

Korea's Financial Markets and Economy :

Resilience Amid Turbulence

November 2008

Financial Services Commission

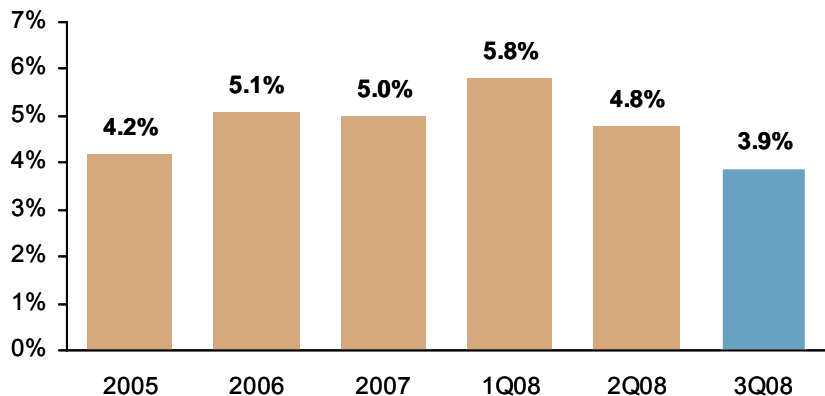


Macroeconomic Fundamentals



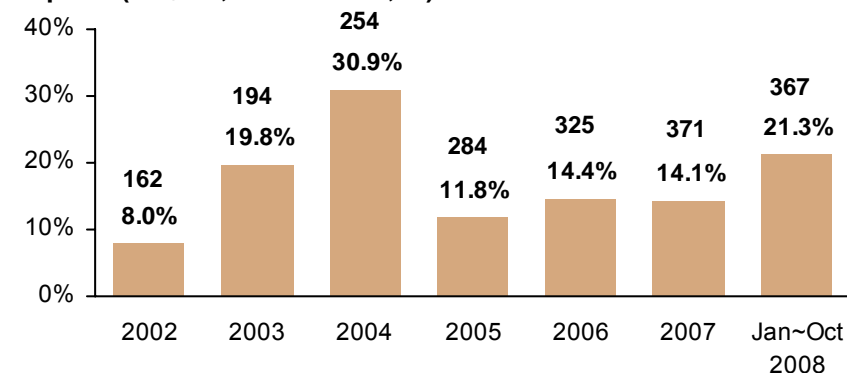
Macroeconomic Fundamentals

GDP Growth



Export Growth

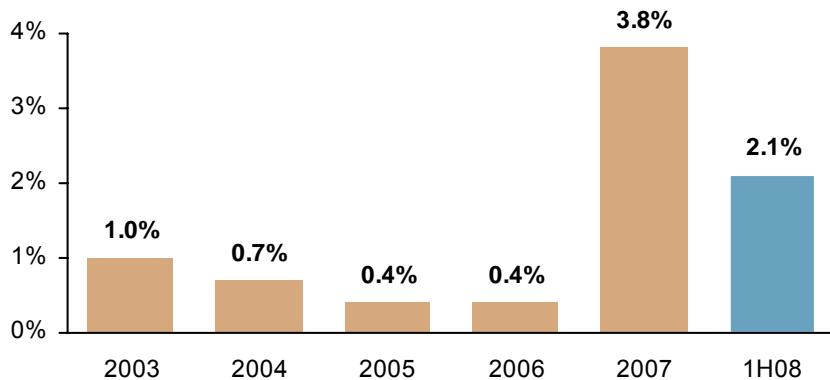
Exports (US\$ bn, YoY Growth, %)



Source: Bank of Korea

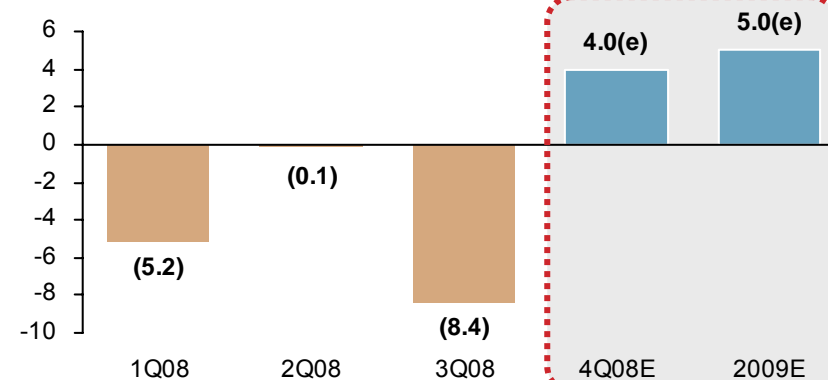
Fiscal Surpluses

Consolidated Government Balance (% of GDP)



Current Account Balance

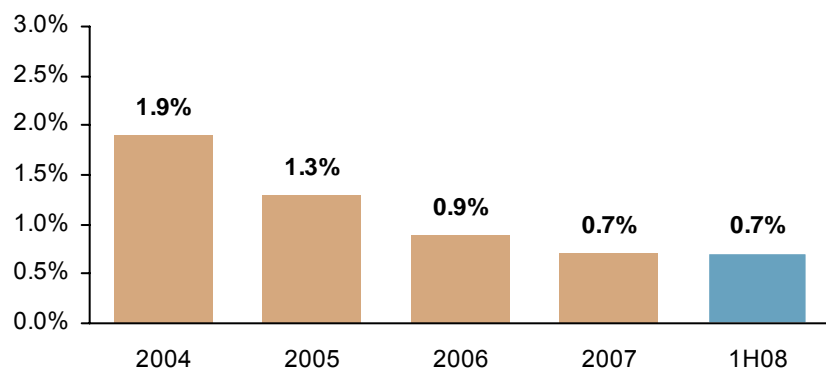
2008 Current account balance (US\$ bn)



Financial & Corporate Sector Trends

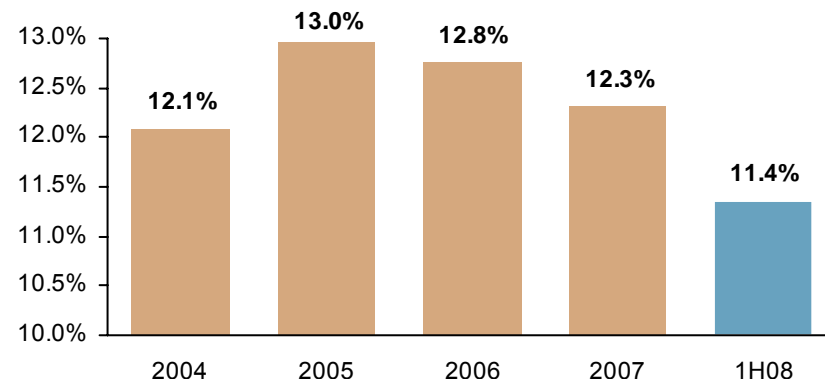
Asset Soundness

Avg. NPL (%)



BIS Capital Ratio

BIS Ratio (%)



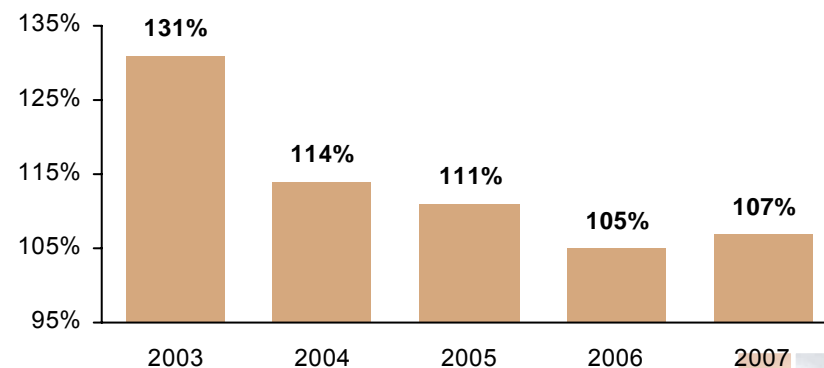
Earnings of Listed Companies

(US\$ bn)	H1, 2007	H1, 2008	Growth
Revenue	355.0 (328.9)	440.0 (401.2)	23.9% (21.9%)
Operating Income	31.7 (22.6)	39.2 (32.4)	23.9% (43.7%)
Net Income	30.0 (22.7)	30.3 (24.4)	1.0% (7.8%)

* Includes companies listed in the MSCI Index

Debt / Equity Ratio

Debt / Equity Ratio (%)



* Includes companies listed in the MSCI Index

Concerns and Facts:

Fallout from Global Financial Crisis



Concerns

#1

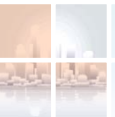
Korea is at risk of external debt defaults.

#2

The Korean banking system is too leveraged and faces a liquidity crisis.

#3

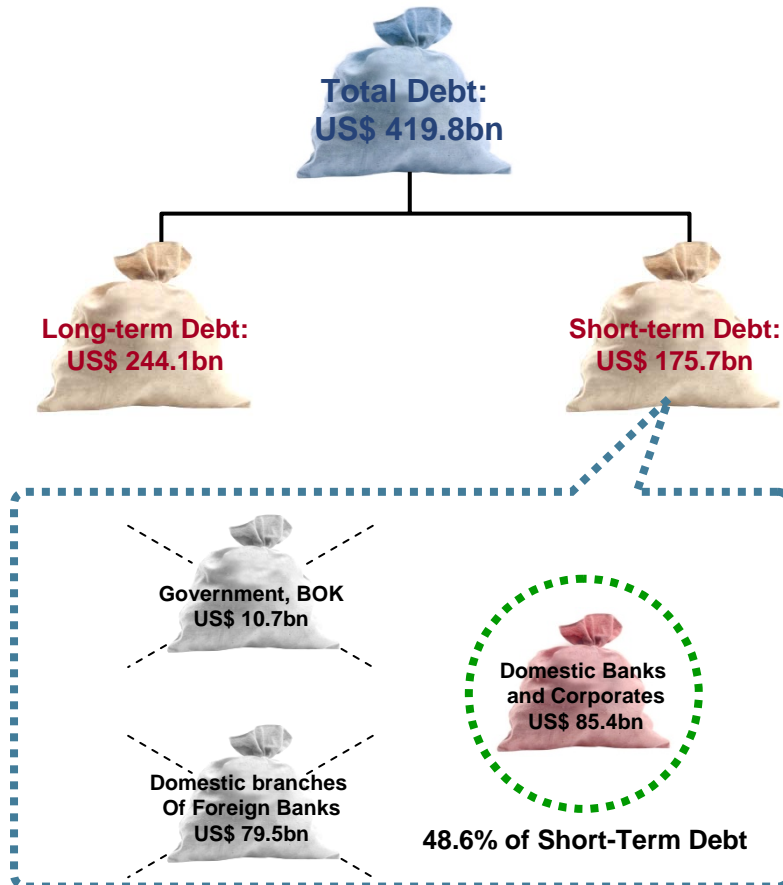
The Korean real estate sector is under stress and may collapse.



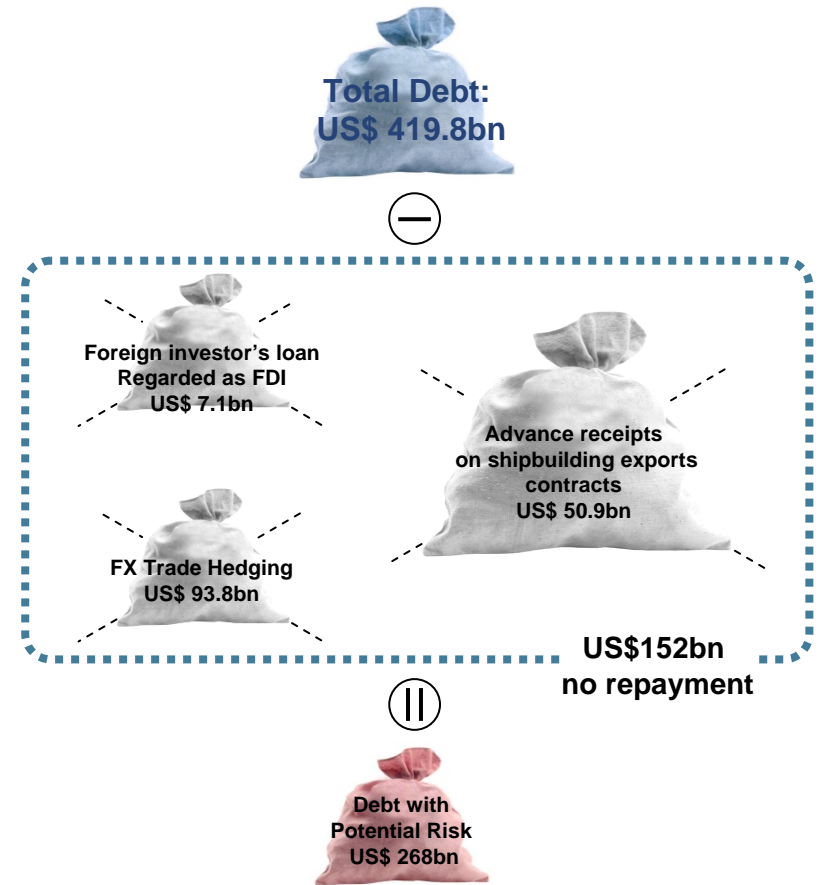
#1-1 External Debt

➔ Facts: A substantial portion of Korea's external debt is risk-free

Balanced Short and Long-term Debt



Large Portion of FX Debt is hedging

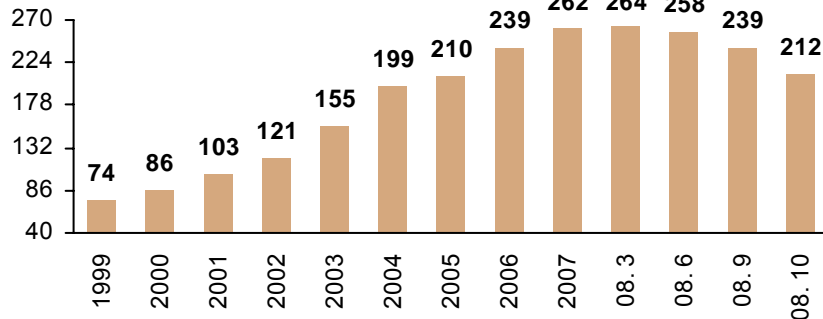


#1-2 Foreign Reserves

➔ **Facts: Korea has the world's sixth largest foreign reserves; most are highly liquid assets.**

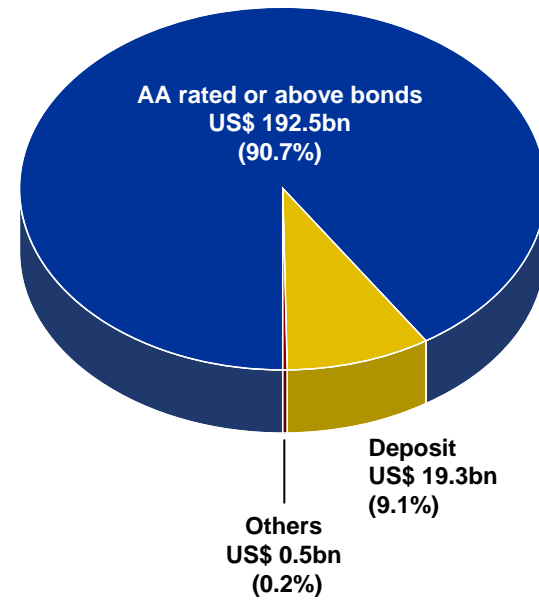
Ample Foreign Reserves

FX reserves (US\$ bn)



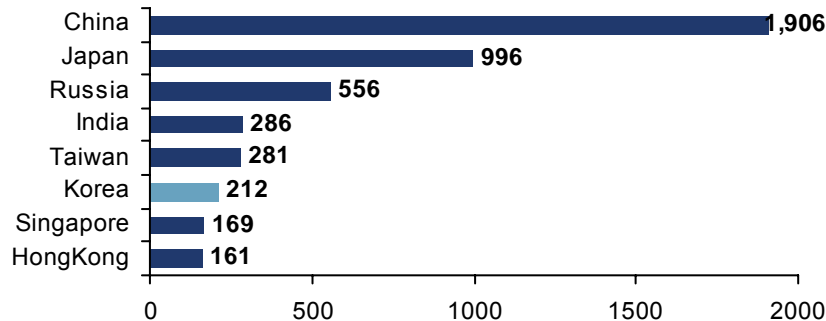
Highly Liquid Foreign Reserves

Total reserves (US\$ bn)



World's Sixth Largest Reserves (Oct 2008)

FX reserves (US\$ bn)



¹ Includes Hong Kong (AA+), Slovenia (AA), Portugal (AA-), Italy (A+), Chile (A+), Czech Republic (A) and Estonia (A). Credit ratings by S&P. Source: IMF.

Source: Bank of Korea

#2-1 Bank Liquidity

➔ **Facts: There is no mismatch between foreign currency managing and financing held by Korean banks. Foreign currency liquidity ratio remains high.**

No Currency Mismatch

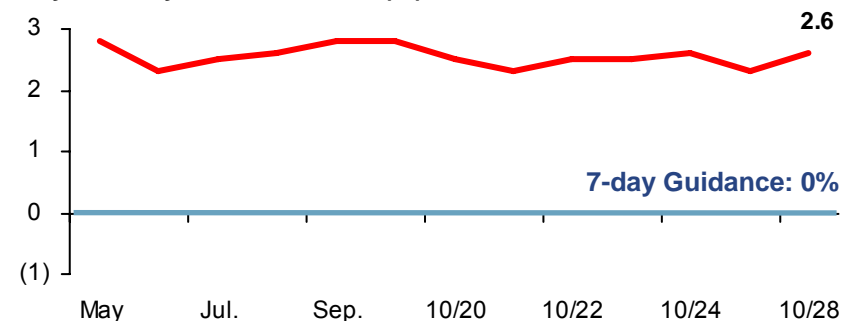
Foreign currency managing/financing - Korean banks
(US\$ bn, as of Jun.08)

Managing	Amount	Financing	Amount
Forward exchange purchased (off B/S)	65.7	External debt	127.4
Foreign currency loans ¹⁾	45.5	Residential deposits in foreign currency	19.3
Trade bill discount operation	50.5	Foreign bank branches (swap) ²⁾	23.0
Others	40.0	Foreigners' investment in bond ²⁾ (swap)	32.0
	201.7		201.7

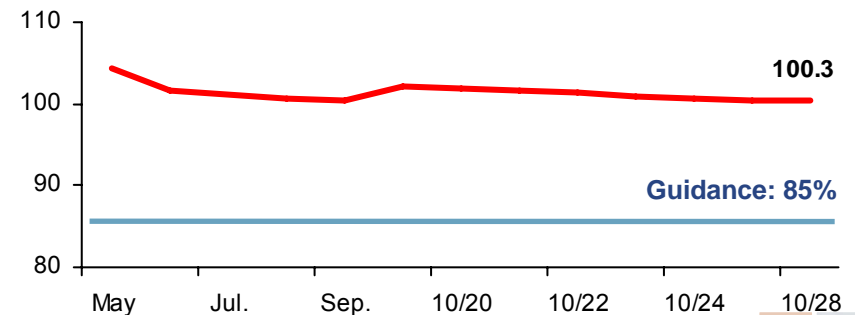
1) NPL : 0.3% 2) Estimates (not included in liabilities)

High Liquidity Ratio: Low Risk from Duration Mismatch

7-day maturity mismatch ratio (%)



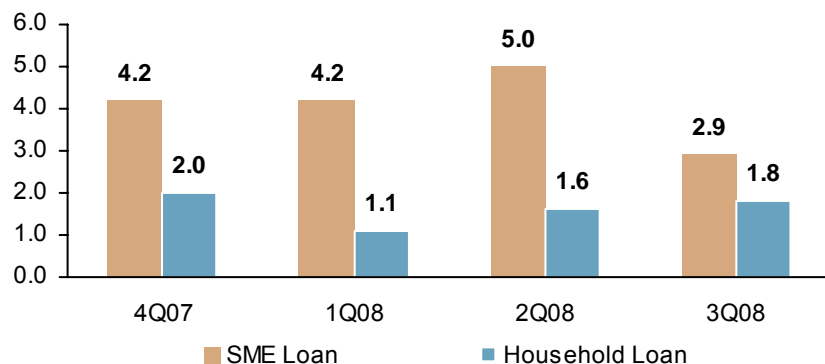
3-month foreign currency liquidity rate (%)



#2-2 Sound Banking Sector

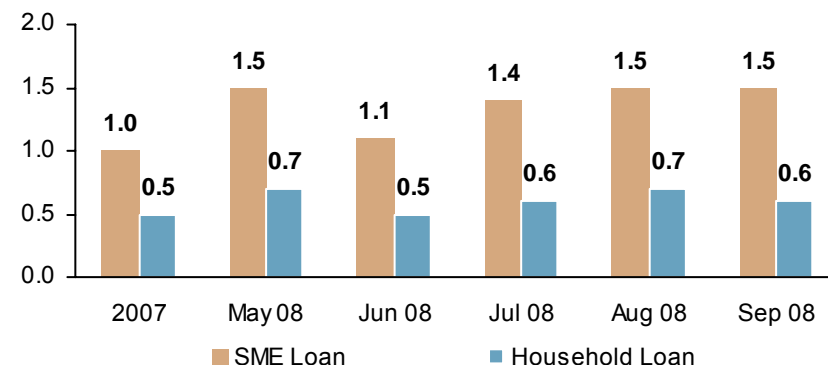
Moderating Loan Growth

Loan Growth (%)



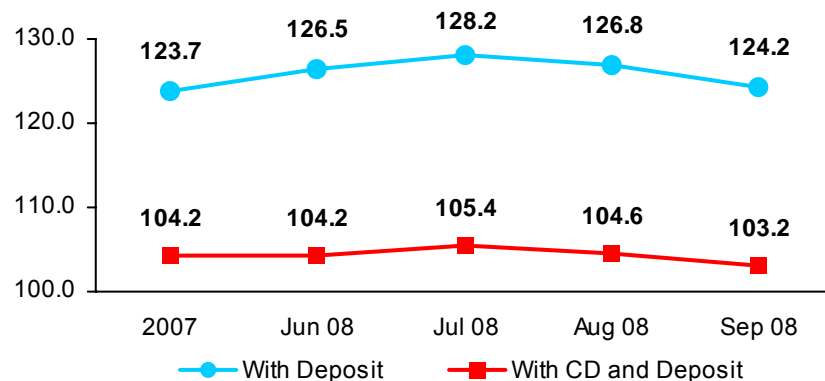
Low Delinquency Ratio

Delinquency Ratio (%)



Moderate Loan-to-Deposit Ratio

Loan-to-Deposit Ratio (%)



Sufficient Room to Withstand Further Default Risks

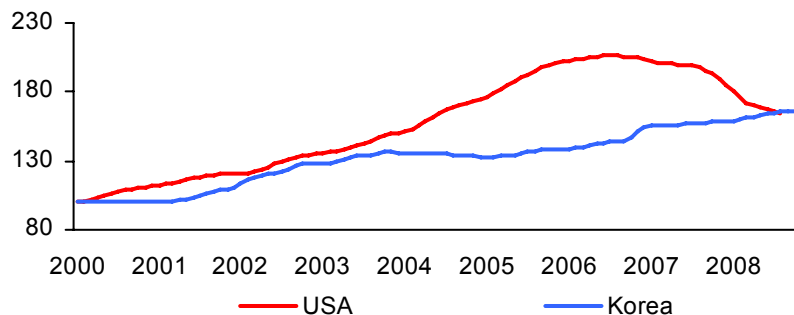
- **Sufficient buffer to absorb the impact of further default risk**
 - Coverage ratio is approximately 186%(as of Jun 08)
 - LTV ratio is approximately 47%(as of Jun 08)
- **Well-diversified lending exposure to various sectors**
 - Manufacturing (35.2%), real estate (17.1%), whole/retail sale (14.3%), construction (9.7%)
- **Stringent risk management systems implemented after Asian Financial Crisis**

#3 Real Estate Sector

➔ facts: Historically, Korea's real estate prices have lagged GDP growth, especially when compared to other markets. This balanced growth has been supported by prudent mortgage supervision.

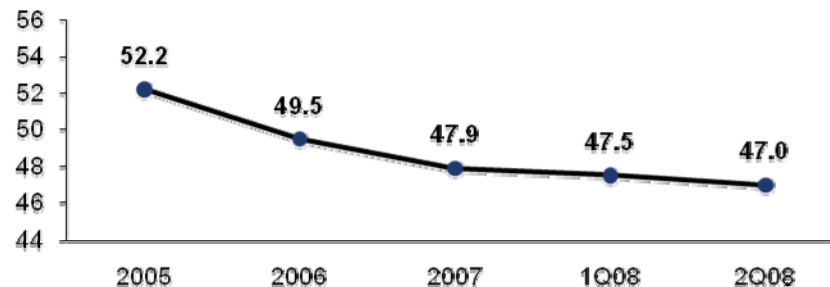
Real Estate Price Growth

Housing Price Index



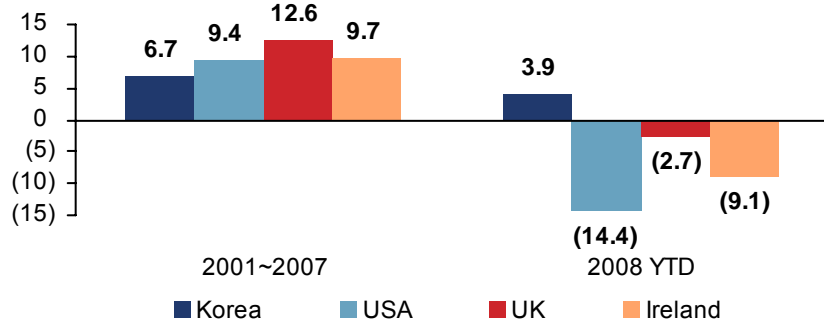
Mortgage Loan-to-Value Ratio

LTV ratio (%)



Housing Price Changes

Housing Price Changes (% y-y)



Prudential Mortgage Regulations

	Korea	U.S.	Hong Kong	Germany	Japan
Mortgage/GDP	33.4%	72.3%	37.3%	52.4%	36.2%
Regulation System	Direct	Indirect	Direct	Mixed	Indirect
LTV Limit	40~60%	None	60~70%	60%	Indirect
DTI Limit	40%	None	60%	None	None

Global Financial Crisis & Economic Slowdown:

Government Response



Key Policy Measures

FX Liquidity	Credit Stability	Bank Soundness	Real Economy
<ul style="list-style-type: none"> • Guarantee FX debt issuance (USD 100bn, 10.30) • Supply Dollar liquidity BOK - \$10bn(swap) MOSF - \$25bn(Loan) • BOK - Swap line agreement with the FRB - \$30bn (10.30) 	<div>For banks</div> <ul style="list-style-type: none"> • Expand purchasing Repo by BOK • Ease the KRW Liquidity Ratio Requirement (10.29) <div>For non-banks, bond market</div> <ul style="list-style-type: none"> • Provide special liquidity facility for non-bank institutions (10.24) • Broaden eligible collateral for open market operations to bank debentures • Help to stabilize corporate bonds and ABCP Market with P-CBO 	<ul style="list-style-type: none"> • Tighter monitoring on banks' asset size & financing structure • Enhance risk management via MOU with financial authorities • Help securitize illiquid assets (e.g. MBS, covered bonds) <div><If necessary></div> <ul style="list-style-type: none"> • Support recapitalization of financial institutions • Enhance deposit guarantees 	<div>Macro - Measures</div> <ul style="list-style-type: none"> • Lower the Base interest Rate (5.25→4.00%) • Strong Fiscal stimulus packages(\$26bn) <div>Micro - Measures</div> <ul style="list-style-type: none"> • Support for Small and Medium Enterprises (10.1) <ul style="list-style-type: none"> - Initiate fast-track programs for differentiating viable companies - BOK - Increase the Aggregate Credit Ceiling Loans (10.23) - Supply KRW liquidity by State owned banks - Expand public guarantee of SMEs loans - KODIT - Help issue P-CBO • Support for the Construction Industry <ul style="list-style-type: none"> - Purchase unsold assets held by construction companies - Provide credit enhancements to securitize corporate bonds - Provide tax-incentives for housing sector

Thank You



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