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Bank Recapitalization Fund: Timetable and Operational Plan

South Korea: Financial Services Commission

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FINACIAL SERVICES COMMISSION

Press Release

February 25, 2009

BANK RECAPITALIZATION FUND: TIMETABLE AND OPERATIONAL PLAN

Amid global economic crisis, banks need to take more aggressive roles in supporting real economic sectors and corporate restructuring in a concerted effort to overcome the financial turmoil without hurting Korea's economic growth potentials.

From this perspective, since the beginning of the second half of last year, the government has been raising the issue of launching the Bank Recapitalization Fund as a way to boost banks' funding and loss bearing capacities.

In its report to the President on the annual work plan, the Financial Services Commission announced its plan to form the Fund so as to enable banks to take upon the leading role in shoring up real economic sectors and the on-going restructuring programs.

To maximize the effect of the Fund, the government has encouraged banks to provide their feedback on the plan, and based on the ideas gathered thus far, following detailed plans have been finalized.

I. Progress in the formation of the Fund

In **December 2008**, the government announced the plan to set up Bank Recapitalization Fund in the amount of 20 trillion won.

On **February 15, 2009**, banks' CEOs and the regulators met and ran a joint workshop regarding the plan as to ways of making best use of the Fund in providing liquidity to the real economic sectors and their restructuring. General consensus has been reached that banks will be able access the Fund within their credit limits, and banks are free to decide on how to use the funds.

Commercial banks, holding companies as well as Industrial Bank of Korea, NACF, and NFFC can apply for the fund.

Some recommended usage:

a. In support of real economic sectors: by extending new credit lines or roll-overs to SMEs, funding to credit guarantee schemes

b. In support of corporate restructuring programs: new credit extension to or funding for the debt-to-equity swap of companies under workout programs, capital injection to the Corporate Restructuring Fund (KAMCO)

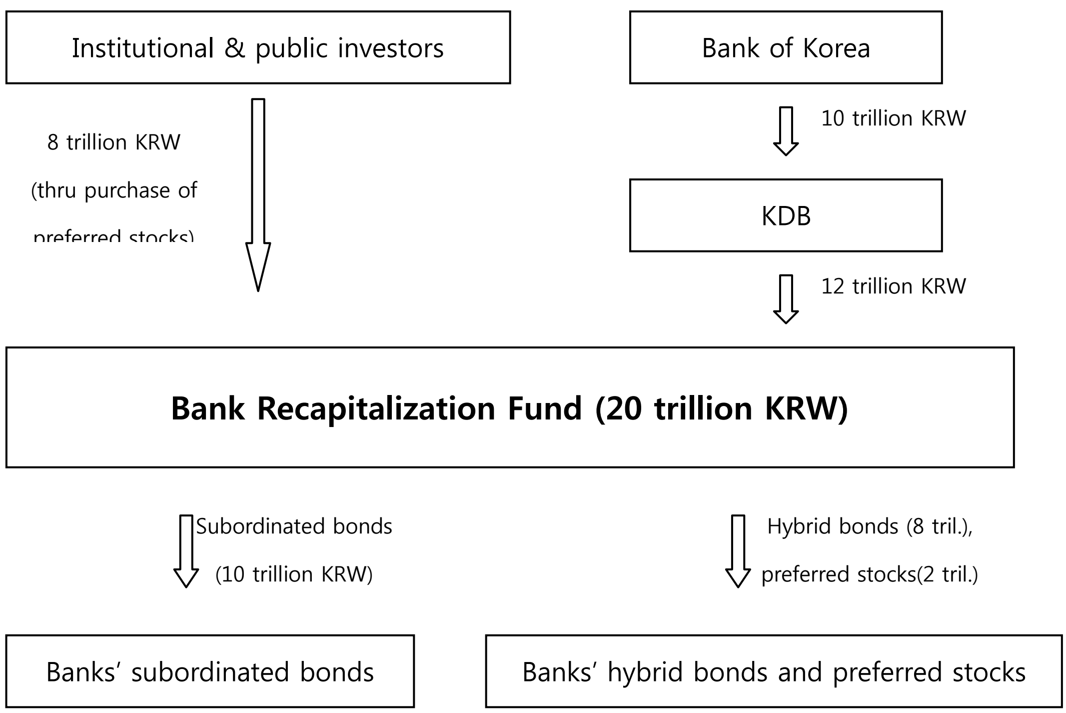
c. In support of PFs or NPL write-offs

On **February 25, 2009** at the ad hoc Monetary Policy Committee meeting the Bank of Korea decided to participate in the Fund.

II. Operation of the Fund

The Fund will be in total amount of 20 trillion won out which 10 trillion KRW will come from Bank of Korea, 2 trillion KRW from Korea Development Bank, and 8 trillion KRW from institutional and public investors.

Banks will be able to access the fund by selling preferred stocks, hybrid bonds and subordinated bonds.



During the first phase of formation, about 12 trillion KRW will be contributed, and the subsequent support to the fund will be finalized based on the progress being made. To ensure fair access of the Fund, credit limits are set in proportion to banks' asset size and the progress they have made with the MOU signed last November and December as a requirement for receiving the government's external debt guarantee. Further changes are to be made based on each bank's need to adjust BIS ratios within the boundary of 1.5% and the amount of support it has provided to SMEs.

Group Ⅰ (Asset size of 200 tril. KRW or more)	Group Ⅱ (140~200 trillion KRW)	Group Ⅲ (50~140)	Group Ⅳ (less than 50 trillion KRW)
Credit Line: up to 2 trillion KRW	**1.5 tril. KRW**	**1 tril. KRW**	**0.3 tril. KRW**
Kookmin, Woori, Shinhan	**Hana, IBK, NACF**	**KEB, Citi, SCFirst**	**NFFC, regional banks**

The fund access for each bank during the 2nd round of formation is contingent upon the performance in terms of how well the banks have made use of the fund in providing liquidity support to real economic sectors, and corporate restructuring programs Fund access limit and other supports from the government will be differentiated based on the level of their participation in those criteria.

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