Financial Services Commission
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Financial Supervisory Service
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Press Release

May 6, 2012

Four Mutual Savings Banks Ordered to Suspend Operations

In a provisional meeting held on May 6, 2012, the Financial Services Commission (FSC) ordered four mutual savings banks – Solomon, Korea, Mirae and Hanju – to halt operations for six months to improve their finances after determining them as "financial institutions in distress".

The order came as a result of the inspection by the Financial Supervisory Service (FSS) and a joint committee's review on six mutual savings banks, which were ordered on September 18, 2011 to normalize their business operations within a grace period. The suspended four mutual savings banks were among the six.

Background and Progress

The government cleaned up nine troubled mutual savings banks – Samhwa, Busan, Daejeon, Busan II, Jungang Busan, Jeonju, Bohae, Domin, Kyongeun – in the first half of 2011 to resolve the mutual savings bank issue.

For the seven weeks from July 5 to August 19, 2011, a management assessment taskforce consisting of the FSS and the Korea Deposit Insurance Corporation (KDIC) inspected 85 mutual savings banks' management situations* in a preemptive move to remove uncertainty about mutual savings banks.

* Out of 98 savings banks in operation as of end-June 2011, 13 savings banks were exempted from the inspection as they already went through inspections in the first half of 2011.

On September 18, 2011, the FSC suspended business operations of seven mutual savings banks – Daeyeong, Ace, Prime, Parangsae, Jeil, Jeil II and Tomato – for six months, out of 13 mutual savings banks which had been determined as in distress subsequent to the inspection by the FSS and the review of their management improvement plans.

The remaining six savings banks were given a grace period before being ordered to shut down their operations, consequent to the management assessment committee's approval and a possibility of independent normalization.

The FSS conducted inspections of the six savings banks to assess their progress on management improvement plans and additional distress from November 2011 to March 2012.

The inspection period was planned to end by December 31, 2011, but extended until late March when the banks' yearly financial statements were finalized after considering huge assets of savings banks and the complicated management improvement plans submitted by distressed savings banks.

The FSS received objections to the inspection result from late March to early April 2012 and reviewed them in the review committee comprised of internal and external professionals to provide enough opportunities for the mutual savings banks to raise their opinion.

On April 16, the FSC notified the distressed mutual savings banks to submit management improvement plans by May 2, 2012.

The FSS evaluated the feasibility of their plans through the review of the management assessment committee consisting of finance, accounting and legal professionals from an objective point of view.

According to the result of the inspection by the FSS and the management assessment committee, the FSC finally determined actions to be taken on May 6, 2012.

Actions Taken

The FSC determined four mutual savings banks – Solomon, Korea, Mirae and Hanju – as distressed financial institutions and decided to impose a management improvement order including six-month business suspensions.

This was the result of the inspection by the FSS and the management assessment committee's review on six mutual savings banks, which had been ordered on September 18, 2011 to normalize their business operations within a grace period.

The three of the suspended savings banks − Korea, Mirae and Hanju − were found to have their BIS capital adequacy ratio below 1%, and Solomon was found to have its debts exceeding assets.

Financial Statements of Four Suspended Savings Banks

(Unit: KRW in billions, %)

	Solomon	Korea	Mirae	Hanju
Total assets	4,975.8	2,024.3	1,759.4	150.2
Total lending	3,188.1	994.9	1,533.7	176.0
Total deposits	4,572.3	1,799.6	1,847.3	185.4
BIS ratio	4.35	-1.36	-16.20	-37.32
Net assets	-362.3	-46.0	-317.7	-61.6

*Figures are as of end-December 2011, except for net assets which are as of end-Feb. 2012.

Management Improvement Order

- Six month business suspension from 06:00, May 6, 2012 to 24:00, November 5, 2012 (Except for some businesses, such as rollover of bills and loans)
- Suspension of executives and appointment of administrators
- Business normalization within 45 days such as raising the BIS ratio above 5% through capital increase by issuing new stocks, etc.

These mutual savings banks will be provided an opportunity to normalize their business operations by increasing capital stocks within 45 days of the date of business suspension according to the laws and regulations.

Even if they fail to normalize their operations within the above mentioned period, their operations will be resumed as soon as possible in order to minimize the inconvenience of the depositors, by mandating their sales to the third parties* or contract transfer to bridge savings banks under the KDIC.

* As seen in last year's experience, some mutual savings banks were acquired by sound companies during the suspension period and resumed operations.

The two remaining savings banks out of six, which were given a grace period, have normalized business operations by completing the implementation of their management improvement plans or are on track to normalize business by increasing capital stocks, attracting foreign investment and selling affiliates.

For further inquiries:

Emkay Kim
Foreign Press Spokesperson
Foreign Press Relations
Financial Services Commission

Tel: +82-2-2156-9582
Fax: +82-2-2156-9589
E-mail: emkaykim@korea.kr

Soomi Kim
Foreign Press Spokesperson
Public Affairs Office
Financial Supervisory Service

Tel: +82-2-3145-5803
Fax: +82-2-3145-5808
E-mail: soomi.kim@fss.or.kr