

***Press Release***



## **2009 FSC Report to the President**

Overcoming Financial Difficulties and Laying the  
Foundation for Financial Advancement

**FINANCIAL SERVICES COMMISSION**

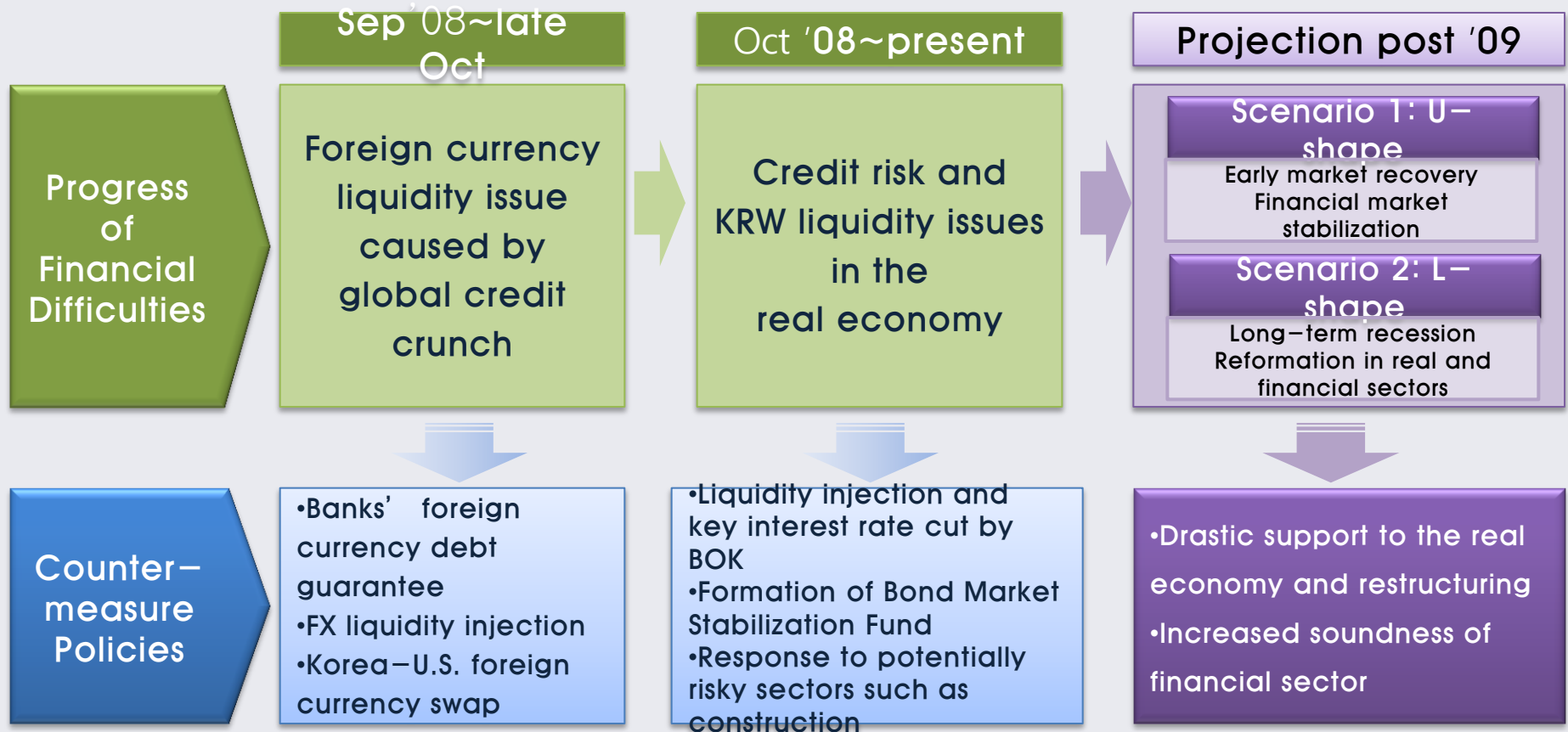
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- I. Development of and Countermeasures to Financial Difficulties
- II. Measures to Overcome Difficulties
- III. Policy Efforts for Economic Recovery

# I. Development of and Countermeasures to Financial Difficulties

# 1. Development of and Countermeasures to Financial Difficulties

- Sub-prime mortgage crisis in U.S. → Globalization of finance → Global financial crisis and economic recession

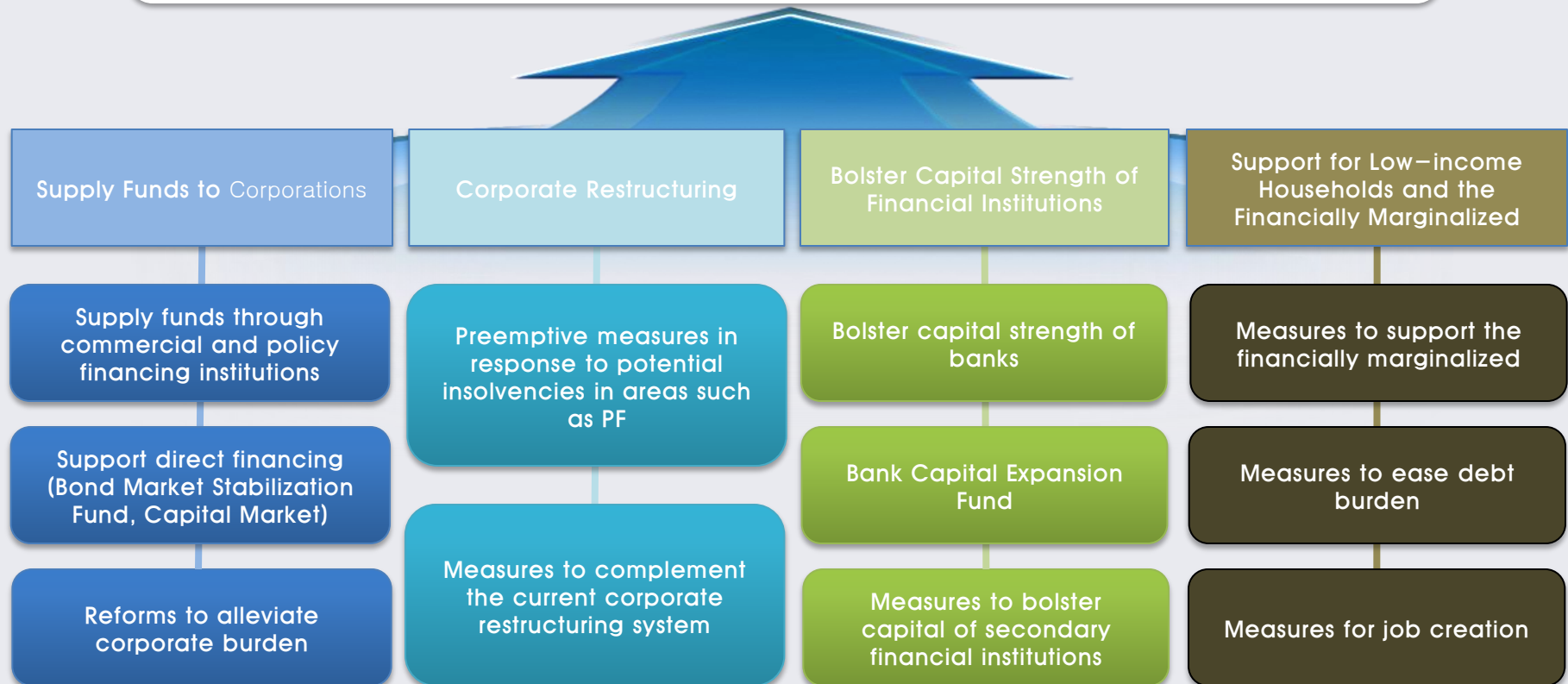


⇒ Market fears realization of Scenario 2 → Need for preemptive measures

## II. Measures to Overcome Difficulties

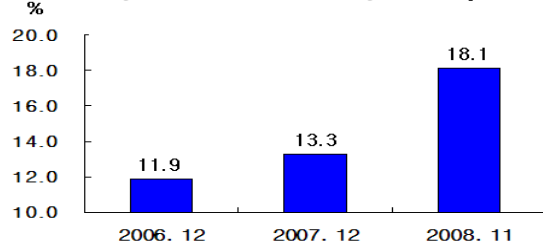
# 1. Framework to Overcome Financial Difficulties

## 「Overcoming Financial Difficulties」 & 「Move towards Economic Recovery」



## 2. Corporate Funding: (1) Expansion of Policy Banking Role

Percentage of loans to large companies



- In 2009, the utmost policy-oriented support will be provided for the SMEs through loan extension

- Intensify inspection of loan extension

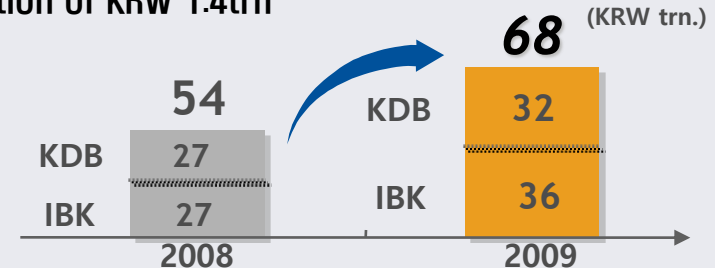
- Provide support to corporation through expanded budget of KRW 3.1trn and help set the foundation for economic recovery.

Direct Lending Support

Guarantee Support

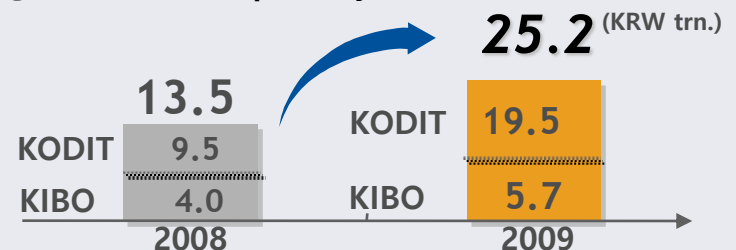
### State-owned Banks (KDB, IBK)

- Expand loan extension by KRW 14trn through capital injection of KRW 1.4trn



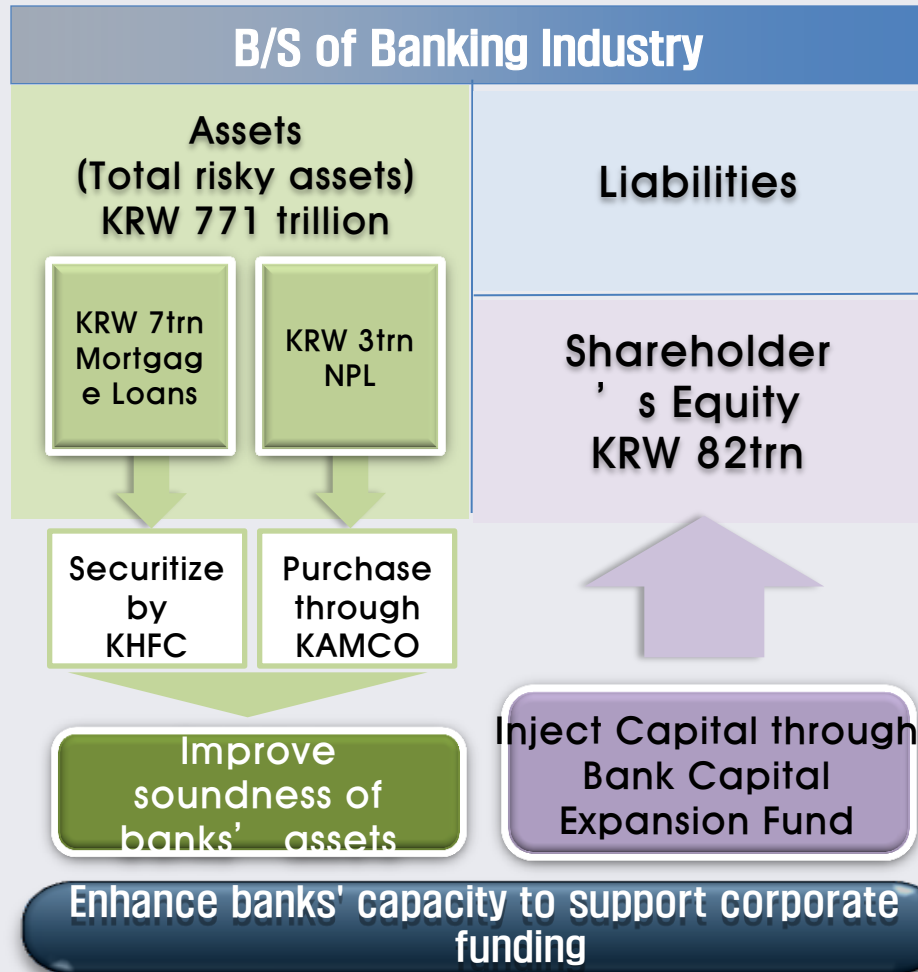
### Credit Guarantee Institutions (KODIT, KIBO)

- Expand credit guarantee support by KRW 11.7trn through additional capital injection of KRW 1.1trn

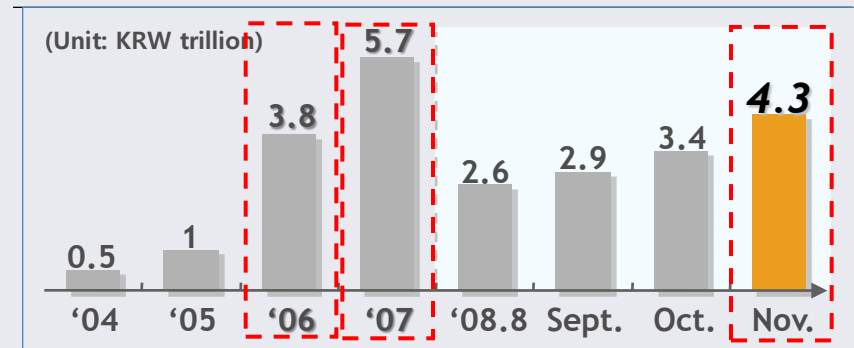
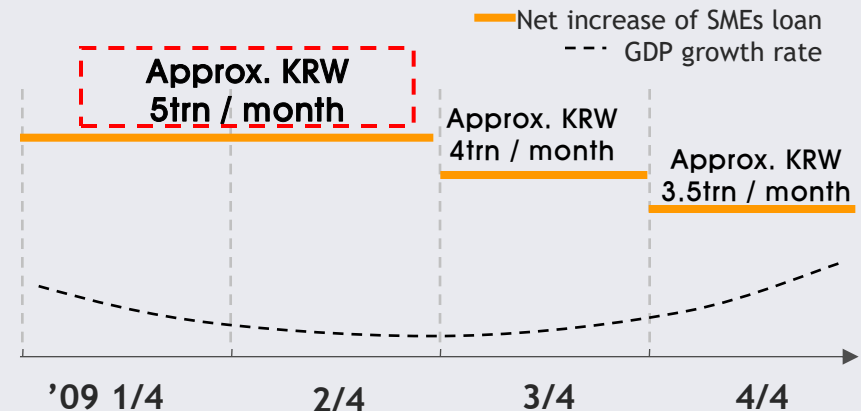


## 2. Corporate Funding: (1) Expansion of Banks' Role

- Increase corporate lending capacity by improving financial soundness of banks



- Total supply of KRW 50trn to SMEs by means of Fast-track program and MOU inspection

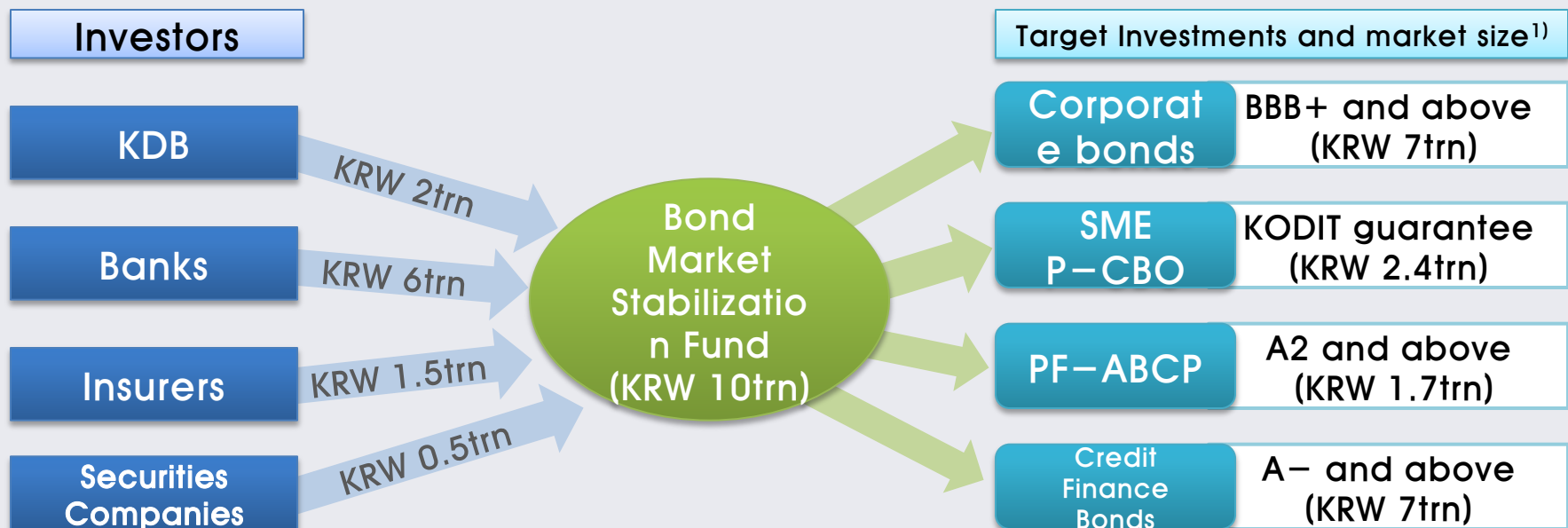


Concentrate supply of funds in the first half of 2009 when the economy is expected to suffer the most



## 2. Corporate Funding: (3) Liquidity Through Bond Market Stabilization Fund

- Support companies facing temporary liquidity shortage such as constructors and credit finance companies



⇒ First KRW 5trn fund was launched on Dec. 17

- The total size of the fund is set at KRW 10trn, but when necessary, it will be expanded via injection of public fund.

1) Based on the amount of bonds maturing in 1H09

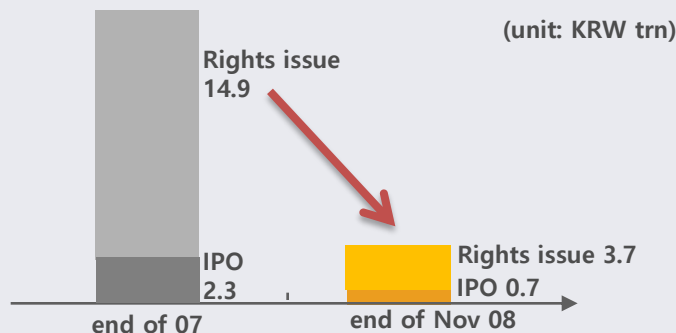
## 2. Corporate Funding: (4) Supply of Funds Through Direct Financing

- Companies fail to secure enough liquidity via direct financing amid stock price and interest rate fluctuations

➡ Adopt measures to vitalize stock and bond markets

### Stock Market

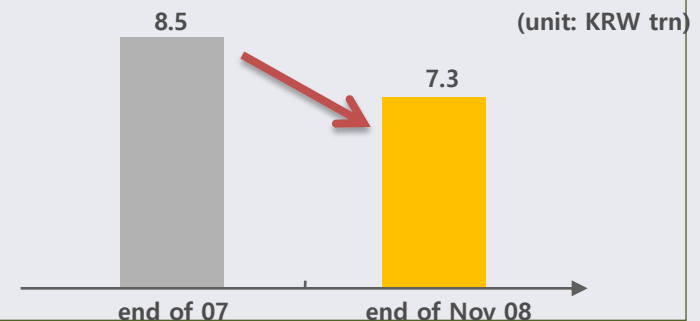
#### Decrease in capital raising via IPO and rights issue



- Increase demand via stock market stabilization fund  
\*KRW 515bn by the end of Mar 09
- Ease disclosure burdens to encourage issuance of stocks  
\* exempt well-known seasoned issuer(WKSI) from submitting individual issuance report for every capital increase, ease time restraint and eliminate frequency limit on issuance

### Bond Market

#### Decrease in fund inflows to corp. bond market



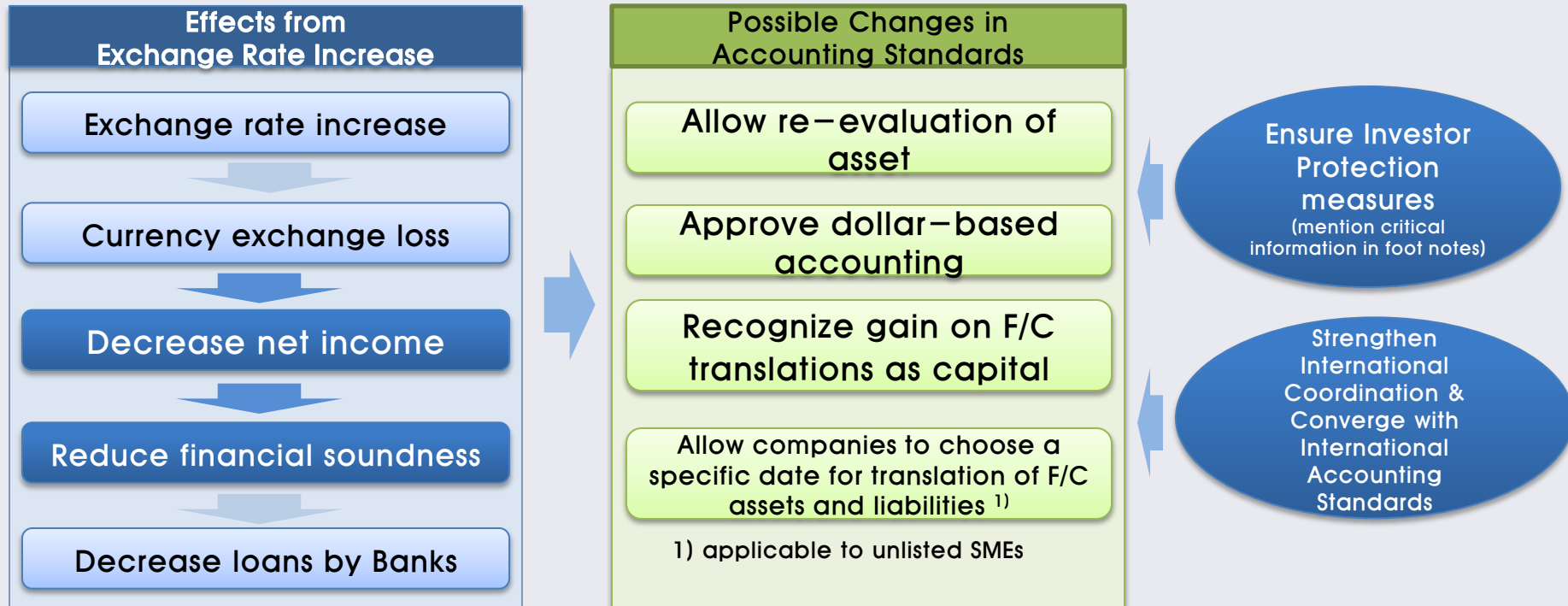
- Introduce new systems and products to bond market (short-term bond, etc)
- Expand investment in long-term corp. bond investment fund (inc. financial debenture)
- Increase WMF's investment in bonds and CP

Market Situation

Countermeasures

## 2. Corporate Funding: (5) Reduction of Burden for Corporation

### (1) Ease accounting burdens stemming from extreme volatility in global markets

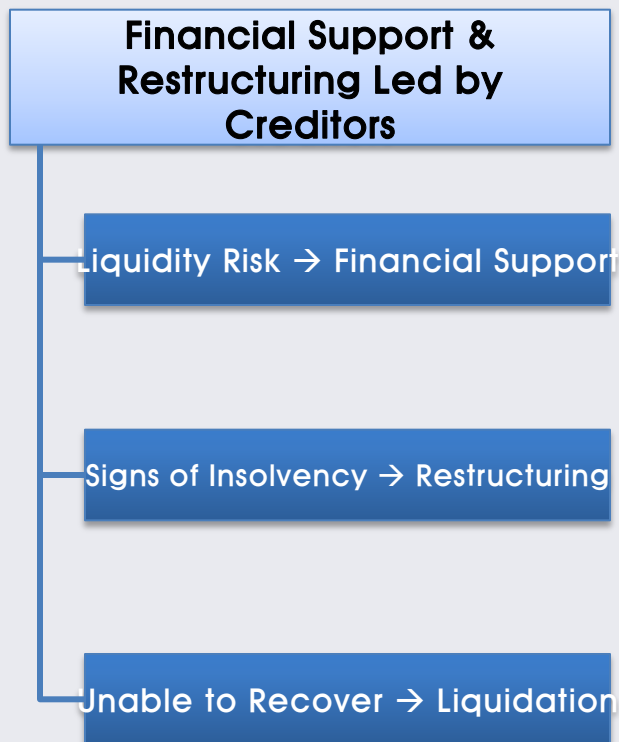


### (2) Boost foreign currency liquidity via exceptional approvals of credit ceiling provision on banks' trade financing.

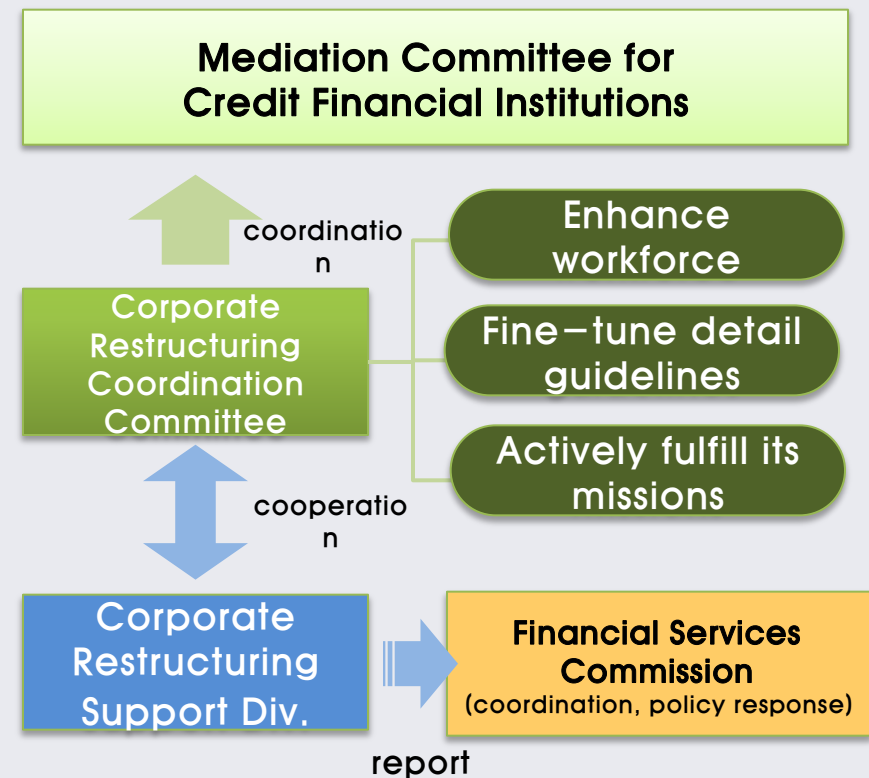
### 3. Corporate Restructuring: (1) Restructuring Mechanism

- **Rigorous restructuring on unviable companies is necessary to provide enough fund to healthy/viable companies, securing future economic growth engine.**

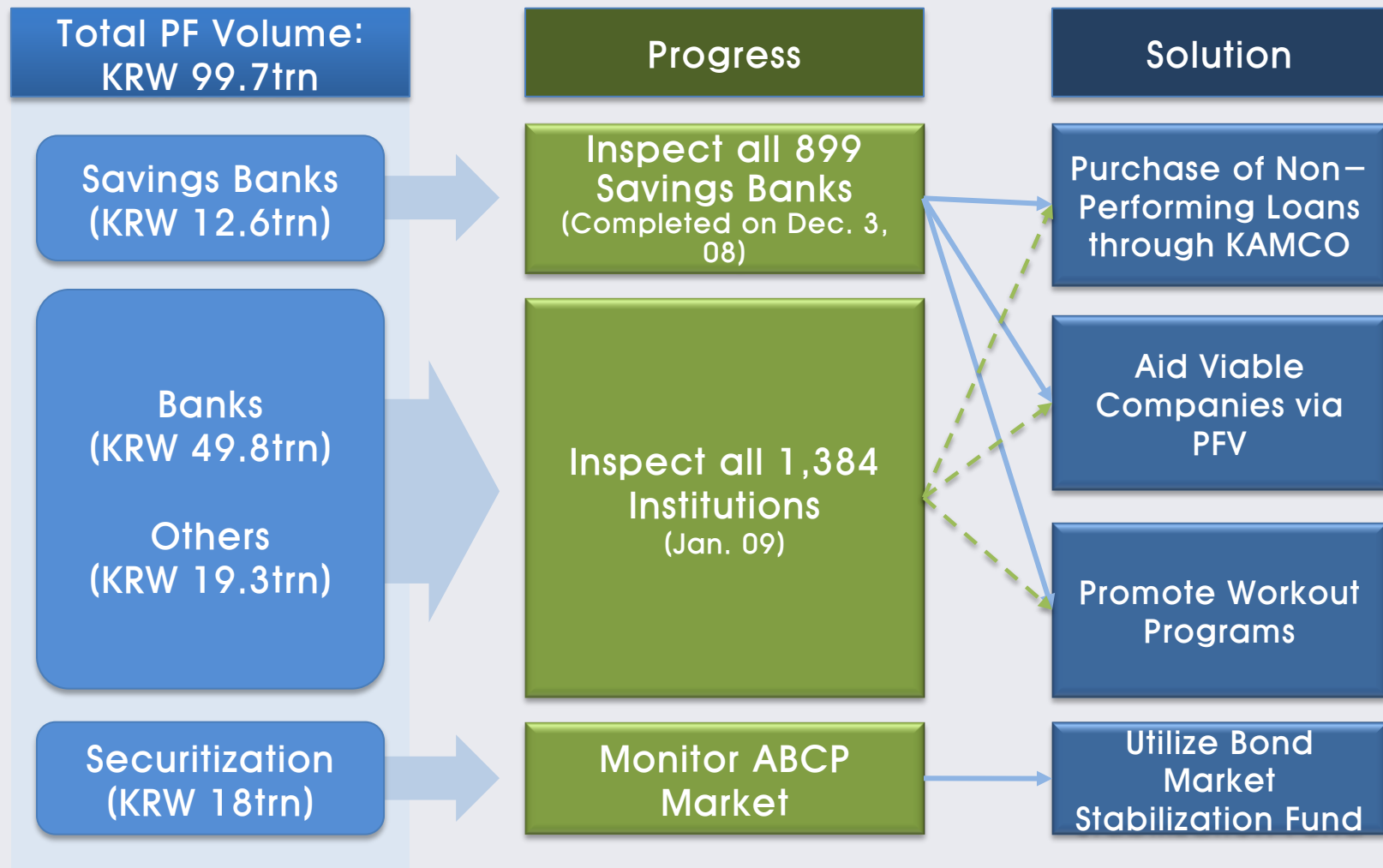
#### Underlying Principles



#### Institutions in Charge



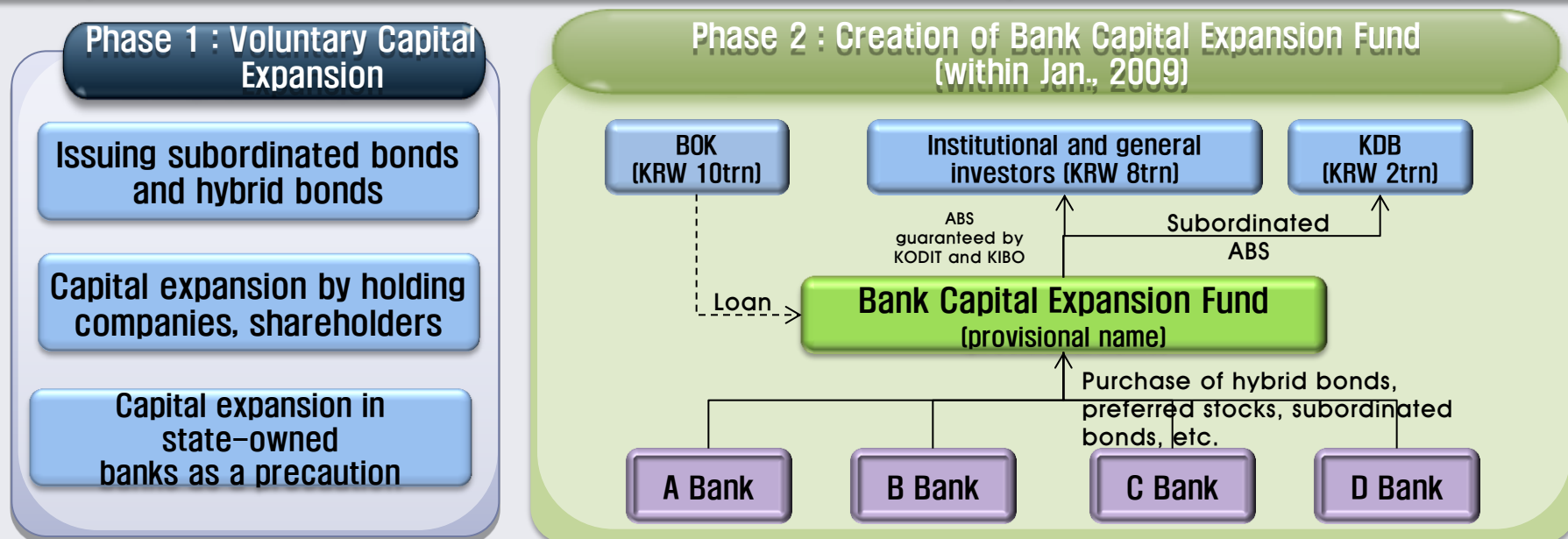
### 3. Corporate Restructuring: (2) Potential Vulnerable Sectors including PF



## 4. Bolster Capital Strengths of Financial Institutions:

### (1) Banking Sector Capital Expansion

- **(Domestic Banks)** BIS Ratio of 10.86% as of the end of Sep., 2008 **(Tier 1 Capital: 8.33%)**
- **(Advanced Countries)** Britain: Injection of government–created fund using 9% of Tier 1 Capital as the base, the United States: 8.76% of Tier 1 Capital as of the end of June, 2008



- **Help applied banks to lower their financing cost, using the loans extended by the BOK**
  - As for investors, investment stability is enhanced with the guarantees by KODIT and KIBO, and KDB's acquisition of subordinated bonds
    - \* Currently, the BOK is considering measures of providing financial support for the fund (a matter to be resolved by the Monetary Board)
- **An injection of KRW 20trn into the banking sector would raise the overall BIS ratio by about 2.6%**

(estimate)

## 4. Bolster Capital Strengths of Financial Institutions: (2) Non-Monetary Institution Capital Expansion

### Current Status

- Worsening financial soundness and liquidity of certain financial institutions
- Promoting capital expansion through the major shareholders

### Countermeasures in Case of Insolvency

- Different responses depending on business characteristics
  - Support must be made in parallel with self rescue efforts.

**Insurance company**

#### Preventive capital expansion

(targeting companies whose payment reserve ratio is lower than 150%)

#### Retain existing contracts and protect policy-holders

- \* Using M&A and contract transfer, etc.

**Securities company**

#### Liquidity through KSFC and BOK

#### Promote restructuring, M&A and Liquidation

- \* No loss for clients as client deposit money

**Savings bank**

#### Promotion of capital expansion by major shareholder and voluntary restructuring

#### Promoting active M&A by providing incentives

- \* (Ex) Create "Ailing Savings Bank Normalization Fund"

**Credit Finance**  
(credit cards, etc.)

#### Difficulty in raising capital for credit and leasing companies

#### Proactive response to liquidity

- \* Supporting bond purchases through the Bond

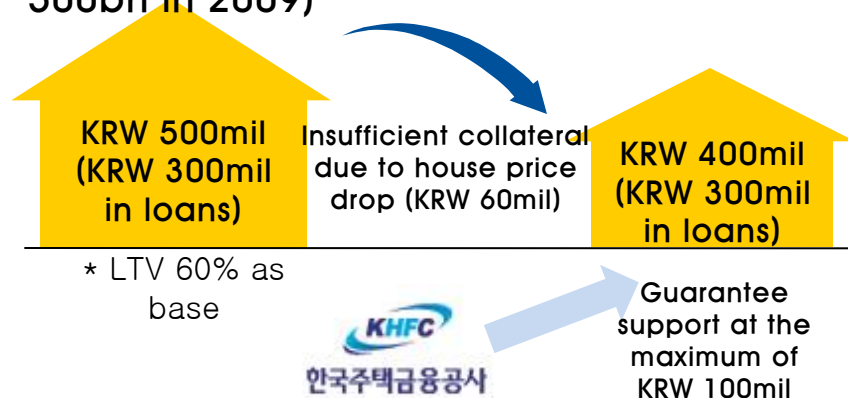
Market Stabilization Fund

## 5. Support for the Low-Income Households and the Financially Marginalized:

### (1) Support for the Financially Marginalized

#### Easing debt repayment burden of household loans and residential mortgages

- At the maximum of KRW 100mil is guaranteed for low-and-middle income households whose collateralized houses suffer decline in price (total support of KRW 500bn in 2009)

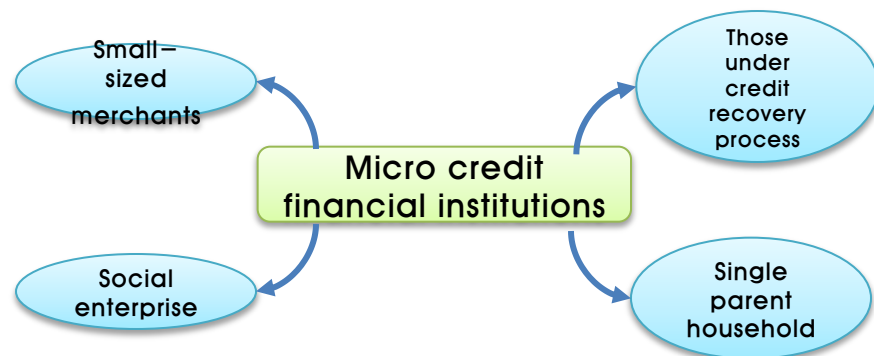


- Extend maturity and grace period for residential mortgage holders

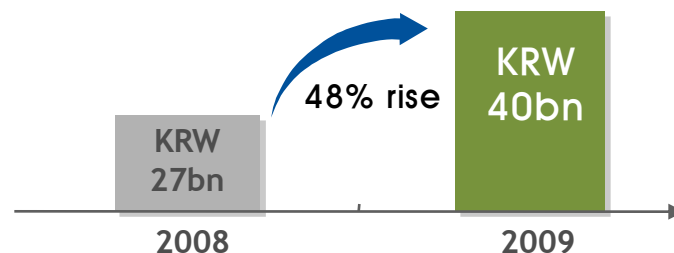
\* Extending maturity by 30~35 years and grace period by 5~10 years

- If a debtor with a floating-rate debt wants to switch into a fix-rate one, prepayment fee shall be exempt, easing interest burden

#### Welfare project expansion of micro credit financial institutions



#### Support Size



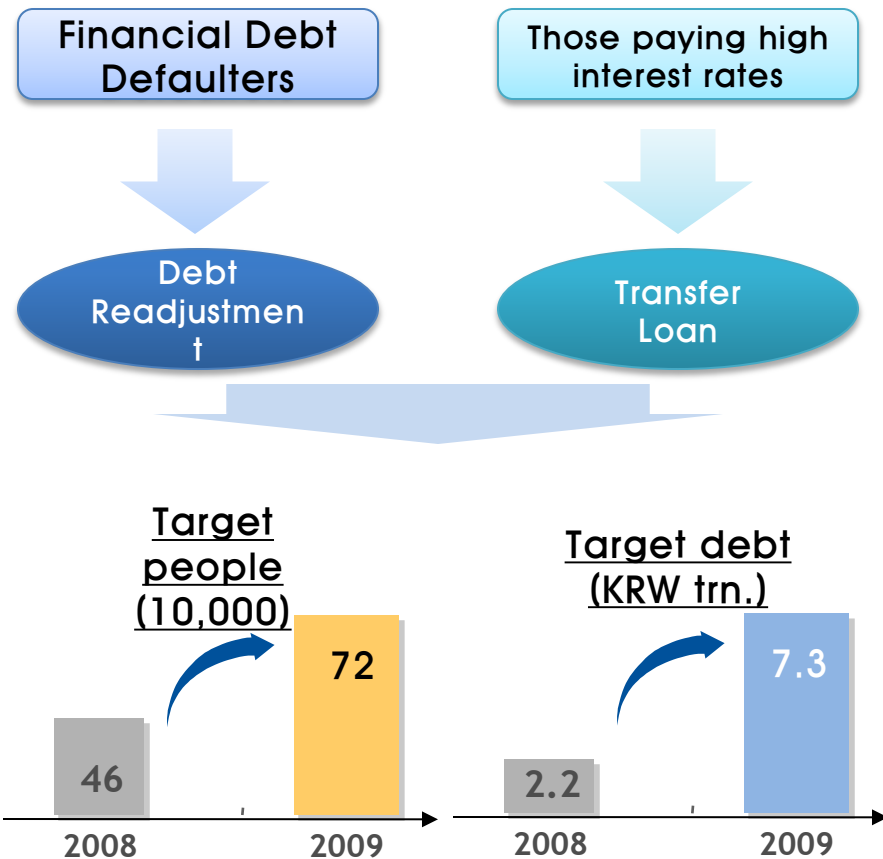
➔ Devising measures utilize dormant bank deposit in order to expand micro credit businesses



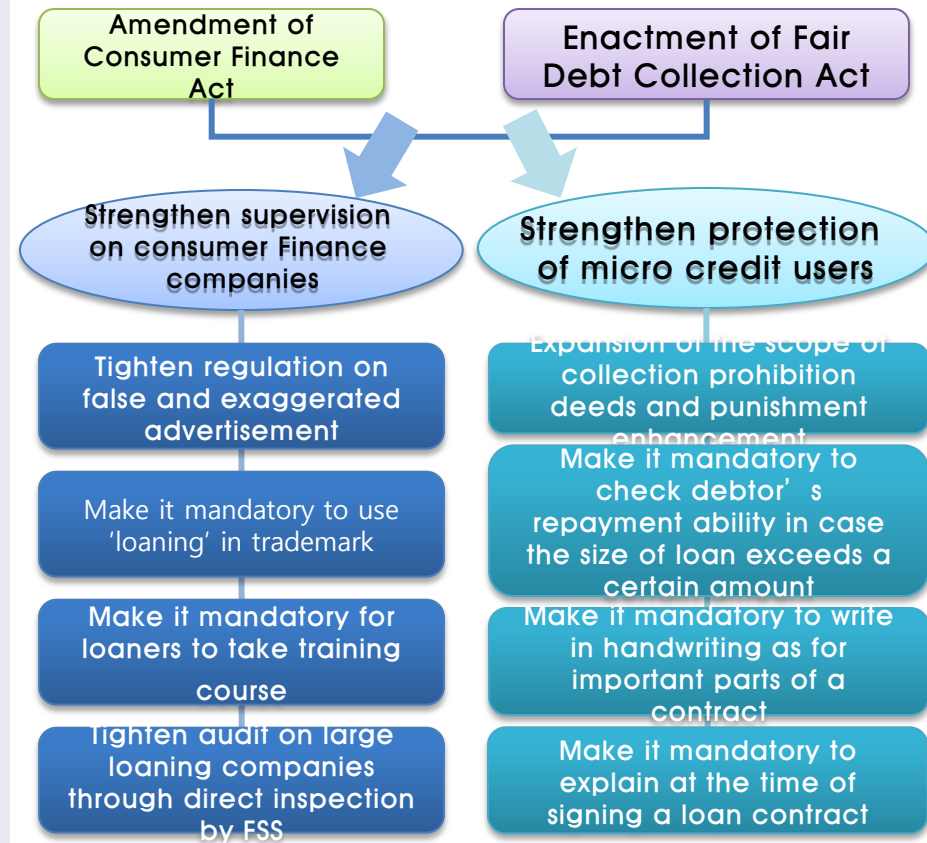
## 5. Support for the Low-Income Households and the Financially Marginalized:

### (1) Support for the Financially Marginalized

#### Expansion of Credit Recovery Fund Projects



#### Protection Enhancement of Micro Credit Users



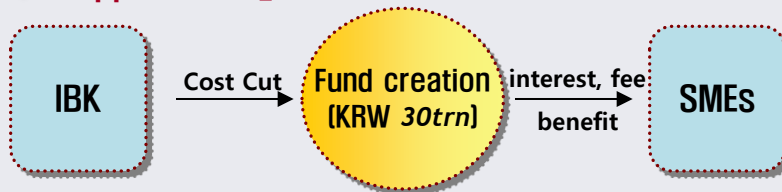
## 5. Support for the Low-Income Households and the Financially Marginalized:

### (2) Creation of Jobs

#### Financial support and guarantee provision for industries with significant job creation effect

- Financial support through government-controlled banks
  - KDB: KRW 7trn for facility loans
  - IBK: creation of funds to support job creating companies
- Guarantee provision through guarantee organizations
  - KODIT: KRW 7.5trn for start-up companies
  - KIBO: KRW 4.8trn for technology-based start-up companies

➔ **IBK Measure for Creating 『Job Creating Company Support Fund』**



#### Promotion of internships in the financial sector

- Hiring interns as many as 4% of their fixed number of employees by financial public organizations
    - \* 19,000 employees in 18 financial public organizations under the FSC
      - Hiring about 760 interns
    - \* KRW 8bn has already been reflected on the budget of 6 financial public organizations
      - Hiring about 500 interns
  - Inducing commercial banks to follow suit
    - Hiring interns as many as 2% of their fixed number of employees
- ➔ **Promote hiring of about 2,500 interns in the financial sector**

# III. Beyond Crisis: Preparation for Economic Recovery

# 1. Focus on Legislative Financial Reform

## ■ Now in Process of Legislation of 21 Financial Reformation Acts

### Core National Administrative Subjects

Rationalize restriction on acquiring shares of banking institutions and establish improved regulation relating to financial holding companies (Financial Holding Companies Act, Banking Act)

Privatize the Korean Development Bank, establish Korea Policy Finance Corporation (Korean Development Bank Act, Korea Policy Finance Corporation Act)

### Acts Concerning Public Welfare

Strengthen consumer protection on credit card holders and enhance supervision of unfair sales by credit card companies (Specialized Credit Financial Business Act)

Strengthen protection on privacy (Use and Protection of Credit Information Act)

### Increase Capacity for Financing Support

In the case of mortgage crisis, Korea Housing Finance Corporation to immediately support liquidity (Korea Housing Finance Corporation Act)

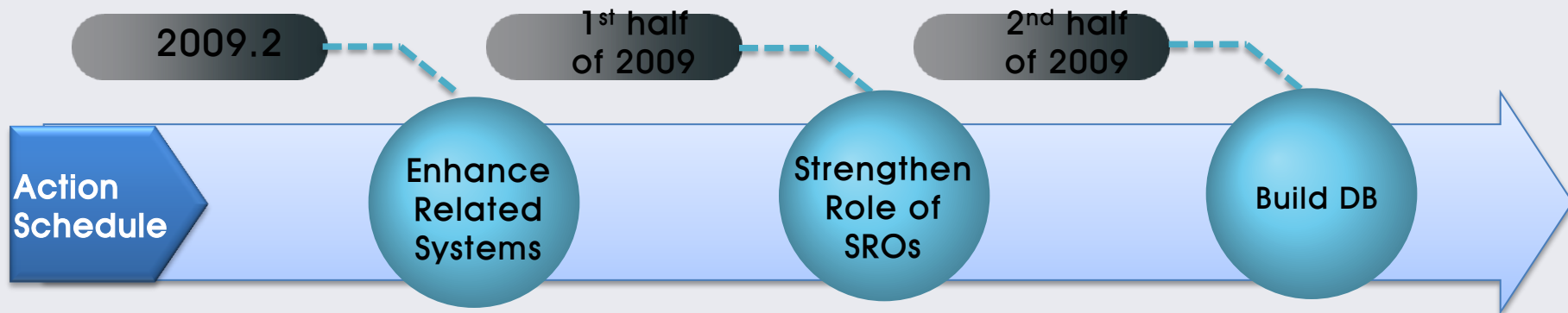
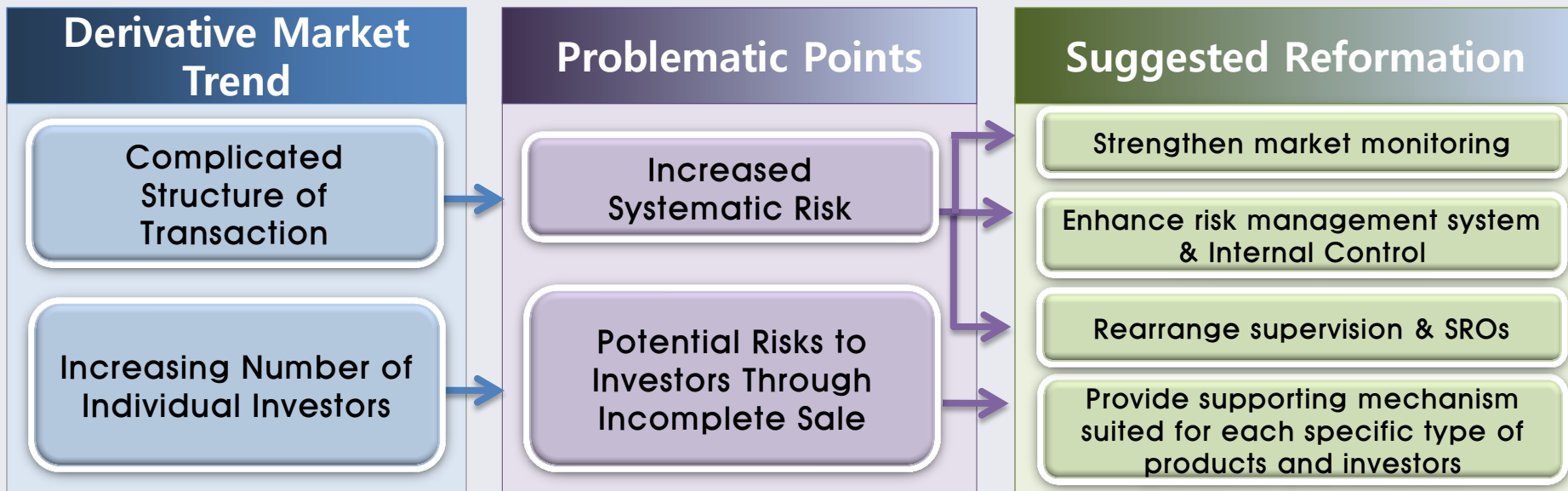
Introduce guarantee system for SPC, build legal ground to invest in SMEs (Credit Guarantee Fund Act, Korea Technology Guarantee Fund Act)

### Reduce Legislative Gap due to Reformation

Strengthen management and supervision of the credit business, extend deadline on interest rate ceiling policy (Act on Registration of Credit Business and Protection Financial Users)

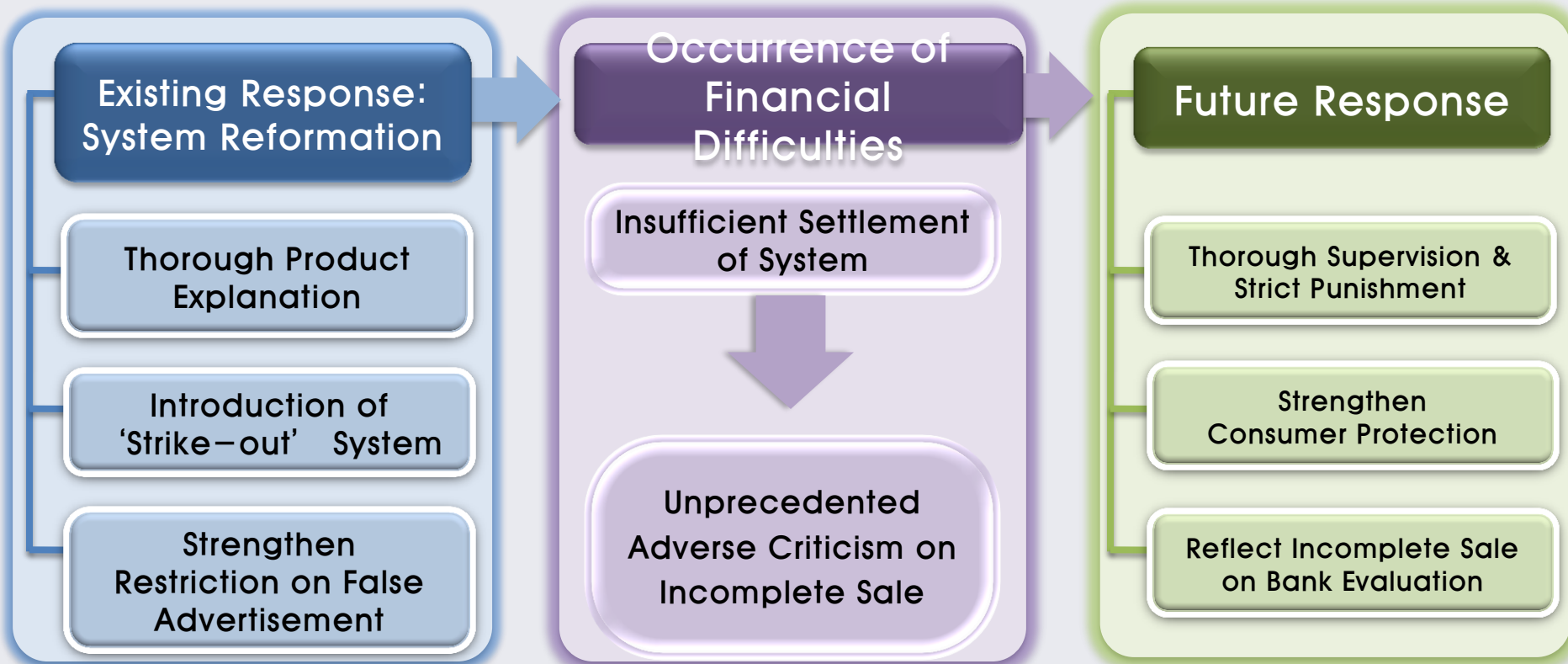
Transfer provisions of financial exemption law for listed corporations, reflect revised items to the consolidation law (Capital Market Consolidation Act)

## 2. Advancement of Regulation on Financial Derivatives



### 3. Prevention & Solution of Incomplete Sale of Financial Products

- Potential Incomplete Sale Existent in 'Ask no questions' & 'Crowding' Effects in Investment Style



## 4. Promote G-20 Action Plan

### Action Plan (47) / Authorities



Establish  
Structural Plan  
[~08.12]

Join in WG  
Discussion  
[09.1~]

Implement Short-  
Term Plan  
[~09.3.31]

Implement Mid-  
Term Plan &  
Report Progress  
[09.4~]

# Discussion Points

- 1. Create Jobs & Vitalize Investment**
- 2. Support Working Class and SMEs**
- 3. Provide Solution to Credit Crunch**



# Disclaimer

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The original Korean Text is the only official version.