Korea's Financial Markets and Economy :

Resilience Amid Turbulence

November 2008

Financial Services Commission

- [If anyone introduce the Chairman] [ ] Thank you for your kind introduction.

- Ladies and gentlemen, I would like to welcome all of you and thank you for taking the time to be with us today.

- As I deeply appreciate your presence, I made a very long day-trip all the way from Seoul for this event and come back this evening.

- During the presentation, I will first discuss Korea's economic and financial position, then provide answers to some of the concerns that investors have raised over the Korean economy.

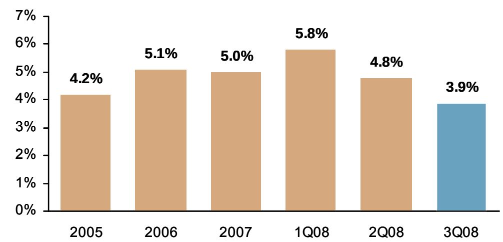
- I will also explain briefly policy measures that the Korean government has recently implemented to cushion adverse impact of the global financial crisis.

Macroeconomic Fundamentals

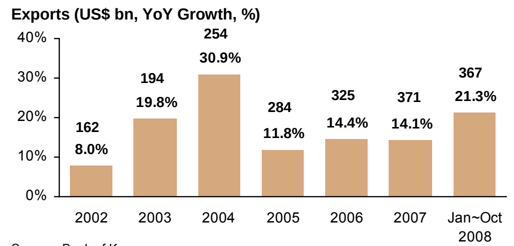
- First, let us take a look at Korea’s overall economic picture.

Macroeconomic Fundamentals

GDP Growth

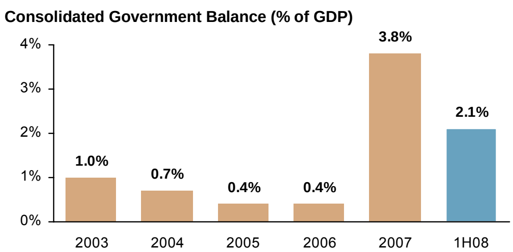


Export Growth

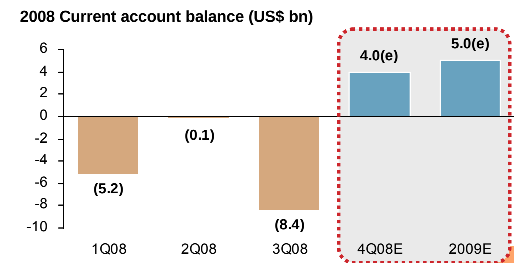


Source: Bank of Korea

Fiscal Surpluses



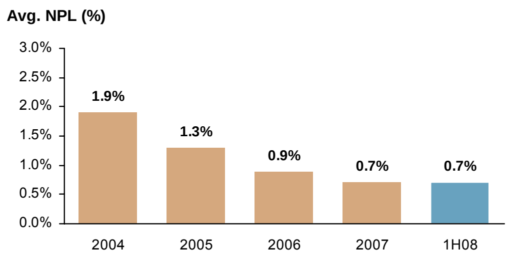
Current Account Balance



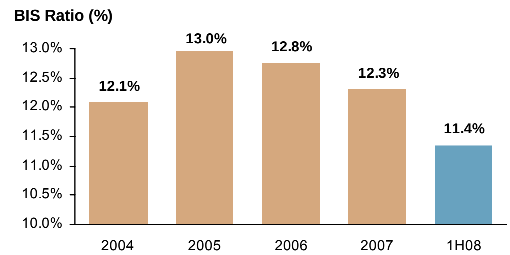
- Korea's macro-economy remains sound with a growth rate of 3.9% for the third quarter of this year.
- As you know well, Korea depends on export because we don't have much natural resources. If you look at the graph on the right, Korea's exports have grown consistently, and this trend has continued in the third quarter of 2008. This year's export growth rate is 23% as of September this year.
- Korea has maintained sound fiscal balances and low sovereign debt levels. Fiscal surplus was estimated by S&P at 2.1% of the GDP for the first half of this year.
- The current account balance posted a deficit of $13.8 billion as of September, largely due to the spike in crude oil prices we have had earlier this year.
- But thanks to the fall in oil prices, we expect the current account deficit to turn into a surplus from October recording around $1.5 billion. Including the surplus in the fourth quarter, we estimate this year's current account deficit will be below $ 10 billion, which is just 1% of our GDP.
- And we expect the recent trend of current account surplus to continue. Of course, it depends in the market situation. But considering the time lag effect in the oil price, current account balance is expected to record a surplus in the first half of next year.

Financial & Corporate Sector Trends

Asset Soundness



BIS Capital Ratio

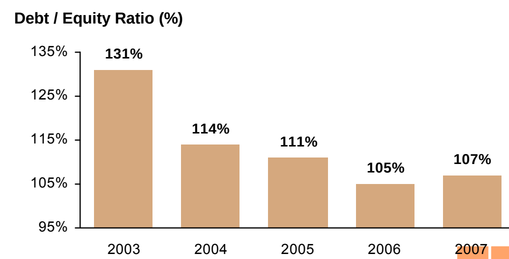


Earnings of Listed Companies

(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



* Includes companies listed in the MSCI Index

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- As for the banking sector, Korean banks have had a good track record for the past several years in terms of asset soundness, capital adequacy, profitability and liquidity.

- The average NPL ratio of Korean banks has dropped to 0.7% in 2008, a historically low level. The average ROE was in the 15 to 20% range.

- The BIS capital ratio has been robust as well, moving in the 12-13% range from 2005 to 2007. This year, with the slowing economy, it has fallen below this level. While this is not a welcome development, it must be said that this is not a structural problem, but a mere reflection of the broad economic slowdown, along with bank assets and earnings coming under some short-term pressure.

- I would also stress that Korean banks are taking steps to strengthen their capital, and even now, with ample loan loss provisions, they are sufficiently capitalized to offset any likely future loan losses.

- Korea's corporate sector has also shown strong financial soundness over the past several years.

- The earnings of listed companies have improved greatly, and the debt to equity ratio has been on a broadly downward trend for some years now. It stays as low as around 100% range in 2007.

- I may add that the competitiveness of Korea's blue chip companies is indeed the strength of our economy, which will help us successfully cope with the global financial crisis.

Concerns and Facts:

Fallout from Global Financial Crisis

- Despite Korea’s economic fundamentals, the global financial crisis has prompted some concerns over how Korea’s financial sector and the broad economy will perform going forward.
- Let me address some of the concerns that have recently been raised.

Concerns

#1 Korea is at risk of external debt defaults.

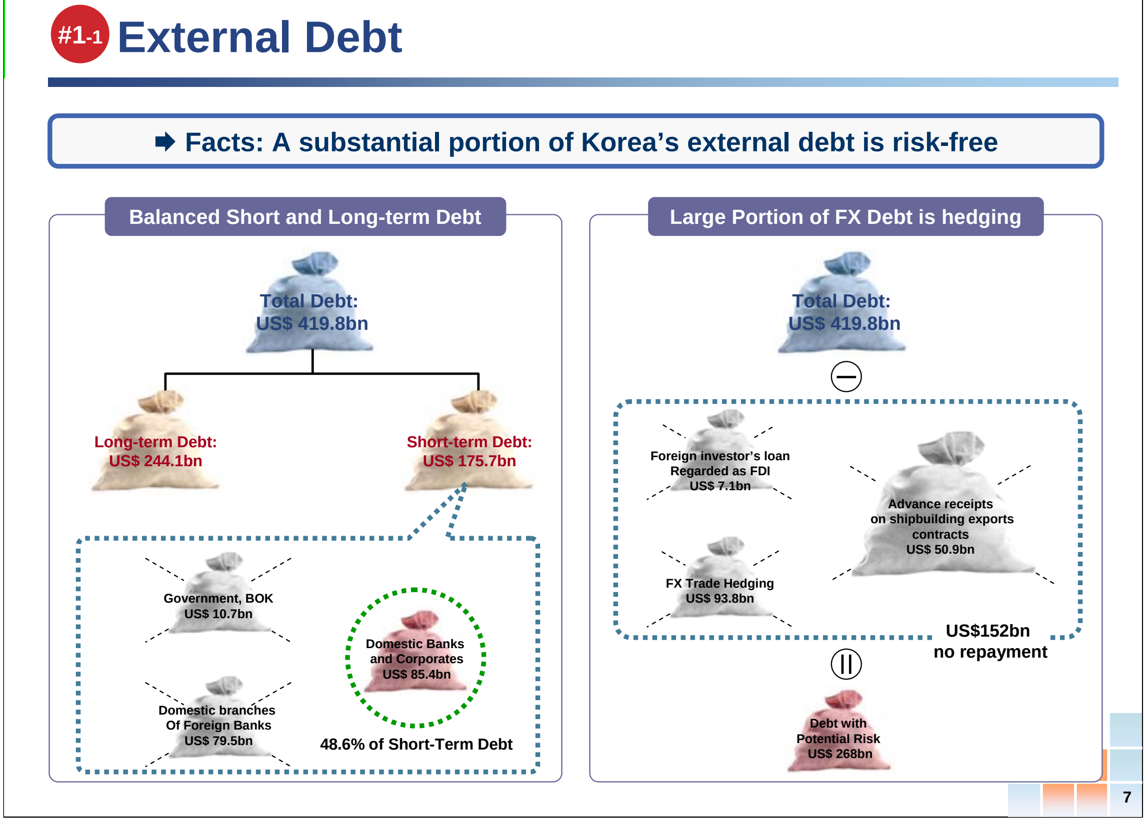
#2 The Korean banking system is too leveraged and faces a liquidity crisis.

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

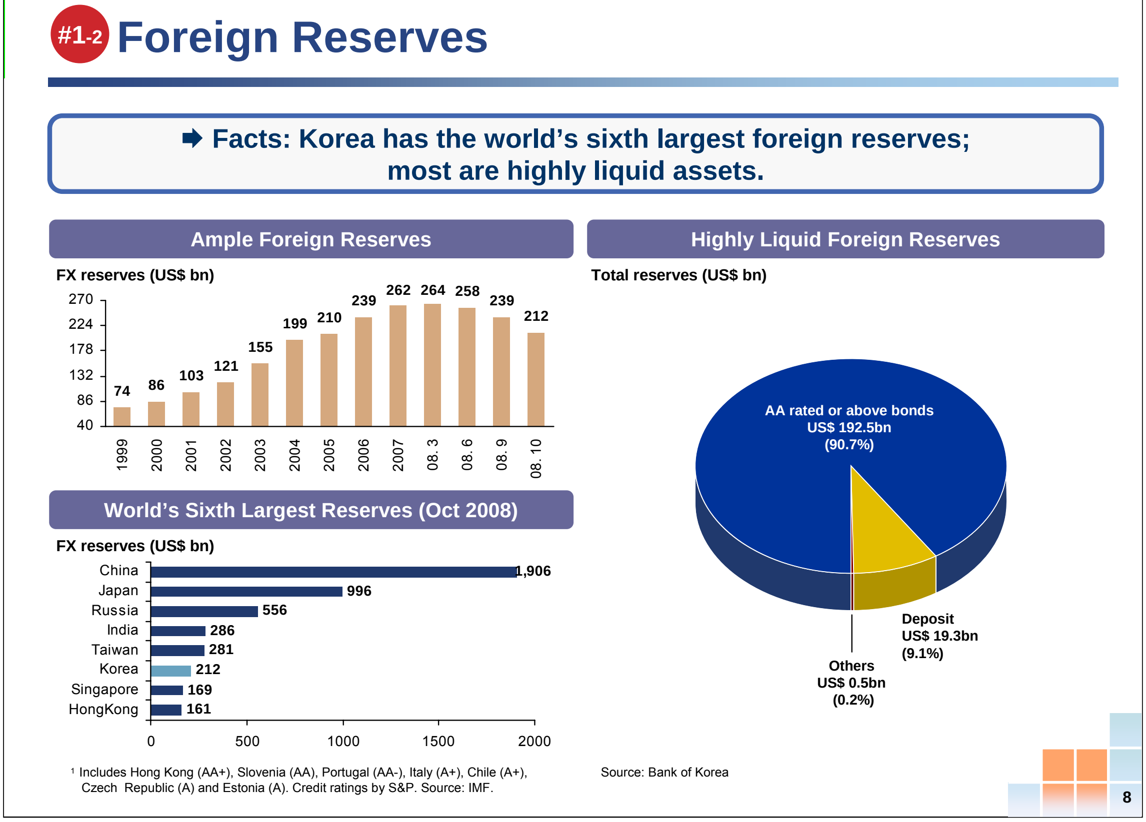
- In this slide, you will see some of the key concerns that have recently been raised. They can be grouped into three general areas: (1) external debt, (2) bank leverage and liquidity, and (3) household debt.

- The first is about the level of external debt.

- Here, the concern is that Korea has borrowed too much as it did in 1997, and that its foreign reserves, despite the size, are not liquid enough to meet the short-term liabilities.



- Let me break down Korea's external debt and show you what it really looks like.
- As of the end of June, 2008, the total gross external debt came to $420 billion, of which 41%, or $176 billion, was short-term debt.
- Of the $176 billion short-term debt, $11 billion was in won-denominated government bonds held by foreign investors, and $80 billion was borrowings by foreign bank branches.
- Net of these two sums, $91 billion, the short-term foreign debt of domestic banks and companies comes to $85 billion.
- Let me also note that about $152 billion of the $420 billion, or about a third of the total, poses no default risk at all. That is, they are not subject to any future repayment obligation.
- This is because $7 billion is for pre-FDI funding, $94 billion is for forward hedging, and $51 billion is advance receipts for shipbuilding contracts.
- Net of these sums, Korea's real foreign debt comes to about $268 billion, not $420 billion as often overstated in the report.



- Another concern is that Korean banks are overleveraged and will therefore encounter liquidity difficulties.

- Let me first reiterate that, as of October, 2008, Korea's foreign reserves stood at about $210 billion, world's 6th largest.

- This far exceeds the IMF standards of 3-month import payment, which is $145 billion. The reserves also mostly consist of highly liquid assets, 91% of which are highly rated bonds, rated AA or higher.

- The Bank of Korea also has ready access to $30 billion through a swap arrangement with the U.S. Federal Reserve.

- There are also discussions under way to expand the existing bilateral swap arrangements Korea has with other countries.

#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

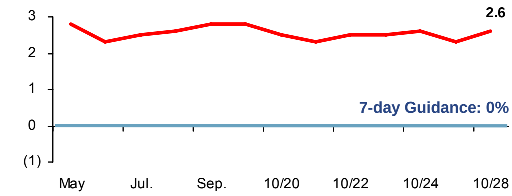
(US$ bn, as of Jun.08)

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

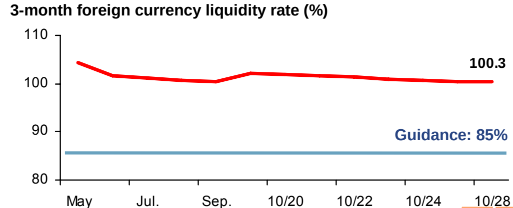
1) NPL : 0.3%   2) Estimates (not included in liabilities)

High Liquidity Ratio: Low Risk from Duration Mismatch

7-day maturity mismatch ratio (%)



3-month foreign currency liquidity rate (%)



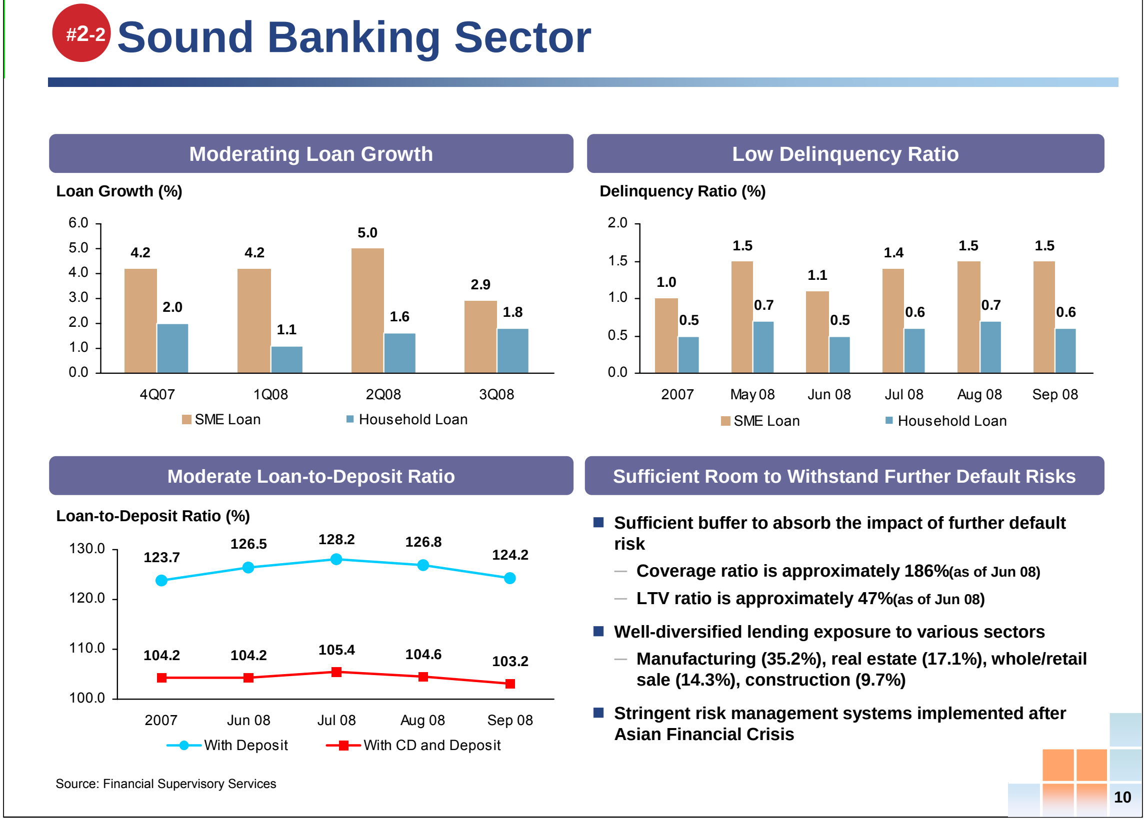
- Another concern often raised is that Korean banks could suffer from a subprime-like crisis if housing prices start to decline.

- Korean banks have recently encountered some difficulties securing overseas funding as a result of distress in the global credit markets. I must say that, on balance, Korean banks have been faring relatively well compared with others, thanks to the surplus funds they have accumulated from the first half of the year.

- It is true that Korean banks are facing some difficulty securing foreign funding because of tight offshore credit conditions. What they are basically trying to do is to maintain their foreign trade financing. So their funding difficulty should not be viewed as a reflection of any solvency problem.

- Furthermore, government actions including $100 billion external debt guarantee have significantly reduced bank liquidity concerns.

- The decision by S&P on October 31 to remove major Korean banks from its negative watch list was, I believe, based on the same findings.



- Moreover, we remain confident about the asset quality of domestic financial institutions. Loan growth has been moderate in recent months, signaling improved risk management by banks, and most importantly, delinquency ratios remain at or near historical-lows, 1.5% in the case of SME loans and 0.6% in the case of household loans.

- Our banks have a sufficient buffer to absorb loan losses. The average coverage ratio is about 186%. Given these statistics, as a regulator, I am very confident about the financial conditions of Korean banks.

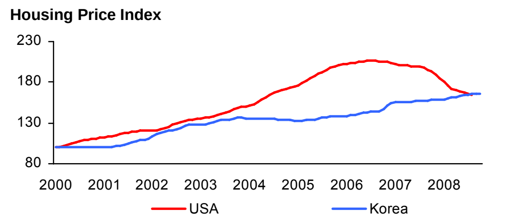
- Let me also assure you that the loan-to-deposit ratio of domestic banks has gradually declined to 101% last month, which is similar to the U.S. level, and far below 130% to that which has been cited by some foreign media. The misconception comes mostly from the exclusion of CDs.

- In Korea, CDs have similar characteristics to deposits due to its more than 40% of re-commitment rate. Moreover, more than 80% of CDs are sold to retail clients through over-the-counter bank teller sale. Therefore, it is reasonable to include CDs in calculating loan-to-deposit ratios and that is an internationally accepted norm.

#3 Real Estate Sector

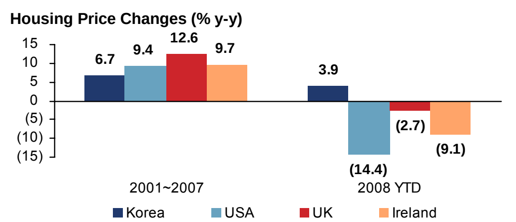
➡ **facts: Historically, Korea's real estate prices have lagged GDP growth, especially when compared to other markets. This balanced growth has been supported by prudent mortgage supervision.**

Real Estate Price Growth



Mortgage Loan-to-Value Ratio

Housing Price Changes



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

- Is there a mortgage crisis in the making in Korea with falling housing prices? Here I must say that Korea will be very unlikely to face a mortgage crisis.

- I say this because of our prudential regulations. The Korea's financial authority has in place tough loan-to-value ratio requirements for mortgage loans since 2002. This was followed by equally tough debt-to-income ratio requirements since 2005.

- Under the LTV and DTI requirements, borrowers can finance only up to 40 to 60% of the property value. They also have to comply with strict income and debt-servicing tests. Currently Korea's coverage LTV stands only at 48%.

- Obviously, the Korean economy will feel the effect of the global economic downturn, and bank mortgage assets will come under some pressure.

- But I would like to emphasize that Korea is in a strong position to implement a variety of fiscal and monetary measures to cushion the impact of economic slowdown.

- And the government has already made it clear that it stands to ready to act, given that Korea enjoys among the lowest gov's debt to GDP ratio at 30%.

Global Financial Crisis & Economic Slowdown:

Government Response

- The Korean government recognizes the extraordinarily difficult circumstances the global economy is in as well as the pressure domestic economy faces.

- To date, the government has acted decisively and has taken a number of steps to cushion the effect of the slowing global economy.

Key Policy Measures

FX Liquidity

- 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)
- Open possibility of expanding Swap Schemes (Bilateral · Multilateral)

Credit Stability

For banks

- Expand purchasing Repo by BOK
- Ease the KRW Liquidity Ratio Requirement (10.29)

For non-banks, bond market

- 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

Bank Soundness

- 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)

<If necessary>

- Support recapitalization of financial institutions
- Enhance deposit guarantees

Real Economy

Macro - Measures

- Lower the Base interest Rate (5.25→ 4.00%)
- Strong Fiscal stimulus packages($26bn)

Micro - Measures

- Support for Small and Medium Enterprises (10.1)
  - 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
  - Purchase unsold assets held by construction companies
  - Provide credit enhancements to securitize corporate bonds
  - Provide tax-incentives for housing sector

- Let me talk briefly about steps taken to boost foreign currency liquidity. As I noted earlier, the government gave domestic banks a $100 billion foreign debt guarantee that will stay in effect until June next year. A total of $35 billion has also been supplied to the market through swap and loan arrangement by the Bank of Korean and the finance ministry.

- In addition, a swap line of $30 billion has been established with the U.S. Federal Reserve, and the government is working to expand the swap arrangement currently in effect with China ($4 billion) and Japan (13 billion). Other steps, such as relaxing bank liquidity requirements and creating new liquidity facilities for the secondary lending institutions, have also been taken.

- The government is also insisting that banks continually manage risk prudently, raise capital and improve asset soundness in return for the support they are receiving. This is in fact what the government insisted in the MOU it signed with the banks receiving government debt guarantee.

- A total of $26 billion has also been allocated for a combination of stimulative measures such infrastructure spending, tax cuts, interest rate cuts, and SME credit support.

- We believe that these measures provide timely support the economy needs to absorb the impact of the slowing economy. Again, the government has more than enough maneuvering room for further stimulative measures, and it stands ready to do so if the situation warrants them.

- Let me close my presentation by thanking you once again for joining us today and giving you our assurance that the Korean government will continue to act boldly and decisively to contain the fallout from the global financial crisis and the deteriorating economic prospects.

- What we need now is neither pessimism nor passivity, but an unrelenting determination to face up to the challenges ahead with the confidence that we will be on the verge of a transition to a new era of stability and prosperity. Korea has a strong track record of remarkable resilience, defying pessimistic views.

- Our macroeconomic fundamentals remain sound, as are our financial markets, even in this turbulent global environment.

- We are taking aggressive yet prudent measures to keep the economy on a sustainable growth track. We believe the steps we are taking will prove right, and that the economy will pull through. And I hope that you will continue to be our faithful investment partners for the light future of the Korean economy.

- Thank you.

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