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Press Release

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PLANS FOR THE SOUNDNESS OF MUTUAL SAVINGS BANKS' MANAGEMENT

CURRENT CONDITIONS OF SAVINGS BANKS

(Assets) As of end-March 2011, total assets of 98 mutual savings banks in operation were KRW74 trillion, down 2% from KRW75.5 trillion at the end of 2010.

Mutual savings banks' operations are still focused on extending real estate-related loans including PF loans, which accounts for 42.8%* of their total outstanding loans as of end-March 2011.
(*cf. 44.7% at the end of 2010)

(Deposits) As of end-March 2011, mutual savings banks received a total of KRW 64.4 trillion in deposits, down 2.8% from KRW66.3 trillion at the end of 2010.

(Soundness) As of end-March 2011, the delinquency ratio of mutual savings banks rose to 15.8%, up 1%p from 14.8% at the end of 2010, mainly due to rise in the delinquency ratio for real estate –related loans.

*As of end-March 2011, the delinquency ratio for real estate loans rose to 20.4%, up 2.4%p from 18.0% at the end-December 2010.

Despite incurred losses of savings banks, the BIS capital-adequacy ratio rose to 10.25%, up 0.42%p from 9.83% at the end of 2010, backed by continued efforts for recapitalization.

* With losses of seven savings banks whose operations were suspended added, the BIS ratio combined would drop to around 7%. (as of end-March 2011, 7.57%, lower than 9.14% in June 2010)

(Profitability) Due to the sluggish real estate market and growing competition in the retail financial sector, mutual savings banks recorded a total of KRW333.3 losses from July 2009 to June 2010; and KRW48.7 billion from July 2010 to March 2011.

* From July 2010 to March 2011, 67 savings banks (68.4%) posted profits while 31savings banks (31.6%) incurred losses.

PLANS TO ENHANCE THE SOUNDNESS OF SAVINGS BANKS' MANAGEMENT

1. To help mutual savings banks' "soft landing"

- Additional purchase of non-performing PF loans from savings banks
  : As of June 20, the government purchased non-performing PF loans worth KRW1.9 trillion through the Restructuring Fund and singed an MOU with savings banks to help them normalize their operations.

- Extension of a deadline for savings banks to settle their sale of PF debts to KAMCO
  : For PF debts taken over by KAMCO through three rounds of sales, the government has extended a deadline for savings banks to settle their transactions with KAMCO by one year and a half or two years. This measure is intended to ease savings banks' burden to set aside loan-loss reserves, helping them get back on track.

- Five-year grace period of IFRS adoption for listed savings banks (by July 1, 2016)

- Further discussions to enhance savings banks' business environment and strengthen savings banks' competitiveness
  : e.g. measures to ease requirements for opening savings banks' sales branches; to revise regulations on real estate-related credit, etc.

  *The government plans to submit a revision bill on the Savings Bank Act to the National Assembly by the third quarter of 2011.

2. To conduct an assessment of savings banks' management conditions

The FSS will start to assess mutual savings banks' management situations in July simultaneously. Out of 98 savings banks, 85 will be subject to the review including 47 banks scheduled for inspection in the second half of this year.

*13 savings banks are exempted: 10 savings banks already went through inspections in the first half of this year; two are owned by KDIC; and one has been acquired by Woori Finance Holdings.

The FSS, the KDCI, and accounting firms will be teamed up for the assessment. Each of twenty inspection teams will examine asset soundness and BIS ratios of four to five savings banks. With clear standards and procedure previously set up, the assessment will be conducted in a fair and consistent manner.

Based on results of the assessment,

- Savings banks with a BIS ratio from 3% to 5% will be given a maximum of six-months to improve their management conditions.

- Those with a BIS ratio from 1% to 3% will be given a year.
- Savings banks whose BIS ratio below 1% are required to submit their management improvement plans to the Assessment Committee for review. If the plans are approved by the Assessment Committee, they will be given a three-month grace period prior to corrective measures to be imposed. Savings banks whose plans are disapproved by the Committee will be ordered to improve their management conditions.

※ Suspension of operations will be limited to cases that meet three conditions as follows: the BIS ratio below 1%; liabilities exceed assets; and the committee's disapproval.

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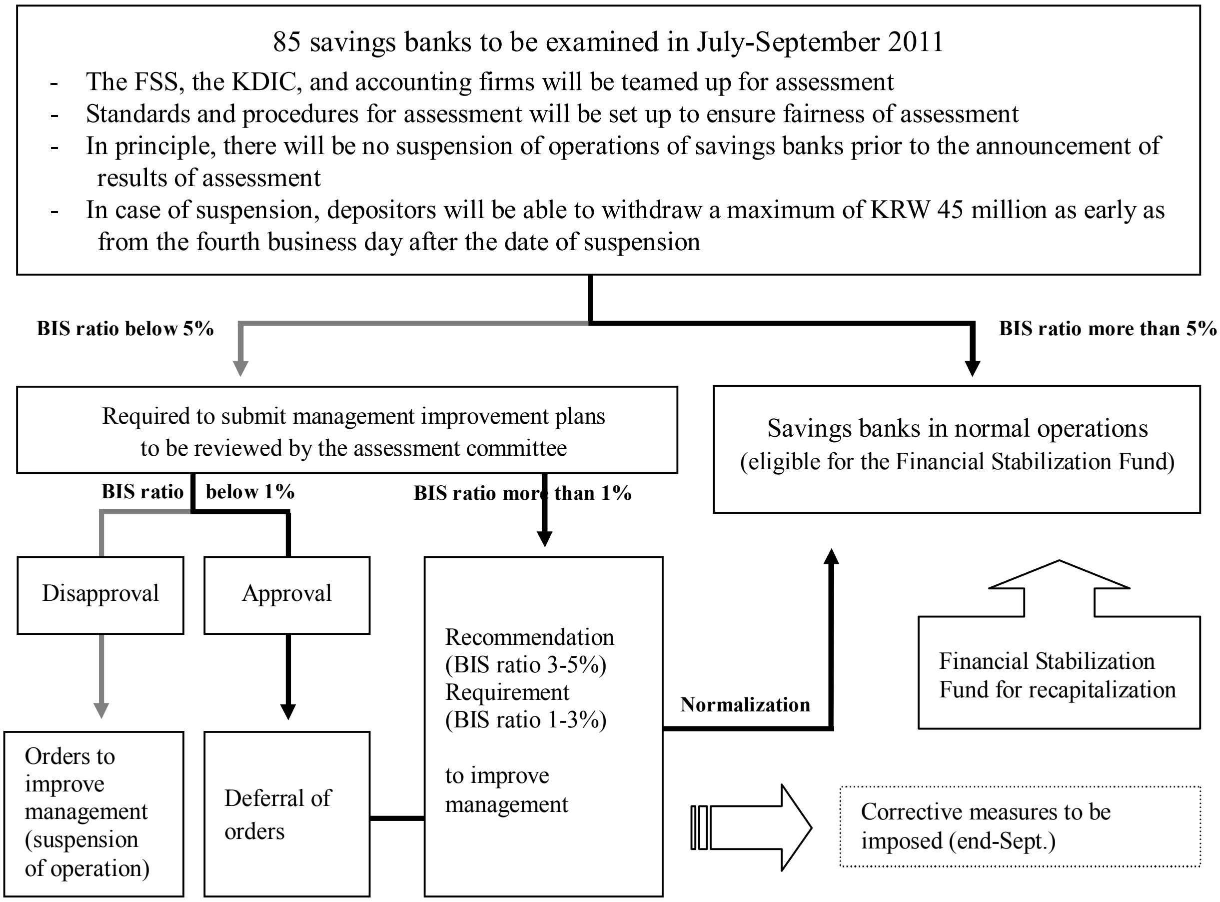

3. To help savings banks' recapitalization

For savings banks in normal operations, the government will support their recapitalization, if needed, with the Financial Stabilization Fund* in order to help them secure market confidence.

*In response to sudden fluctuations during the global financial crisis, *the Act on the Structural Improvement of the Financial Industry (Article 23-2)* established a legal ground to create a Financial Stabilization Fund in order to "contribute to the improvement of the financial intermediary functions and stabilization of financial markets."

(Applicant) Savings banks expected to be continuously in normal operations with a BIS ratio more than 5% can apply for the Financial Stabilization Fund, if they want.

(Assistance method) The Stabilization Fund will be given to recipients in the form of redeemable preference shares.

(Assistance principle) The Stabilization Fund will be provided sufficiently, but savings banks' largest shareholders will also be demanded to make intense efforts to improve management in order to prevent moral hazard.

(Financing) The Stabilization Fund will be financed by the issuance of non-guaranteed bonds.

(Procedure) application by savings banks → review by the Korea Finance Corporation (KoFC) → approval by the Public Fund Oversight Committee → resolution by the Operating Committee of the KoFC → inspection on plans for enhanced financial function by the KoFC

※When and how much fund will be provided for each savings bank will be announced later depending on how assessment of savings banks scheduled unfolds

4. To finance funds for restructuring of savings banks

Savings banks found to be non-viable from the results of the assessment will be put up for public sale by the KDIC. The sales process will proceed in a prompt and transparent manner.

Funds needed in the process of enhancing the soundness of savings banks' operations will be financed through the Special Account for Restructuring of Savings Banks already set up.

When additional funds are needed, the government will seek ways in consultation with the National Assembly that the funds can be financed by the financial industry by extending the operating period of the Special Account for Restructuring of Savings Banks.

5. To ensure the access of low-income household and SMEs to loans

(For low-income households) In order to ensure that low-income household particularly in regional areas suffering from troubled savings banks have access to loans, we will provide more of microcredit programs for low-income earners such as the Smile Microcredit, Sunshine Loans, and New Hope Loans.

(For SMEs) For regional SMEs having difficulties securing loans due to savings banks problems, we will extend loan guarantee programs backed by KODIT, and KIBO; provide SMEs with more loans through commercial banks operating in the regions; and raise on-lending limits for regional banks.

MARKET STABILIZATION MEASURES AND ANTICIPATED EFFECTS

1. Measures to stabilize market and ease depositors' unrest

The financial regulators will take market stabilization measures in order to prevent bank runs in the process of management diagnosis.

The regulators "will not suspend operations of any mutual savings bank for the likelihood of insolvency, except when it becomes unavoidable because a bank runs short of liquidity from excessive withdrawals," until late September when measures based on the results of the assessment will be announced.

However, when a mutual savings bank which has been put into corrective measures as a result of the examination conducted in the first half does not make sufficient efforts to implement corrective actions or suffers liquidity squeeze due to excessive withdrawals, it may be suspended even before the results of the assessment come out.

Recently, even with deposit insurance, not a few of deposit withdrawals have been made in misled worries that a bank suspension will make withdrawals inconvenient and difficult. Deposits are insured in full for up to KRW50 million by the KDIC.

However, suspension of operation has been imposed in limited situations, such as when the Assessment Committee disapproves management improvement plans of a savings bank whose BIS ratio is less than 1% and liabilities exceed assets, unless there is a bank run.

Under the standard procedure, depositors can receive provisional payments and deposit-backed loans up to KRW20 million after two weeks of suspension.

But in the future, depositors will be able to receive their principals up to KRW45 million in the form of provisional payments and deposit-backed loans under a more simple procedure from the forth business day after the date of suspension. This is expected to minimize inconveniences of suspended savings banks' depositors.

2. Anticipated effects

Comprehensive measures for prudential management including management diagnosis are expected to lay the foundation for sound development of mutual savings banking industry and relieve market jitters at early stages.

Combined with a soft landing and recapitalization package, "no suspension principle" until late September and quick provisional payments under business suspension should particularly help to prevent deposit runs on excessive worries. Depositors are therefore expected to suffer less loss from early redemption.

※ If depositors make early redemption of deposits en mass to withdraw money, despite market stabilization measures, mutual savings banks cannot but go bankrupt. This will result in all depositors of the bankrupt savings banks, let alone the depositors who withdrew their money, receiving lower interests than promised and suffering subsequent monetary loss.

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