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Joint Press Release

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FITCH RATINGS' STRESS TEST ON KOREAN BANKS

1. Summary of Fitch Ratings' stress test on Korean banks

Global credit rating agency, Fitch Ratings, announced the results of its stress test on Korean banks on Thursday, March 12th at around 22:00 (Seoul time).

A summary of the stress test results is as follows:

- Under a stress scenario during the period from June 2008 through December 2010, Korean banks would see a decline in capitalization totaling KRW 42 trillion due to credit costs, losses on equity and debt securities holdings and asset growth through the inflation of foreign currency assets given the depreciation of the Korean won in the past year.
- The banks' combined equity-to-assets ratio would decline from 6.4 percent in June 2008 to 4.0 percent in December 2010.

The KRW 42 trillion reduction in capitalization would require additional capital raisings by the banks, and such capital may have to come from the government. The government's current KRW 20 trillion Bank Recapitalization Fund may not be sufficient, particularly to the extent it is used to buy subordinated debt and lower quality hybrid debt from the banks.

2. Government's response to the stress test results

A. The results of the stress test are based on variables and assumptions (e.g.

estimated loss rates on bonds and securities), which can be easily altered by future economic events. Therefore, the government finds it inappropriate for Fitch to release such speculative results on Korean banks when this could adversely impact their international credibility and financial soundness.

B. Even if the worst possible scenario were to be materialized, in which the expected loss of 42 trillion won were to be taken into account and no new recapitalization were to be assumed, the tangible common equity (TCE) ratio of Korean banks would be 4.0 percent as of the end of 2010, which would be still higher than the current TCE ratios of major leading banks worldwide. The Bank for International Settlements (BIS) ratio would be 8.7 percent, still higher than the minimum of 8 percent. This shows that, despite weak economic conditions in both Korea and abroad, Korean banks remain financially sound and their capacity to assume losses is relatively strong.

Note: The BIS ratio and TCE ratio as of the end of December, 2008 were 12.19 percent and 6.2 percent, respectively.

TCE ratios of major global banks

Country	TCE ratio (%)
U.S.	Citi (1.5), New York Mellon (3.8), State Street (2.4), US Bancorp (2.6), BOA (2.8), JPMorgan (3.8)
Europe	UBS (1.1), Deutsche (1.2), Barclays (1.3), RBS (1.6), BNP (2.1), Fortis (2.4), Commerzbank (2.9), Standard Chartered (3.7)
Japan	Mizuho Corporation (1.4), Mitsui Sumitomo (2.5), Tokyo-Mitsubishi UFJ (3.2)
Singapore	DBS (5.5)

Source: Bloomberg, September 2008, December 2008

C. Unlike major global banks, Korean banks have the capacity to recapitalize themselves by issuing new common shares, hybrid securities (36 trillion won), and subordinated bonds (64.3 trillion won).

Note: The maximum amount to be raised would be KRW 100.3 trillion provided that the issuance limit of 30% of core capital for hybrid securities and 100% of core capital for subordinated bonds were materialized; this would improve the BIS ratio by 8.38 percentage points from 12.19% to 20.57%.

The Korean government will continue to take aggressive and preemptive measures as it has been able to through the existing Bank Recapitalization Fund of 20 trillion won, to ensure that banks are sufficiently capitalized even when the economy further deteriorates.

For further inquiries:

Ernst J. Lee
Foreign Press Spokesperson
Foreign Press & Relations Office
Financial Services Commission

Tel: +82-2-2156-9582
Fax: +82-2-2156-9589
E-mail: leejernst@fsc.go.kr