



Financial Services Commission
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Press Release

February 17, 2011

ACTIONS TAKEN FOR MUTUAL SAVINGS BANKS

The Financial Services Commission (FSC) held a provisional meeting today and decided to impose 6-month business suspensions for Busan Savings Bank and Daejeon Savings Bank.

Busan Savings Bank is affiliated with four other banks: Busan Central Savings Bank; Busan 2 Savings Bank; Daejeon Savings Bank; and Jeonju Savings Bank.

Following the outbreak of the financial crisis in 2008 and subsequent real estate recession, financial health of the five savings banks has deteriorated, and as of end-December 2010, Busan Savings Bank's BIS ratio has fallen to 5.13% while the outstanding liabilities surpass total assets by KRW 21.6 billion resulting in negative equity. Daejeon Savings Bank's current BIS ratio is -3.18% and its liabilities surpass its assets by KRW 32.3 billion.

Daejeon Savings Bank has experienced continued withdrawals of its deposits since December 2010 and after judging that it is no longer able to payout anymore deposits, it has submitted a formal request for a business suspension to the FSC on February 16, 2011.

The FSC plans to start a full investigation today on the suspended savings banks, and actions will be taken to normalize their operations.

According to the Act on the Structural Improvement of the Financial Industry, following actions are to be taken for mutual savings banks that failed to meet the 5% BIS requirement.

- ♦ Below 5% - Business Improvement Recommendation
- ♦ Below 3% - Business Improvement Request
- ♦ Below 1% - Business Improvement Order

Aside from the two suspended banks, there are five other savings banks that fall short of the 5% BIS requirement: Bohae Savings Bank; Domin Savings Bank; Woori Savings Bank; Saenuri Savings Bank; and Yes Savings Bank, of which three of them: Woori and Saenuri (state-owned) and Yes (held by KDIC) have no difficulties financially. The other two: Bohae and Domin have submitted their business normalization plans and they are making progress.



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Out of 104 mutual savings banks in operation, apart from the five affiliated banks including Busan Savings Banks and five other banks that failed to meet the 5% BIS requirement, there are 94 mutual savings banks with BIS ratios over 5%.

These banks are in normal operation, and unless sudden bank runs occur, we do not expect to impose any further business suspensions within the first half of this year.

The liquidity standings of the mutual savings banks are sufficient at the moment. But, in an effort to provide sufficient liquidity in a timely manner just in case savings banks face temporary liquidity crunch, the Mutual Savings Banks Association has already secured KRW 2 trillion through a credit-line with the Policy Finance Corporation and commercial banks. The Korea Securities Corporation will provide savings banks with KRW 1 trillion through repurchase agreement transactions and securities-backed loans.

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