



FINANCIAL SERVICES COMMISSION

## Press Release

November 11, 2008

### MEETING WITH HEADS OF MAJOR BANKS NOVEMBER 5, 2008

On Wednesday November 5, 2008, a closed breakfast meeting was held between Kwang-Woo Jun (FSC Chairman), Jong-Chang Kim (FSS Governor) and the presidents of the 7 major Korean banks\*. The main topic of discussion was centered on the financial support to be provided to SMEs.

\* Kookmin, Woori, Shinhan, Hana, Nonghyup, KDB, and IBK.

#### **Kwang-Woo Jun, Chairman of the FSC**

- The government has enforced a number of drastic measures\* in order to overcome the global financial crisis including support to financial institutions and the real economy.

\* State guarantees on external debts of banks, supply of liquidity by the BOK, improvement on the bank liquidity ratio requirement, financial support measures to SMEs, and a comprehensive stimulus package for the economy (Nov. 3).

- However, complaints are continuously being voiced by SMEs on the financial difficulties which are still present in their operations, despite efforts already being made by the government.
  - It is now time for banks to take positive steps to respond to government efforts.
- From this moment on, presidents of banks are requested to take particular interest in the operations of lending funds to SMEs. This effort should be felt by the SMEs.
  - In particular, it is hoped that the Fast Track Program launched for SMEs are effectively implemented as soon as possible.
- Banks need to provide support to sound SMEs temporary experiencing financial difficulty and to play an active role in starting a chain reaction of improving the

financial soundness of banks and of accelerating the recovery of the real economy.

- The most effective method of stabilizing the financial system is to minimize the number of SMEs going bankrupt and to prevent the real economy from falling into a recession.
- Although there are concerns over whether the financial soundness of banks maybe compromised if support to SMEs and vulnerable sectors are expanded,
  - The government has taken preemptive measures in expanding the capacities of state-owned banks and credit guaranteeing institutions such as the Korea Credit Guarantee Fund and the KIBO Technology Fund to strengthen the risk absorbing capability of the banking sector;
  - The government intends to continually encourage the banking sector to expand their capital.
- The MOU, soon to be signed with the banks, will specifically address the discouragement of previous blind competition between banks to expand their assets. And it will promote the competitiveness of banks by correcting their inappropriate management practices.

### **Jong-Chang Kim, Governor of the FSS**

- The current economic and financial situation has undoubtedly led to the emergency state of SMEs and decisive action is required.
- Results of our current findings,
  - The decrease in trade financing by banks and the lack of financial support for exports have had a great impact on the real economy during October;
  - With regards to lending to SMEs, the banking sector seems to be experiencing a "prisoner's dilemma" and is reluctant to lend out. We ask that the presidents look into this matter personally;
  - Record of complaints received by the SMEs business complaints center placed in all major banks have shown that the complaints are not being dealt with at all, especially at certain banks;
  - There are even records of complaints where bank employees have tried to entice deposits from customers by spreading rumors about competing banks;
  - There seems to be no possibility of improvement on these matters because of the fierce competition on accounting results between the banks, unless the

presidents involve themselves and provide specific operational guidelines.

- The FSS will,
  - Monitor and inspect the banks, and see to it that the presidents and employees of banks are held accountable for the lack of support to SMEs and for the occurrences of unfair operation.