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Press Release

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AMENDMENTS TO THE ENFORCEMENT DECREE OF THE MUTUAL SAVINGS BANKS ACT

As the Amendments to the Enforcement Decree of the Mutual Savings Banks Act have passed the Cabinet Meeting in June 22, they are expected to be enforced starting from July 2010.

A major change is that banks' equity capital will be calculated based on the BIS definition, and not on the balance sheet definition as previously done.

Standards for calculation of a bank's equity capital

Previously, a bank's equity capital was defined as total assets minus total liabilities on the balance sheet. Under the amended enforcement decree, mutual banks are required to follow the BIS definition of equity capital, which consists of Tier 1 capital, Tier 2 capital, and deductible items. Each has to meet the following qualifications:

(1) Tier 1 capital: a bank's core net assets with permanent features
(e.g. paid-in-capital, capital surplus)
(2) Tier 2 capital: capital equivalent to Tier 1, capable of covering loss
(e.g. subordinated bonds, subordinated deposits, cumulative preferred stock)

(3) Deductible items: Items that do not actually contribute to the soundness of capital should be excluded from equity capital. (e.g. treasury stock)

(4) A bank's equity capital ratio is to be calculated every six months. In two months after the calculation, the new ratio will be applied for six months.

*Details on Tier 1, Tier 2 and deductible items will be specified in supervision regulations.

Implementation schedule

The amended enforcement decree mandates the Supervision Regulations of the Mutual Savings Banks and the Supervision Rules of the Mutual Savings Banks to stipulate details. The amendments are expected to be implemented starting July 1.

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