Financial Services Commission
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Press Release

September 20, 2010

NOTICE OF CHANGES TO BANKING SUPERVISION REGULATION

The FSC has issued a notice of changes made to the Regulation on Supervision of Banking Business in preparation of implementing the amended Banking Act taking effect on November 18 and adopting the K-IFRS in 2011.

<Major changes>

1. Reporting obligations for banks' overseas expansion

Banks seeking overseas expansion are allowed to submit a report to the authority afterwards, except for only those who fall into one of the following categories. They are still required to submit their expansion plan in advance to the authority for consultation.

(1) (Bank soundness) a bank's BIS ratio is less than 10%, or its CAMELS rating is below 3

(2) (Business scope) a bank wants to expand its business beyond its core and non-core businesses

(3) (Destination) a bank wants to expand into a country whose sovereign rating is below B+* or does not exist in the first place.**

* Nigeria, Argentina, Cambodia, Mozambique, etc.
**Iran, Iraq, Laos, Ethiopia, etc.

(4) (Overseas subsidiary) an overseas subsidiary's credit rating is below B+

2. Consumer protection

(1) When bank customers sign or revise a service contract with a bank, the terms of a contract should be submitted to compliance officers for review and reported to the Fair Trade Commission (FTC).

(2) Banks are obliged to ①publicly disclose their contract conditions including interest rates, fees, and transaction terms on their website; ②provide their customers with a written document that stipulates contract terms; and ③ensure their customers fully understand terms of the contract.

3. Internal governance rules

(1) Banks' internal rules and policies of governance should be publicly disclosed on their own website and the Korea Federation of Banks website.

(2) Internal rules and policies regarding governance should be made public immediately upon their creation or revision. Activities of a bank's board pursuant to internal rules should be disclosed by the end of the following month after a regular shareholders' meeting.

4. Preparations for the K-IFRS

(1) To enforce the K-IFRS in a consistent manner and ease banks' burden of making financial statements, banks are required to set aside their loan loss provisions pursuant to the incurred loss model of the K-IFRS regime. However, loan loss reserves should be also set aside to keep banks' capacity to absorb potential losses at the current level.

(2) As NH Bank, Suhyup Bank, and Export-Import Bank of Korea were given a grace period* for adopting the K-IFRS, the FSC plans to come up with interim measures within this year to be applied to them.

* NH Bank and Suhyup Bank (from 2014), Korea Eximbank (from 2012)

According to the plan now under consideration, during the grace period the existing standards of the K-GAAP will be applied in principle, and the IFRS will be applicable exceptionally only in regard with consolidation standards and true sales of financial assets.

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