

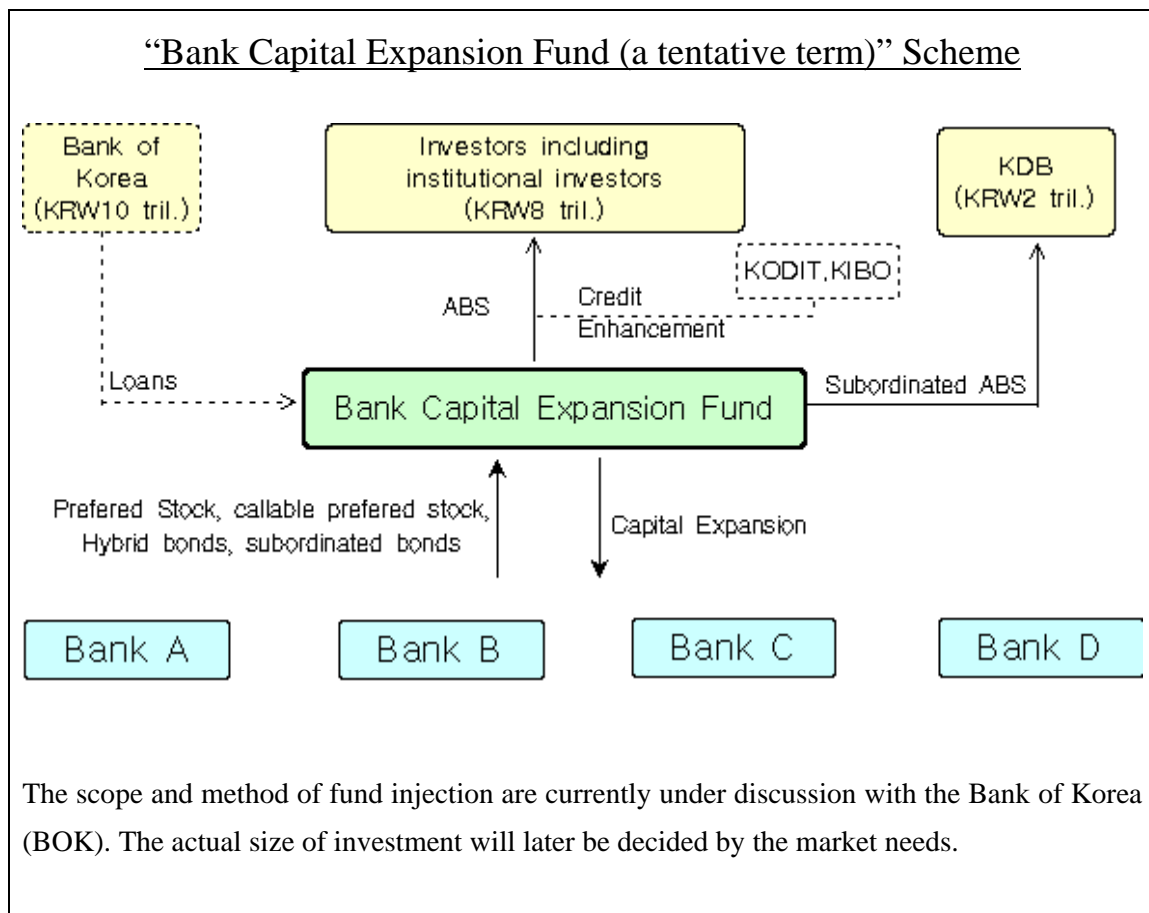
Press Release

December 26, 2008

“BANK CAPITAL EXPANSION FUND(A TENTATIVE TERM)” SCHEME

Mainly led by the BOK in consultation with the FSC, the plan to set up the “Bank Capital Expansion Fund” of KRW20 trillion is currently under close review. The target date is January 2009.

The fund is not obligatory for commercial banks to subscribe to; it is entirely up to individual banks to decide whether to utilize the Fund.



1. Funding Scheme

The capital needed to establish the "Bank Capital Expansion Fund" will be generated from the BOK (approx. KRW10 trillion in loans), investors including institutional investors (approx. KRW8 trillion in investment), and the Korea Development Bank (approx. KRW2 trillion in investment).

Funds will be raised on a capital call basis: for each subscription by banks the investing parties will inject the funds in proportion to their commitment ratio.

The BOK is currently reflecting on optimal ways to supply funds to the Bank Capital Expansion Fund. Details including the exact amount are to be discussed with the FSC before issuing the finalized scheme.

Meanwhile, the government plans to encourage investments from both private and institutional investors in January, reassuring them of the Fund's stability and profitability.

2. Management of the Fund

When a bank requests for the funding, the Fund will supply funds in the form of purchasing the bank's preferred stocks, hybrid capital, or redeemable preferred stocks of banks.

To help raise banks' Tier 1 capital, the Fund will buy mainly preferred stocks and hybrid capital. These stocks and capital will be redeemable when the bank exercises the call option after a designated length of period (five years or more). In order to help reduce banks' funding cost the Fund plans to utilize BOK loans

To minimize the external intervention in the subject banks' management, the Fund will prescribe following requirements:

- ① Seek self-rescue measures, especially to reduce expenses;
- ② Increase lending to low-income borrowers and mid- to long term loans;
- ③ Abstain from asset expansion schemes and increase efficiency through such ways as M&As

For those banks whose performance seems to lag behind, which can be detected through such signs as issuing subordinated bonds after November 2008, additional requirements will be imposed for the purpose of improving their management.

The Fund is a temporary scheme to boost Korean banks' effort to raise capital, and it will terminate at the end of 2009.

3. Prospective Benefits

A. Strengthening fundamentals of banks

To help weather long-term recession and to encourage full-scale restructuring by banks, the Fund will help banks enhance their preemptive capacity to absorb loan losses by bolstering sufficient capital strength.

B. Expanding banks' reserves to support the real economy

Banks, with improved financial soundness, will be able to increase reserves to support the real economy, e.g. lending to SMEs and exporters & importers.

C. Lowering banks' funding cost

Funding cost of banks will be reduced by utilizing the BOK loans, and this will contribute to lowering the market interest rate.

D. Creating more stable investment opportunities

The Fund will be able to offer greater security to the investors of the Fund by reinforcing the stability of asset backed securities through such ways as the acquisition of subordinated asset backed securities (KDB) and partial guarantees (KODIT and KIBO).

E. Enhancing credibility of domestic banks

In the event that domestic banks face funding difficulties, the Fund is designed to help banks improve their credibility in the market.

4. Future Plans

The FSC and the BOK are to complete a detailed plan for the Fund establishment and to confirm the participation of institutional and general investors within January.

Based on the progress made with domestic banks' voluntary capital expansion initiatives, the FSC will implement supplementary capital expansion programs.