

FSC/FSS Announces Management Improvement Measures for 6 Banks Following Evaluation of Management Improvement Plans

Based on the assessment of management improvement plans for 6 commercial banks by the independent Management Evaluation Committee (MEC), the FSC/FSS announced management improvement measures for the banks on November 8, 2000.

The 6 ailing banks were ordered to submit management improvement plans to the MEC because they had posted a BIS capital adequacy ratio below 8% as of end-June 2000 or had received direct injections of public funds. Moreover, the banks were also subject to Prompt Corrective Action, and either Management Improvement Recommendations or Management Improvement Requirements.

According to the results of the evaluation, Chohung Bank and Korea Exchange Bank were deemed as being conditionally self-sustainable, while Hanvit Bank, Peace Bank of Korea, Kwangju Bank and Cheju Bank were deemed as being not self-sustainable. Therefore, the FSC approved Management Improvement Plans submitted by Chohung and Korea Exchange Banks with the reservations as suggested by the MEC, but rejected the plans submitted by the latter four banks.

Details of Management Improvement Measures

In line with the evaluation results, Chohung Bank and Korea Exchange Bank have been ordered to submit revised action plans that conform to the MEC's following suggestions by November 22, 2000. In the case that the banks fail to submit or implement the revised action plans, or if FSS deems submitted plans as inadequate, they will be subject to enforcement of stricter management improvement measures including stiffened PCA procedures.

◆ Suggestions for Chohung Bank:

- Maintain ratio of substandard or below loans to total loans at 6 % or lower by the end-June 2001, and 4% or lower by end-2001, through the swift and resolute

- clean up of all non-performing assets;
- Achieve per-employee operating income before loan-loss provisioning of 220 million won or more for the fiscal year 2001

◆ Suggestions for Korea Exchange Bank:

- Ensure capital increase by taking supplementary measures such as the sale of its ownership stake in Korea Exchange Bank Credit Service Co., Ltd., or issuance of subordinated notes, in the case that a capital increase by public placement is deemed impossible during the first half of 2001;
- Maintain ratio of substandard or below loans to total loans at 6 % or lower by the end-June 2001, and 4% by end-2001, through the swift and resolute clean up of all non-performing assets;
- Achieve revised ROA* of 2% or higher, cost ratio** of 38% or lower, and per-employee operating income before loan-loss provisions of 220 million won or more for fiscal year 2001, through additional self-rescue efforts

* Revised ROA : (Net Income + Loan-loss provision +/- Extraordinary Gain or Loss) /
(Average Outstanding Balance of Total Assets)

** Cost ratio : Selling and Administrative Expenses / (Operating Income + Selling and
Administrative Expense + Loan-loss provision)

Meanwhile, the four banks determined to be not self-sustainable -- Hanvit Bank, Peace Bank of Korea, Kwangju Bank and Cheju Bank -- have been asked to submit new management improvement plans that include the following requirements by November 22, 2000. Subsequently, public funds will be injected into these banks in order to raise their respective BIS ratios above the 10% minimum, and their inclusion under newly established financial holding companies will also be considered.

◆ Requirements to be included in the revised management improvement plans:

- Plans should incorporate the bank's inclusion into a financial holding company (in the case of affiliation to a financial holding company, the plan should also disclose details such as the name of other affiliated financial institutions, type of consolidation, time table and procedures, etc.);
- Self-rescue efforts including plans to clean up all bad assets, reduce costs, and

improve profits

◆ Timetable for follow-up measures:

- Submission of new management improvement plans to FSC/FSS by November 22, 2000;
- Commencement of due diligence for the injection of public funds on November 9, 2000;
- Assessment of the revised plans and subsequent approvals to be completed by mid-November 2000;
- Request of public funds to the KDIC in November 2000 for completion of fund provision by December 2000;
- Scope of the financial institutions to be affiliated to financial holding companies should be finalized by the latter half of November 2000;
- Opening of secretariat office for preparation of FHC establishment by end-November and implementation of detailed procedures in December

If you have any questions, suggestions, and/or comments, please contact the Bank Supervision Department at (82-2) 3786-8030 or the International Cooperation Office at (82-2) 3771-5949, fax (82-2) 3771-5985, or e-mail us at han0312@fss.or.kr