Press Release

FINANCIAL SERVICES COMMISSION

November 14, 2008

REPORTERS' DISCUSSION POINTS WITH CHAIRMAN OF THE FINANCIAL SERVICES COMMISSION

1. Recent Market Conditions

International Markets

- The global markets seem to be stabilizing after the announcement of the U.S. government's bailout plan and the currency swap agreements signed between the key nations around the world.

  - Some uncertain elements still exist in the market which are expected to remain until the first quarter of 2009.

- With regards to hedge funds managed by major institutional investors, there are likely to be adjustments made to the portfolios early next year which are likely to lead to swift changes in sovereign credit ratings around the globe.

Domestic Markets

- In response to the crisis, the Korean government utilizing all its resources and departments including the Bank of Korea (BOK), and the regulatory bodies has made devoted efforts to stabilize the domestic financial market.

  - To provide foreign currency liquidity to financial institutions,

- ➢ We have carried out a list of actions; guaranteeing external debt payments by local banks; providing foreign currency liquidity using the Swap market; and supporting export financing through the EXIM Bank.

- ● With respect to providing liquidity of domestic currency,

  - ➢ The BOK has acted aggressively by lowering the interest rate 3 times since October 9th, totaling 125bp, and expanding the number of RP receivers.

■ These efforts have cleared an opening in the flow of funds and has dissolved the liquidity freeze.

- ● However, we are in a phase of a frictional credit freeze because of the lack of liquidity still in local funds.

  - ➢ As a result of the economic slowdown, worries of insolvency in weak segments of the economy are increasing market uncertainty.

  - ➢ Thus, the propensity of investors to be risk adverse is freezing the liquidity of corporate bonds and ABCP.

  ⇒ To summarize the current situation and to put it figuratively, a blood transfusion is given to an anemic patient, but due to the hardening of the arteries, the blood is being prevented from spreading throughout the body.

2. Direction of Countermeasures Against the Frozen Bond Market

■ In order to relieve the fear of uncertainty in the international financial markets and effectively respond to the credit crunch in the domestic financial market, the government is devising necessary countermeasures to manage the crisis.

- ● Efforts will be made to minimize the uncertainty in the construction industry as well as the economy as a whole;

- ● At the same time, policies will be put in place to help the movement of funds that have been frozen in the corporate bond sector by the liquidity freeze.

- ■ There have been improvements in the overall market conditions as the BOK has lowered interest rates through decisive actions to supply liquidity.

  * Change in the bank bond rate: 7.73% (Oct. 31) → 7.29% (Nov. 12).

  - Unlike the previous foreign exchange crisis where bonds issued by Daewoo Corporation became delinquent, the financial structure of corporations is much sounder and their international competitiveness is at a high level.

  * Corporate debt ratio: 396% (1997) → 89% (2007).

  - Therefore, currently there is no real inefficiency in the financial structure itself, but rather it appears that the frictional credit freeze is distorting the market.

- ■ Market stability will ultimately be established through the active participation of institutional investors such as mutual funds and pension funds, with the help of a flexible supply of liquidity from the BOK.

  - To this end, cooperation will have to be made with related ministries to prevent the rush-out of state-owned pensions and other institutional funds from corporate bond investments.

  - Policies will be made in close collaborative efforts with the BOK to normalize the distribution of liquidity in the market.

- ■ In addition, complementary improvements to the fund valuation system will be continually made in order to revitalize the corporate bond funds market.

  - In order to relieve the temporary frictional market distortion caused by current market uncertainty, the tentatively named “Bond Market Stabilization Fund” is being considered for development.

3. A Plan to Devise the "Bond Market Stabilization Fund"

■ The fund will be driven under the following principles:

Basic Principles

① It will be managed with only a necessary amount of funds to prevent the temporary frictional failure of the market.

② The targeted financial companies and corporations will be the ones having difficulty in raising cash from the principal shareholder and/or through the normal bond issuing market.

* Self-reliant efforts will be encouraged as much as possible.

③ The fund will be managed in a similar fashion to any other private fund taking profitability and viability into account to create a "win-win" situation for the investors and investees.

■ **[Fund Composite]**

To consider the fact that regular bond investors are reluctant to invest in the current environment;

- The fund will mainly be raised by institutional investors such as banks, insurance companies, securities companies, and pension funds.

- The Korea Development Bank (KDB), with an additional 1 trillion won from the government, will make an investment of 2 trillion won.

⇒ The total size of the fund will be determined through discussions with related parties but will be limited to 10 trillion won.

■ **[Fund Investees]**

Investments will be made to a wide array of financial bonds, corporate bonds, credit and purchase finance bonds.

- However, taking into consideration the use of non-public funds, the investment will be made to those that meet the criteria levels (i.e. BBB+ bonds).

  i. By including bank bonds and other bonds issued by financial companies within the investment list, the intention will be to reduce the overall interest rates of bonds being issued.

  ii. In the case of credit finance companies, priority will be given to companies without the ability to inject more funds by the principal shareholder.

     * Preceding the self-effort, support will be made to maturing debt repayments.

  iii. The fund will undertake P-CBO for the bonds issued by blue-chip companies and export companies that are temporarily experiencing a shortage of liquidity.

     * The P-CBO that was scheduled to be issued through the credit guarantee of KODIT (1 trillion won in 2008 & 2 trillion won in 2009) is having difficulty due to the lack of demand. → The "Bond Market Stability Fund" will make an initial purchase.

  iv. In case there is an increase of redemption of corporate bond funds, it will act as a purchasing party for the corporate bond funds.

     * Increase in redemption → sale of corporate bonds → prevent the condition of "shortage of demand".

■ To promote the active investments of pension funds by private institutional investors, plans are being considered to minimize any loss of investments.

- By strengthening the credit capacity of the government KODIT and KIBO Funds, methods will be provided to reduce the risk of individual stocks in the fund portfolios.

⇒ A detailed plan will be constructed and will be announced following a careful discussion with related ministries after the IR held by the Chairman of the FSC.

4. FSC Standpoint on the Agreement relating to Construction Companies (ACC)

- ACC has been prepared in order to delay the debt repayment of medium sized construction companies in temporary financial difficulty for a maximum period of a year.

- It is hoped that the flexible negotiations and agreements reached between the banks and the construction companies will provide the opportunity for sound construction companies to overcome their financial difficulties.

- However, discussions centered on the issues of dealing with reputation concerns of companies involved in the ACC are being held.

  - The government will take definitive actions to minimize any difficulties (although the specific difficulties have yet to be drawn up).

- Entering the ACC,

  i. will affect the management of involved construction companies;

  ii. will also affect the overall credit of the construction industry both locally and internationally.

⇒ Therefore, unsubstantiated media reports will be contained and it is hoped that a suitable arrangement will be concluded with the private sectors.

5. FSC Standpoint on the Privatization of the Korea Development Bank (KDB)

- The privatization of the KDB will proceed as originally planned as soon as the related laws are passed through the national assembly without further setbacks.

  - However, due to the current volatile market conditions, the time in which the shares begin trading will be carefully determined; looking at the stabilization of the market. Supplementary provisions will stipulate this condition as negotiated between the ruling party and the government.

- In response to the question that the investment of 1 trillion won exercised as a financial measure through the KDB contradicts the government's policy intention of privatization,

  - As previously mentioned, this investment through the KDB is to strengthen the financial policy, and thus not opposed to privatization.

  - On the contrary, if privatization leads to the establishment of the Korea Development Fund (KDF), we will be better equipped to deal with the possible future occurrence of a similar liquidity crisis.

    - Thus, through the credit support and the creation of the KDF directly providing liquidity to the market, former passive behaviors of banks will substantially be improved.