인화은행

several large and rather well known bankruptcies, particularly Hanbo Iron & Steel and Sammi Steel, both of which were in KEB's credit portfolio. The markets took note of this and basically sold everything off. In the span of two months in late 1997, the won and equity market were devalued by 50 percent.

The crisis that ultimately precipitated what is commonly known in Korea as the "IMF Crisis" (at Columbia we refer to it as the "Asian Financial Crisis" or "Korea's Financial Crisis") was the \$107 billion in outstanding debt on the books of Korean banks, a debt extended by foreign banks that was usually in the form of committed money market lines. The problem was that about 55 percent of the debt was short term. In other words, it was 3-month, 6-month, 12-month, or less, and it was the lack of liquidity to roll over this debt that actually precipitated the crisis when foreign exchange reserves were drawn down unexpectedly to repay this offshore bank debt that couldn't be rolled over. As foreign banks began to panic after seeing the increasing bankruptcies, the falling equity market values, and the depreciated won, they decided not to roll over their short-term money market lines and pulled out (see Table A). During this time, I was in Tokyo running Chase's business in the region and remember getting a call from Seoul in the second week of December 1997 that said, "KEB wants to borrow \$200 million for liquidity purposes."

I knew there was a problem, but I didn't know the magnitude of it. What was happening was that the European and Japanese banks were all pulling their money out of Korean banks. The Korean banks needed dollars to repay the foreign banks. That put tremendous pressure on the central bank, which didn't have any more foreign exchange left to pay forward commitments under swap lines. In fact, reserves went down to \$7 billion by the second week of December, and the central bank didn't have sufficient reserves to carry it through the second week of January. This precipitated a call to Robert

Rubin, the former U.S. Treasury Secretary, who recognized that this was going to be a significant event, a situation that could not be easily ignored, like Thailand or Indonesia. Compared to the latter two countries, the magnitude was much greater. Korea is the tenth largest economy, a major U.S. military ally in a precarious part of the world; you had to ensure this wasn't going to become a sovereign default or some kind of a debt moratorium. It required action, and that action had to be coordinated through a global initiative, including the World Bank, the IMF, the Asian Development Bank, and bilateral lines from central banks from the likes of the Bank of Japan and the U.S. Federal Reserve. The combined line of credit that was provided was \$58 billion, of which \$30 billion was ultimately used.

Many people don't recognize that, in addition to the \$58 billion, there was a \$22 billion private sector initiative, as major money center banks around the world agreed that they would roll over their debt. Why? The banks were able to exchange existing debt to debt that was guaranteed by government-owned Korea Development Bank, with extended maturities between one to three years. And in doing so, liquidity was preserved, and some of the pressure that was brought onto the Bank of Korea in terms of foreign exchange illiquidity was relieved.

The \$107 billion in offshore debt of Korean banks that I mentioned was ultimately reduced to \$66 billion. In terms of restructuring, it was significant that the complexion of the debt changed from short term to long term. The problem in the Korean financial crisis was not one of too much offshore debt in the country overall; the country had a very strong balance sheet. Its economy was large enough to have sustained more external debt. The problem was that the composition of the debt was short term. It was largely in the hands of Korean banks, and the banks were very volatile because they could have their credit lines called when the short-term debt matured. These issues were remedied by key initiatives from the Ministry of Finance and Economy. Particularly noteworthy was the creation of the Financial Supervisory Service (FSS) and the Financial Supervisory Commission (FSC), which administer bank licenses, as well as monitor and regulate banks. Moreover, the FSS imposed strict discipline on nonperforming loan (NPL) classifications, so that people couldn't fudge the true extent of their delinquent loans.

In Japan, as you know, banks had the tendency to understate their NPLs. But in Korea, the new rules were strictly enforced and followed carefully; weak banks were not protected or coddled. They were encouraged, or forced, to consolidate, while management was tossed out. The government

was quite active in terms of taking a role in trying to stabilize the situation by encouraging consolidation and welcoming foreign direct investment. I'm an example of that. I would never have been at KEB if it hadn't been taken over by foreign investors. Financial disclosure, corporate governance, and transparency improved dramatically with the above measures.

There are banks that are still owned by the government, like Korea First Bank, which is about to be sold to Standard Chartered. There's also Woori Bank, which is 80 percent government owned. Korea Asset Management Corporation also

Table B

The IMF Crisis: Response

• Consolidation

	As of 12/31/97	As of 9/30/04	Change
Banks	33	19	(14)
Merchant Banks	30	2	(28)
Securities Houses	36	42	6
Insurance Companies	45	44	(1)
Investment Trust Companies	31	47	16
Mutual Savings	231	108	(123)
Credit Union	1,666	1,066	(600)
TOTAL	2,072	1,334	(738)

Source: FSS

KEB  **인화은행**

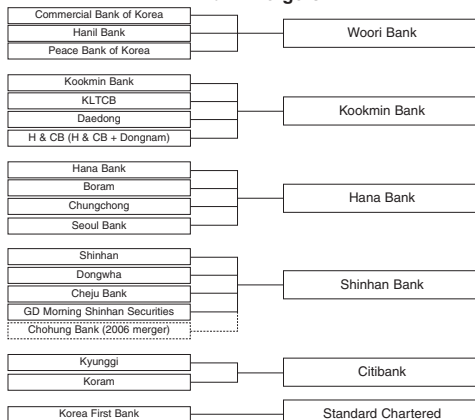
holds a lot of the NPLs it bought. Korea Investment Trust Company (ITC) and Daehan ITC are in the process of being sold. In the end, it's not good that the government continues to own these financial institutions, so something has to be done over time.

The IMF crisis required some response, consolidation being one. Almost 700 of about 2,000 banks, quasi-banks, mutual savings banks, and credit unions were merged (see Tables B

Table C

The IMF Crisis: Response

• Bank Mergers



and C). That's quite a significant consolidation—a reduction by a third. Moreover, it was not just small institutions that were merged. Nineteen different banks were essentially merged into six, the last two being Citibank and Standard Chartered. So what you really have now is four large domestic banks. What does this mean? It means that competition has increased because you've got some stronger banks with improved risk management now. And this consolidation has put some pressure on KEB to perform.

Foreign direct investment was welcomed, and you can see it remains so with Standard Chartered's forthcoming acquisition of Korea First Bank (see Table D). KEB has two significant foreign shareholders: Lone-Star, with 51 percent, and Commerzbank, with almost 14 percent.

Table D

The IMF Crisis: Response

• Foreign Direct Investment

Investor	Investee	
Capital Group International	Kookmin Bank	(5.99%)
ING Bank N.V.	Kookmin Bank	(3.78%)
Goldman Sachs	Kookmin Bank	(1.14%)
Newbridge Capital	Korea First Bank	(48.56%)
Commerzbank	Korea Exchange Bank	(14.75%)
Lone Star	Korea Exchange Bank	(51.00%)
Allianz	Hana Bank	(8.16%)
International Finance Corp.	Hana Bank	(4.37%)
Citibank	Koram Bank	(100%)
Standard Chartered Bank	Korea First Bank	(100%) (April '05)

KEB  **인화은행**

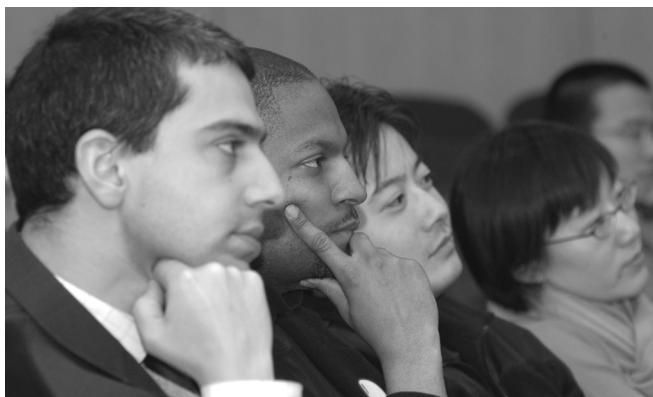
What happened after the crisis? People forget that there was a mild economic recovery in 1998, but by the middle of 1999, there was a major problem: the collapse of Daewoo. Daewoo frightened banks again and caused everyone to pull in liquidity and restrict credit extension. With the lack of credit appetite, NPLs increased because the borrowers who were living hand-to-mouth through bank line-to-bank line liquidity were squeezed out of the market. At the height of this crisis, NPLs amounted to 28 percent of the overall banking system, which is extraordinarily large. The government was right when it put together the Korea Asset Management Corporation (Kamco). Kamco has been very aggressive in going out and buying up NPLs from banks. To date, it has bought a face value of \$95 billion in bad loans. And it has already resolved two-thirds of what it bought. How did Kamco do that? Essentially, it bought NPLs worth \$68 billion for \$27 billion, so that's about 40 cents on the dollar. And it ended up selling what it bought for \$32 billion, or about 50 cents on the dollar. Kamco actually made money on this part of the portfolio, so I give it a lot of credit.

The government also recapitalized banks and other financial institutions by a total of \$75 billion, including insurance companies and some merchant banks. The government's commitment to the restructuring initiative was significant, and it was fortuitous that the government had the means to pay for it.

So you had multilateral involvement, with the IMF, ADB, World Bank, the private sector with \$22 billion, the government with more than \$100 billion, plus the Korean Development Bank (KDB). A lot of money was involved in helping Korea come back on course. And, of course, there was considerable corporate restructuring as well. There was a 40 percent reduction in staff in the entire banking sector, which never would have happened had Kim Dae-jung not been President. Though he came into power as a Socialist, it was his credibility with labor that enabled banks to override the unions, to tell them there was no choice but to make these cuts in order for efficiency and strength to be restored in the banking sector. This is analogous to when Richard Nixon, a man with impeccable anti-Communist credentials, went to China and officially recognized the country.

It wasn't easy to cut 40 percent of the workforce and 20 percent of the bank branches. But because it was done, a cyclical recovery came about. Koreans basically acknowledged the problem and tightened their belts. Remember the pictures of Korean women donating their gold jewelry? That was a tremendous reflection of the Confucian nature of a homogeneous society. Everybody said, "We're in this together; everybody has to do its part." I remember one of my Chase colleagues who had a BMW very quietly keeping the car in his garage because he dared not drive a foreign car; that seemed unpatriotic. The prevailing thought was that you had to buy Korean if the country was getting over this particular problem. That curtailed imports and restored a trade surplus.

Recently, while both imports and exports have crept up, a positive trade surplus has continued from 1998 right until today. During this time, Korea has also had a healthy current



account surplus, achieving \$27 billion as of 2004, and the Gross Domestic Product has had a healthy recovery. Of course, Korean economists insist that growth needs to be near China's 8 percent and not at 4.7 percent, like it is today. However, Korea is a developed economy and is no longer an emerging market. KEB finds it difficult to generate loan growth percentage greater than a single digit. Korean Exchange Bank's deposits are larger than our loans. This was not the case in 1997, when the banks were starved for liquidity. That's when they were borrowing from foreigners just to fund their portfolios. The situation today is completely opposite; KEB is not the only bank in town that has more deposits than loans.

Foreign currency reserves were healthy at \$199 billion at the end of 2004, and now are more than \$200 billion. Recently, a government official announced that they were going to start investing in the euro. Of course that caused the won to plummet, which reduced the value of Korea's foreign reserves. But this is endemic throughout Northeast Asia. Taiwan, Japan, and Korea are all buying foreign exchange to be competitive. And they're competitive against each other, so every time the dollar devalues, the Chinese yuan automatically devalues, and so everybody else has to go in and buy dollars to keep their own currency weak. You get into this vicious cycle, and the consequence is expanding foreign exchange reserves. The Chinese penchant for just sitting there and saying, "We don't have a problem, we're pegged to the dollar, we're fine, Jack," is a bit of a problem for Korea and Japan, in particular. So I suspect that some time during the six-party talks on North Korea, someone will say, "Hey, let's stop talking about North Korea and let's talk about getting China to revalue its yuan by 20 percent." This has to come to the table at some point, but only after continued prodding, because it's not in China's interest to change.

The summary of the IMF crisis is that it was significant and could not be avoided. Korea didn't have the luxury like Japan, where national wealth enabled government officials to adopt a passive stance and say, "Well, the rising tide will come back and lift all the boats." Korea was about to go over the edge into a sovereign default, which would have been catastrophic. The government's response was appropriate; it took hard steps. It consolidated and recapitalized banks, threw out management, reduced staff by 40 percent, and closed branches. These are not easy things, but the result facilitated a cyclical economic recovery. Gradually, with financial restructuring, the cyclical recovery also became a structural recovery, particularly in the financial sector. I wish the overhaul would continue in the corporate sector as aggressively as it was pursued in the financial sector. But Korea is doing well economically, and

necessity is the mother of invention. So if all of a sudden you don't need restructuring to survive, you tend to slack off even when there's more restructuring that should be done. The government's commitment to financial sector restructuring was key, and policy responses were appropriate. In contrast to Japan, Korean financial restructuring, in my view, was a success. Japan's was more form than substance. Korea took the hard steps, and it paid off in the end.

I will now give you a snapshot of Korea Exchange Bank. In 1997, KEB was the largest private sector bank in Korea. It

Table E

Post-Crisis: Credit Environment

• KAMCO Recoveries—Dec. 2004



KEB 외환은행

had almost 10,000 employees, \$43 billion in assets, and earned \$66 million—a relatively good year. Its book value was almost \$12 per share, and its market rank was number one. KEB was originally spun out of the Bank of Korea in the 1960s. It was the bank that had the foreign exchange franchise, and the actual name in Korean translates as “foreign exchange bank.” And people knew it because it was the only bank you could go to if you wanted to remit money overseas or receive foreign currency and cash it in. Even today, KEB has a 46 percent market share in foreign exchange, which is a great core competency that provides tremendous fees. I knew this and thought if it still has this market share, it would be something to build on. And why not play to this strength? Korean people are very, very loyal. Customers have been going to KEB for 20 years to do their foreign exchange transactions, even though they are clients of other banks. We're not going to dissuade them from coming. The President of Hana Bank related a story to me that we both chuckled over. He said a client came to the bank with several hundred dollar bills. The client wanted to know if they were counterfeit, and the answer was, “Oh! You better go to the exchange bank!” So we play into that particular mindset.

Meanwhile, KEB, which was a \$43 billion bank, wrote off about \$8 billion worth of NPLs over the last seven years.

Banks can't survive with that kind of hit to capital since they are highly leveraged; you only have about 12 percent of your assets in capital. And, of course, if you're going to write things off, you take a hit to your bottom line (see Table E). We made a little profit at one point but slipped back once we hit the credit card crisis in 2002. When I agreed to accept this particular challenge to turn around KEB, there had been a cumulative net loss of \$2.1 billion. I thought to myself, “Where did these guys go wrong?” With Commerzbank and Lone Star putting in money, I didn't know what the problem was. So one thing I did was to scope out where all the capital came from. The year 1999 was the worst year in Korea, and if KEB didn't receive any capital, its Bank for International Settlements (BIS) ratio would've been down to 2.95 percent. The BIS ratio reflects a bank's capital adequacy, and it should be a minimum of 8 percent. Most banks have at least 10 percent, and many of them have 12 percent or more. Without additional funds, KEB was either going to go out of business, or be consolidated or merged into some other bank. But KEB is well recognized in the market, and its people have great contacts. KEB knew Commerzbank particularly well and convinced Commerzbank to put up the bulk of the \$800 million that was needed. That replenished capital up to 9.76 percent, but what happened the next year? Capital fell to 5.58 percent. KEB then rushed back to Commerzbank and said, “We need a little bit more.” So Commerzbank anted up a few hundred million more, which replenished the capital up to 9.91 percent. With 10.96 percent of capital, KEB finally looked like it had enough money to crawl out of the NPL trap, but lo and behold, it got hit by another train wreck: SK Networks and SK Global. Consequently, capital was depleted again to write off SK Network's NPLs. Then in 2002, to make matters worse, Korea experienced a major credit card crisis.

Let me provide some background on KEB's credit card business. KEB issued the first credit card in Korea, so it was very prestigious to have a KEB card. The client profile is very white collar, including diplomats. So what was the credit card crisis? As Korea tried to encourage a consumer-oriented economy, the government changed many laws to stimulate consumer credit, especially through credit cards. For example, you could buy a car with a credit card and get a tax credit. Since KEB was now a private sector bank, it decided to spin off the credit card unit. The new company was called KEB Credit Services (KEBCS), and it wanted to maintain its number one market share. Market share means the number of outstanding cards. But the existing credit card business already had some muscle, like the Hyundai, LG, and Samsung cards. What you had was a huge foot race where everybody was trying to increase market share. And how do you increase market share? You try to sign up new customers. KEB promoted

new cardholders with many schemes such as kiosks on subway platforms that promised an instant, pre-approved, 100,000 won credit line. What the bank got was a lot of marginal borrowers, or people who didn't know how to handle debt. Many of them were marginally employed or were students. In addition, there wasn't a limit on cash advances. So you could get your credit card and go right to the ATM machine and take out the entire line. In the United States, if you try to get several cash advances all in one day, it doesn't work. It asks you to come back tomorrow because cash advances are limited for a specific reason. Banks don't want to see a lot of cash advances, since it's a sign that people are using the card for living hand-to-mouth.

And that's exactly what happened. KEB Credit Services increased new credit card membership by 15 or 20 percent, and about 80 percent of that total ultimately turned out to be deadbeats. They were people caught up in a credit cycle. They weren't bad people—they were just overloaded in terms of debt and couldn't get out of it. Some KEB clients had 12 credit cards with \$30,000–\$35,000 in total debt, when their total annual salary was something like \$30,000. They were never going to pay this off, so KEB had to write this—what I like to call an “experiment”—off.

Six years later, KEB went from number one in 1997 to fifth place. If you owned the bank's shares, your investment basically deteriorated by 62 percent, or about \$7 per share, which is not a very good investment. Most people like to earn money rather than lose it. KEB's head count had been reduced to try and improve profitability and keep up with other banks, but it wasn't enough. Frankly, with a 62 percent devaluation in your book value, you weren't going to be attracting new equity investors. We had the lowest capital among our peers, so the first thing I did when I got there was to look at our capital position. How did we stack up against the rest of the market? It was the first quarter, and our BIS ratio was 9.1 percent, while all the other Korean banks were easily above 10 percent.



Left to right: Robert Fallon, Mark Mason

I looked around to define KEB's problems. First, we had a credit card subsidiary that lost \$1.3 billion in 2003. That's a big-time loss. We had an NPL burden of 4 percent, which we had to get down below 2 percent to be considered competitive globally. We had a dysfunctional organization, muddled responsibilities, and an unclear strategy. The old KEB was spun out of the Bank of Korea and when I got there, the structure reminded me of a Japanese bank. It had a strong centralized management strategy based on a planning department and a very strong human resources department that essentially made all the decisions. The branch managers didn't make decisions for their branches at all. HR shuffled people around, while the planning (management strategy) department made the decisions on capital allocation investments and business strategy. I once asked how the bank developed managers who have experience managing the bank, and people didn't have an answer because they didn't know. We obviously needed a new organization. When I asked what our three-year plan was, people looked confused and said they didn't have one. Nobody focused on the future. They were basically living day to day doing the same old thing, which generally means you get the same results. And I realized that if we didn't do something differently, we were going to be draining all the capital that Lone Star put in, and we would be back out in the street looking for more capital a year or two down the road. So we had to drastically change our whole orientation.

The cost structure was out of control. Most organizations have a pyramid shape population distribution, but KEB had a big bulge in the middle. This is because people were hired year after year after year. KEB promoted everybody every year on the basis of their class, and everybody marched through the system. Then, five years ago, the bank stopped hiring, which resulted in the lack of junior people. We had senior people doing junior jobs, and we had too many people in senior ranks holding up promotions. And this had to be fixed, which didn't mean to write a prescription and say it was done. We had to get people to retire early, force them out, or outsource the work. We had drivers in the bank who were making more money than the branch managers, who roughly make about 60 million won a year. The driver was making more because they had worked for KEB for 30 years. This obviously wasn't right. A driver's contribution may be very good in terms of getting you from point A to B efficiently, but in terms of the value to the bank, the branch manager has more value, since he's dealing with so much more risk with management responsibility. When I pointed this out, everyone looked at me, thinking “Who is this guy? You know, we've never had a foreigner running the bank before.”

The game plan was to address all of these problem areas. First we needed to merge the credit card company into KEB, reduce costs, write off the NPLs, and rehabilitate the credit card portfolio. About 5 percent of the solution was strategy, and 95 percent was implementation. It wasn't easy, because we announced that we were merging the credit card company to resuscitate it and would reduce the credit card staff by a third. The union promptly went on a very militant strike; the strikers took over the premises, the IT department, and, after several weeks of confrontation, we had a heck of a time trying to convince them to leave. Ultimately, there was a physical confrontation and management won, but it could've gone the other way. The union sued us, and I think I still have nine lawsuits outstanding against me. But you just deal with it because, if you're doing the right thing, you just have to go ahead and continue on the path.

We wrote off the NPLs as aggressively as we could. In fact, we wrote off about \$2 billion from the credit card company in one year, when total assets were about \$6 billion, a third of the assets. The subsidiary was in a separate building and operated as a separate company, so we merged it into the bank. That means credit scoring models, collection, and funding were all brought into the bank.

We managed to improve the performance of the credit card company, but not to the extent that we didn't lose money. We lost almost half-a-billion dollars after writing off \$2 billion of its portfolio in 2004. But we ultimately fixed the problem.

We also sold assets, including Pacific Union Bank, a publicly traded bank in California of which we owned 60 percent. We earned \$181 million, a lot more than I thought we'd get for it. I took every cent of that and basically used it to help write off the credit card portfolio.

KEB also restructured and reorganized. We restructured by addressing cost inefficiencies. We tried to improve morale by explaining everything we were going to do. I communicated as much as I could by giving speeches in English and in Korean. The Korean speeches weren't all that great, but I did what I had to do to try and get the message out that we were changing and that we were not going back. And, frankly speaking, we had it within our grasp to survive if we had the courage of our convictions. To accomplish this, I had to admonish people by telling them that what was done over the past three years could not be repeated. With bad credit problems and average performance, KEB, I told them, couldn't expect somebody to give us more capital to bail us out sometime down the road.

Many people finally started to get the message. My style was to tell the truth: that KEB could stand alone as a competitor, get merged, or get acquired. I never tried to duck the issue or say I didn't know. I warned people that in two, ten, or fifteen years from now, Lone Star would sell its stake because, as an investment firm, it needed a return for its investors. I challenged our staff: "So what are you KEB employees going to do about it? Are you going to be complacent, or are you going to make the bank grow stronger so it deals from a position of strength with whatever the future holds? If you're strong you'll survive, because you'll have better performance than whomever you're merging with. Or someone will buy you, such as a foreign bank that basically wants to keep you intact, just like what Citibank did for KorAm Bank."

The staff was initially suspicious about this because they hadn't heard this kind of talk before. All they had heard was the steady drumbeat from the union: foreign funds are bad, they rape Korea, and take over our precious national assets. There's a lot of Socialist xenophobia that comes up, but the reality is that you have to explain to people and say, "Here are your choices: you do this and you survive, or you don't and you've got growth constraints, higher costs, low funding, limited options, and no future as a stand-alone company."

That said, KEB had a way to succeed because it had core competencies. We couldn't do everything for everybody, but in certain markets we had the lead. KEB is the largest bank in terms of trade finance, with a 26 percent market share. It's the largest bank in foreign exchange, with a 46 percent market share. Fees as a percentage of income are on the order of 36 percent, which is on par with American banks. When I saw those metrics, I was sure there was a path to success, or at least something to build on.

I also knew that KEB's corporate clients were very loyal. I tried to meet directly with as many clients as possible, and they were so appreciative because they hadn't had the bank CEO call on them in the last 10 years. I remember one call in particular, right after our visit, when KEB suddenly got \$40 million in new deposits; it was as if our clients were rewarding us for doing something we should have been doing anyhow. In terms of retail, KEB had backed into the retail business in the 1980s because it was the exchange bank. Many people wanted a personal relationship with KEB because they had children studying overseas or they were international businessmen. Consequently, KEB's retail clientele was very white collar, which is very different from what mass market banks have as their retail strength. And that's a very loyal franchise that we hope can be migrated into a private banking business as well.

E-banking was one of the lucky strikes. As I started looking into things, I realized that we had a state-of-the-art e-banking department. I couldn't believe it. Not only that, but it was in Korean, English, Japanese, and Chinese, so even I could read it. Then I realized we had a cash management platform that was better than what JP Morgan Chase had. The glossy English manual for our cash management platform informed me that it was compatible with SAP and Oracle. When I found out that the software development team had been working on this for years, I was astonished about how smart they were to have developed this proprietary software. I don't know where they had the resources to do this, but they just beavered away. This is when I realized that the latent talent of human capital within KEB was very, very strong. This was underestimated by the market. I knew that KEB always had a reputation of being run by classy, well-educated people, but I didn't realize how deep that ran through the organization.

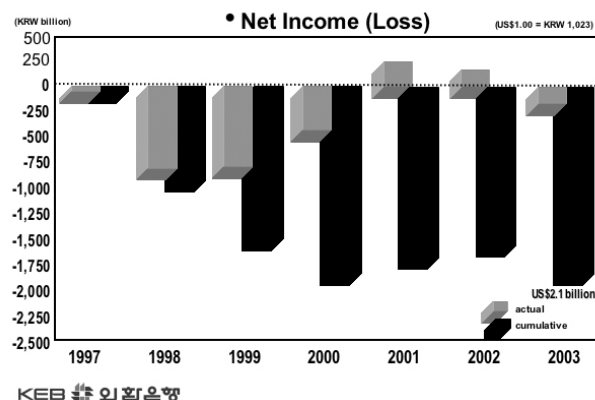
Another example was KEB's mobile telephone operation. Through my mobile phone, I can conduct foreign exchange remittance to my account in New York while sitting in my car in Seoul. And the setup is compliant with anti-money laundering laws as well. We're the only bank in the world that does foreign exchange remittances by mobile telephone. If you think about it, the protocols are very difficult to develop. The e-banking team is unbelievable.

A lot of people thought I was going to throw out the international network when I came on board. I explained that selling Pacific Union Bank was the right thing to do because that didn't complement KEB, but I was planning on keeping our offices in L.A., New York, Paris, Frankfurt, Jakarta, and Brazil and other places as well. I had to convince everyone that working within the bank's core competency is what's important, and if you do that, you start to see some strategies for success.

Thus, I created three separate banks, or what I define as a three-legged stool (see Table F). We have the global corporate bank, which is a traditional international trade and corporate bank, the credit card business, and the retail bank. We now have three revenue drivers, whereas in the old organization, it was a bit of a mishmash. Before I arrived at KEB, you had the Management Strategy Division or the HR guys who used to manage the bank. The CEO didn't really have much to do. The CEO would get papers every day and just put his initials on them. On my first day, I started to ask questions, and they asked me why I was asking questions. The other CEOs didn't ask questions. I was a different role model. I was somebody who wanted to get involved in setting policy and strategy issues, whereas in the past you had a revolving door of CEOs

Table F

KEB: Burden 1998–2003



who never really got involved with managing the bank. They trusted the bank to manage itself, which meant the Management Strategy Division and the HR Division. So we changed that all around and created three banks.

Internally, we put client and product management together, which resulted in a matrix of client and product businesses with three main operation groups: the credit unit, the service delivery (or operations), and IT (see Table G). The poor guy who used to head the planning department came to me and said, "Where's the planning department?" When I told him we weren't making one, he asked who would be making the business decisions. I told him, "business managers." How could KEB develop a cadre of people to run the bank if young managers were not expected to make and be accountable for decisions about their businesses? The managers had to make decisions on capital, strategy, and on people, I added. And the guy asked, "People? You mean the HR Department isn't going to make that decision?" I tried to reassure him when I said HR would have a 49 percent say, while the manager a 51 percent say.

Table G

KEB: Strategy for Success

• Three-Bank Platform

Retail Bank	Card Bank	Global Corporate Bank
<ul style="list-style-type: none"> • Affluent customers • Private banking • Wealth management • Asset allocation • Household loan • Fee income • Improve branch resources 	<ul style="list-style-type: none"> • Integrate with KEB • Rebuild portfolio • Rationalize product line • CRM • Fee growth • Strict credit policies • Leverage bank clients 	<ul style="list-style-type: none"> • Trade-related corporates • FX products • International network • E-banking • Relationship management • Cross-selling • Product development

This is a very different organization from how the bank had been run before. Though KEB was privatized in 1989, its management organizational infrastructure had never really changed from the day it was spun out of the Bank of Korea. But we had to change, because KEB was now competing in the international marketplace.

The organizational foundation was set, and key initiatives were developed to give KEB a three-year plan to get a 25 percent return-on-equity and a 12 percent BIS ratio. I told my staff that we wanted to be smarter, not bigger. I also explained the performance-oriented culture, where shareholders were rewarded for investing in a bank where the staff were challenged and worked hard and were similarly rewarded. I promised them that if we did all that, KEB could achieve a net income of \$1 billion by 2007. Here's a bank that never made more than \$200 million in any year in its entire history. It had written off \$8 billion over the previous six years, and now, just two or three months into the business, I was standing in front of my staff, saying, "We're going to earn a billion dollars." People were doubtful because they didn't believe in themselves, and yet I could already see that the bank had enough core strengths to grow.

Part of the problem was trying to communicate and get people to believe in my initiatives. Since they hadn't been well led in the past, they weren't sure where to go. I often used mountaineering analogies and told everyone that we were climbing to the summit of success and the choice was to rise to the occasion or give up.

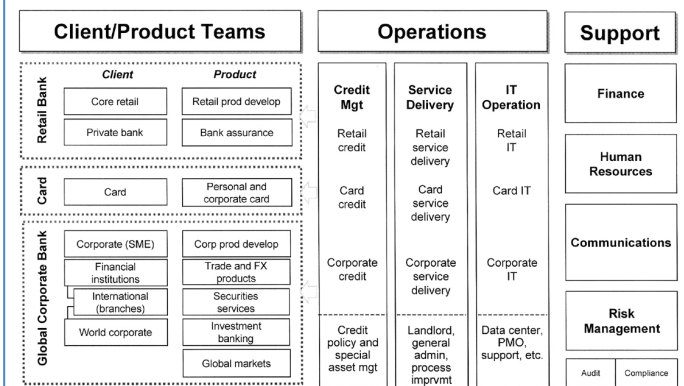
And there were plenty of people who didn't believe KEB could achieve \$1 billion in net income. We did a lot of things to achieve this, however. We merged in the card company in 2004. We reorganized, and we also spent money. We didn't just use it to write off loans; we invested in our IT platform. We created the Next Generation Banking System, or NGBS. We moved from an old legacy IBM mainframe system to a UNIX-based server platform, which cost us about \$65 million. We became a liquidity provider for the Continuous Linked Settlement (CLS) Bank for the sole reason that, as an exchange bank, we should. Gradually, the staff began to believe in themselves. Then we were recognized by *Asia Finance* and *Euromoney* magazines in 2004 as the Best Trade Bank, Best FX Bank, and as Loan Syndication Deal of the Year. And I reinforced these achievements so that people began to see the bank's potential and credibility.

In 2004, KEB achieved \$509 million of net income (see Table H), by far the largest ever. That's from a \$209 million loss the year before and from a \$2.1 billion cumulative loss

over the last seven years. It's a phenomenal turnaround, one that I didn't think we could do that quickly. We also paid bonuses in July once we saw that we were making a profit, which was largely based on some of the recoveries we had on Pacific Union Bank. It was a half-month bonus, but it was enough to signal to the staff that things were changing. As 2004 ended, we looked back; we had had a great past five months, and we were really firing on all cylinders. Our BIS ratio went to 9.5 percent from 9.1 percent, and we'll take that ratio above 10 percent this year. The NPL ratio went down to 1.82 percent from 4 percent. We now have more than 100 percent coverage on all of our classified loans, so we're in good financial shape. Our ROE (rate of equity) is almost 20 percent, which is part of our three-year target.

Now let me just finish by talking a little bit about the Hynix restructuring, because there's an alternative investment flavor to this. The creditors, including KEB, took over Hynix Semiconductor in 2001 through a \$4.8 billion debt-equity conversion.

TABLE H

KEB: New OrganizationKEB  **외환은행**

When I came on board, I realized that the largest shareholder of Hynix was KEB, with a 13.8 percent stake and the chair of the steering committee. Overall, the Hynix creditors, because of the debt-equity swap that happened in 2001, owned 81 percent, while KEB owned 13.8 percent. I asked myself how I was going to resolve this situation. You can tolerate the status quo and go along, as KEB had been doing in the past, or you can be proactive and try to figure out a way out of the box, which is what we tried to do. Citicorp Venture Capital (CVC) had expressed interest in Hynix as early as November 2002, especially in the non-memory chip division that makes line image drivers. A line image driver is what runs the picture screens on cell phones. It's not state-of-the-art technology, but it's in great demand. CVC started its due

TABLE I

KEB: 2004 Financial Performance

Key KEB Data	2003	2004
°Total assets	61,017	59,752
°Operating income	857	1,453
°Net income	(209)	509
°ROA (%)	negative	0.82
°ROE (%)	negative	19.49
°NPL write-offs ¹	1,698	2,711
°BIS ratio (%)	9.1 *	9.47
°NPL ratio (%)	4.0 *	1.82
°NPL coverage ratio (%)	90.9	108.8

* 1Q '04
¹ Restated for bank + card merger

KEB  

diligence in February 2003, which lasted for almost a year. It made an offer for the non-memory chip division of almost 500 billion won in April, which was turned down. It came back and made a slightly higher offer of 517 billion won. When I asked the steering committee what it thought about the offer, it said that wasn't enough. It didn't want to sell the company's gem to foreigners at a cheap price. What I did next was to ask CVC to come to Korea for one last time, since the head of CVC had told me in an earlier e-mail that the company was getting tired of waiting and was about to walk away from the deal. And lo and behold, after that meeting, we had an offer price of 954 billion won, which was almost twice as much as what was offered before. I knew it was going to take a slam-dunk price like that to get the creditors to agree to sell it. In other words, it was too good to turn down, even though there was some bias about selling the asset. The sale was finally completed in October 2004.

TABLE J

KEB: Hynix / CVC Deal Structure

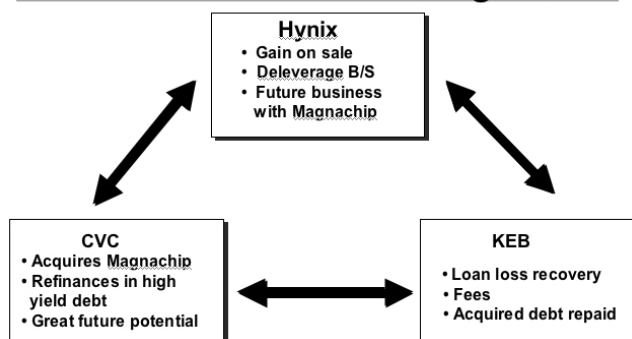
	(KRW billion)	
Cash	481.3	
Acquired financing	379.3	
Assumed liabilities	93.7	
Total	954.3	
Value to Hynix	446	Gain on sales
	801	Debt reduction
	1,247	
Value to KEB	91	Loan loss recovery
	5	Acquisition financing fees
	96	

Buy Hynix debt
at discount
from creditors

KEB  

This is how we made the deal (see Tables I, J, and K). We increased the price to 954 billion won, because we told CVC that it had no other choice based on multiples it had paid in the past for similar deals. But to agree to the price, CVC asked KEB to provide the debt financing. KEB then underwrote a portion of the debt that other creditor banks didn't wish to underwrite. For Hynix, the deal was great, since it enabled Hynix to use CVC's offer to buy back debt at a discount. KEB made a nice loan-loss recovery, because we had written the loan down to 40 cents on the dollar and basically sold it to CVC for 75 cents. It was a win-win situation, and three months later, CVC renamed this new division MagnaChip and did a \$750 billion high yield bond financing in the international capital markets to pay out the banks that participated in financing the deal.

TABLE K

KEB: A Win-Win RestructuringKEB  



Discussion

QUESTION:

AS A WESTERNER, HOW DID YOU DEAL WITH THE CULTURAL DIFFERENCES TO CONVEY YOUR MANAGEMENT STYLE TO THE ORGANIZATION? DID YOU MAKE CHANGES BY BRINGING FORMER COLLEAGUES OF YOURS INTO KEB, OR DID YOU LEAVE THE MANAGEMENT AS IS?

ROBERT FALLON:

Before I went to Korea, I lived in Asia for 26 years, and I've been going to Korea for business since 1977. So, I wasn't going into something I was completely unaware of. I knew enough about Korean business, culture, and people that I could relate to them. I've always admired the Koreans because they are such a hardworking people. And I knew KEB from having dealt with it as a banker in the past. One of the reasons I took the job was that I already felt that I knew KEB. I knew that this bank could turn around. In the beginning, I had this confidence—which did go away after a couple of months of fighting with the unions—but it all came around.

We did bring in new management. We brought in a Chief Operating Officer from GE Capital who had run GE Card in the past. We brought in a Deputy President, one of my colleagues from JPMorgan Chase and the head of their credit card company, who formerly was head of American Express's credit card business in Korea. So there were three Westerners, which was very different from Korea First Bank, since it has a slew of Westerners in IT, credit, and everything else. My instinct said that there were good people in KEB, and the trick was to ferret out who they were. In the beginning, I spent a lot of time talking to people who had insightful views, and I got a lot of ideas from them. Thus, I was able to make decisions about putting KEB people in responsible positions internally, and by and large these decisions paid off. I only made one mistake, and all of the other appointments turned out to

be quite successful. The CFO and the head of our corporate and trade businesses are all career KEB guys who really rose to the occasion. I was very fortunate in that regard, but we did bring in probably about a dozen new people—three foreigners and the rest Korean—into management. You basically need agents of change to deal with the cultural differences. You either get them internally or you have to import them.

QUESTION:

BEFORE THE IMF CRISIS, BANKS PLAYED A VERY IMPORTANT ROLE IN KOREA'S ECONOMIC DEVELOPMENT. I NOW BELIEVE THE BANKS' ROLE HAS CHANGED. WHAT KIND OF ROLE DO YOU THINK BANKS WILL PLAY IN THE FUTURE?

ROBERT FALLON:

Since Korea's corporate bond market has been nonexistent since Daewoo collapsed in the late 1990s, banks have been the institutions that provide the bulk of the capital for corporations. Korea is a market where banks can make money, especially in commercial banking. That's very different from Japan, and KEB has been quite successful in that area. And we don't necessarily need loan growth to make money, because we have business in custody, electronic banking, and income generating from trade and foreign exchange. The trick is that you can't just rely on loan growth when the economy matures.

QUESTION:

I UNDERSTAND THAT KOREA DOES NOT HAVE A MORTGAGE MARKET, SO IF YOU WANTED BUY A HOME, YOU ESSENTIALLY HAVE TO PAY FOR MOST OF IT IN CASH. I WAS WONDERING WHETHER YOU SEE A MORTGAGE MARKET DEVELOPING LIKE THE ONE IN THE UNITED STATES? AND IF NOT, WHAT ARE THE CONSTRAINTS THAT PRECLUDE THE DEVELOPMENT OF SUCH A MARKET?

ROBERT FALLON:

There is a mortgage market developing, and it's going to become very much like the one in the United States over time. There is an entity called the Korea Housing Finance Corporation (KHFC), which is currently providing guarantees for long-term mortgages. It's also going to be buying mortgages and then issuing mortgage-backed securities. There was a penchant on the part of Korean borrowers to take mortgages out for two or three years, only to refinance them. So it was never a long-term mortgage market, but that's now beginning to develop. We'd love to see more long-term mortgages, especially because there's a mechanism now to get liquidity through KHFC asset-backed or mortgage-backed securities.

QUESTION:

HOW WOULD YOU CHARACTERIZE LONE STAR'S ROLE, NOT JUST IN THE TRANSACTION OF ACQUIRING CONTROL OF KEB, BUT IN THE OPERATION OF THE BANK?

ROBERT FALLON:

It didn't play any role in the operation of the bank. In fact, even though its members are on the board, they're not very proactive in terms of micromanaging the bank. I've had a pretty free hand in doing what I wanted to do, and they've had a certain degree of trust that we'll do the right thing. I think they were a little bit surprised at how aggressive we were in writing off the credit card receivables, because all of the \$1.1 billion of capital that they injected was literally written off in the first quarter. The new broom had to sweep everything clean. If we were going to get the bank going again, we needed to re-establish the earnings momentum, and the only way to do that is to clean up the NPL problem.

QUESTION: DID YOU ANALYZE THE BANK BEFORE YOU STEPPED IN, OR DID YOU DO YOUR BUSINESS REORGANIZATION PLAN AFTER YOU TOOK OFFICE? AND WHAT OUTSIDE CONSULTANTS, IF ANY, DID YOU USE?

ROBERT FALLON:

I didn't use any outside consultants. Maybe that was arrogant on my part, but I knew enough about the banking sector, having lived through the IMF crisis. I knew a lot about NPLs from my previous experience, and I had dealt with KEB in the past, so I knew its reputation. I had hoped that KEB hadn't lost a lot of its talent over the last four or five years. I sat down with Lone Star and asked them to show me their analysis. They were very keen to get me on board, so whatever I wanted to see, it was like an open kimono. I spent a couple of days going through all of Lone Star's numbers and trying to test out my own assumptions. When Lone Star asked me what I would do to fix the bank, I recited a textbook solution:



Left to right: Robert Fallon, Lee Branstetter, Mark Mason

clean up the NPLs, reorganize, come up with a business strategy, set targets, and do all the things we have to do to replenish capital, like selling noncore assets.

As I said before, strategy is only 5 percent. The implementation and getting the right people to execute what you want to do is the difficult part. So yes, I did do an extensive analysis, but I didn't rely on any outside advisers.

QUESTION:

SINCE LONE STAR'S LOCK-UP PERIOD IS ENDING SOON, THERE'S INCREASE IN TALK THAT KEB IS THE NEXT PRIMARY TARGET. I WAS WONDERING WHERE THE BANK STANDS WITH REGARD TO THIS DEVELOPMENT?

ROBERT FALLON:

I'll give you the same speech I gave to my own staff, which was, "Get over it." At some point, you have financial investors who will seek to take some kind of profit on their investment. And unless you deal from a position of strength, you probably won't be happy with that outcome. So you better take the opportunity now to make the bank as strong as you can, because you'll be better off in the long run. Then you don't care what happens, because you'll survive. We're a public bank; you can buy our stock.

QUESTION:

YOU HAD MENTIONED KEB'S 13 PERCENT STAKE IN HYNIX. KOREAN LAW STATES THAT COMMERCIAL BANKS ARE LIMITED TO HOLDING 15 PERCENT OF EQUITY IN NONFINANCIAL FIRMS. DO YOU THINK THAT LAW WILL CHANGE SO THAT COMMERCIAL BANKS WILL BE ABLE TO TAKE A MORE ASSERTIVE ROLE IN INVESTING?

ROBERT FALLON:

I think Hynix is a special case, because 4.85 trillion won of debt was swapped into equity, which is how we ended up with the large stake. KEB was the main bank for the Hyundai Group; therefore, we banked, and still bank, all of the main Hyundai constituent companies. Since we're the main creditor and the chair of the steering committee for Hynix, we have tremendous sway as to what goes on with Hynix. As for whether or not the laws will change so that banks can become major investors in corporate entities, I think banks should only be investors through a separate, investment subsidiary, so that investments won't corrupt the financial balance sheet of the bank itself.



QUESTION:

YOU MENTIONED THAT AFTER THE THREE-YEAR PLAN, YOU'D LIKE TO HAVE \$1 BILLION IN NET INCOME AND A 25 PERCENT ROE. HOW MUCH OF THAT \$1 BILLION NET INCOME TARGET YOU ARE LOOKING FOR COINCIDES WITH THE APPRECIATION OF THE WON?

ROBERT FALLON:

We didn't think of it in those terms, but if the dollar continues to devalue—which it will if you want an editorial comment—then we will be able to achieve that \$1 billion and then some.

QUESTION:

IN JAPAN, WE'VE SEEN A PRETTY SIGNIFICANT INCREASE IN HEDGE FUND ACTIVITY. HOW DOES KOREA COMPARE?

ROBERT FALLON:

I think Korean institutional investors are not as advanced in the alternative investment sphere as some of the Japanese. I do think that's going to change in the future. There's a new pension law that's going into effect this year that requires corporate pensions to be put in place and funded, which will improve the demands for fund management. But the flip side is that I see a lot of deals in Korea, and not that much alternative investment money chasing them. In Japan, there's a lot of money chasing a few deals. The Hynix transaction was one of the few that have been done in the market.



Robert Fallon (center) with members of the Korean Business Association



KEB
2004 NET INCOME
US\$509 million

*"We are half way to the
summit of success!"*

韓国金融の進化:ある一銀行家の視点から

2月28日、APEC 研究センター(ASC)とコロンビア大学日本経済経営研究所オルタナティブ・インベストメント・プログラムの共催により、ロバート・ファロン 韓国外換銀行会長を講演者としてお招きし韓国の金融セクターの進化に関するセミナーを開催した。リー・ブランステター ダニエル W スタントン経営学助教授が総会司会、マーク・メイソン オルタナティブ・インベストメント・プログラム ディレクター、日本経済研究所プログラム副所長がモデレーターを務めた。以下は本セミナーの抄訳である。

東南アジアにアジア金融危機が迫った際、それがアジアの金融センターにどれほど長きにわたり、どれほど甚大な影響を与えることになるか知り得た者はいなかった。実際に金融危機の影響は大きかったわけだが、特に韓国、そしてその他数カ国は深刻な影響を受けた。それまで数年間にわたり貿易赤字となっていた韓国では、1997年に国内企業が倒産し始めると金融市場はパニックに陥り、恐怖が広まった。1997年末、韓国の多数の金融機関に短期貸付を行っていた外国銀行が一斉に資金を引き上げ始め、韓国中央銀行も含め韓国の銀行は流動性を求めて必死となった。不安が韓国全体に広がるにつれ株価もウォンも約50%下落した。世界中の新聞紙上に自らの貴金属品を売り歩き泣く韓国女性の姿が掲載される一方、韓国国内では愛国精神が高まり外国製品の代わりに自国製品を買う動きがあった。国際通貨基金(IMF)および多国籍金融機関等が協力し韓国を支援したが、同地域におけるIMFの活動についてはその成果に関し経済学者や政府関係者の間で今だに議論が行われている。

金融危機は韓国金融史上重大な局面であったが、その結果韓国金融は劇的な変化を遂げた。政府は金融セクターに高度の業務水準規定を導入する一方、銀行間の合併と合理化を推進、新しい法制度も整備された。そして初めて外国人直接投資による国内金融機関の株式保有が可能となった。

こうした動きのなか、2004年初春、ロバート・ファロン氏は現資産総額7百億ドルにのぼる韓国外換銀行の会長に就任。米系投資会社ローンスターが同行を買収した後の就任だが、上場企業の会長に外国人が就いたのは韓国史上初めて。ファロン氏は、ハーバード・ビジネス・スクールでMBAを修めたのち、1975年シティバンクに入社し国際金融の道を歩んできた。数多くの東アジア諸国で居住・勤務した経験を持ち、今までにシティバンク、ドレクセル・バーンハム・ランバート、バンカーズ・トラスト、チェース・マンハッタン銀行に勤務。チェース・マンハッタン銀行ではアジア太平洋部門を統括、28年間にわたるアジア金融市場での経験から近年の金融危機においても貴重な洞察力を得た。

ファロン氏は、欧米流の積極的なリストラを推し進め韓国外換銀行をたった一年で黒字に導いたが、その一方で韓国の商習慣や文化を無視することはなかった。2003年には2億9百万ドルの純損失を計上したが、2004年には5億9百万ドルの純利益に転じ、2007年には純利益10億ドルというさらに高い目標を掲げている。経営陣の刷新、多額の不良債権の償却、経営組織の分権化、そして痛みを伴う人員整理と、ファロン氏は銀行改革の模範的戦略を着実に実施。その過程において、ファロン氏は、韓国外換銀行の財務状況を良好にするのみならず、銀行そして従業員を深く信頼するその姿勢から韓国の金融市場・政府関係者の尊敬をも勝ち得た。

同セミナーは、コロンビア・ビジネス・スクールのコリアン・ビジネス・アソシエーションおよびアジア・ビジネス・アソシエーションの協賛も得て開催された。当レポートおよび過去のレポートは各ホームページからダウンロード可能。

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