Financial Services Commission

A New Era of Hope
Creative Finance
Financial Inclusion
Solid Financial System

Press Release

October 29, 2014

PLAN TO IMPROVE FINANCIAL HOLDING COMPANY SYSTEM

BACKGROUND

Korea's financial industry adopted financial holding company system in 2011 to maximize synergy among financial subsidiary companies. Since the introduction, financial holding companies have achieved notable growth and played a crucial role for the financial system. However, there are also skepticisms about the financial holding company system due to domestic financial holding companies' low global competitiveness, asset and management structure centered by bank[1], and instable governance structure.

Nevertheless, financial holding company system is an effective mechanism to enhance financial industry's competitiveness. The system creates synergies among subsidiary companies by preventing risk spillover to other financial companies[2], easing M&A and restructuring process, and enabling business connection among subsidiaries. Moreover, the financial holding company system enables subsidiary companies to provide one-stop financial services and expand business overseas which are expected to contribute to the development of the financial industry.

To such backdrop, the Financial Services Commission plans to improve regulations and provide policy support to maximize effectiveness of the financial holding company system.

DETAILED PLAN

1. Ease regulations on holding concurrent positions by employees

(Current) Global financial holding companies encourage heads of matrix organizations to hold concurrent positions to cover wider range of business strategy and operation. However, domestic financial holding companies have been applying strict regulations to employees related to holding multiple positions which makes them difficult to provide integrated financial services by collaborating business units.

(After revision) The government will encourage financial holding companies to allow holding concurrent positions and ease related regulations. Possible negative impacts will be minimized through the Financial Supervisory Service's stringent screening process. Positions that are directly related to business management of a financial company will be precluded to be held concurrently.

(Future schedule) Executives' holding multiple positions will be allowed by authoritative interpretation of Financial Holding Companies Act and Banking Act. Other employee's holding concurrent positions will be made possible by revising Regulation on Supervision of Financial Holding Companies.

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[1] (Asset) bank 81.0%, financial investment business 7.3%
(Income) bank 55.2%, non-bank 20.3%(as of 2014 1st half)

[2] Credit granting binding, prohibition of direct reciprocal shareholding

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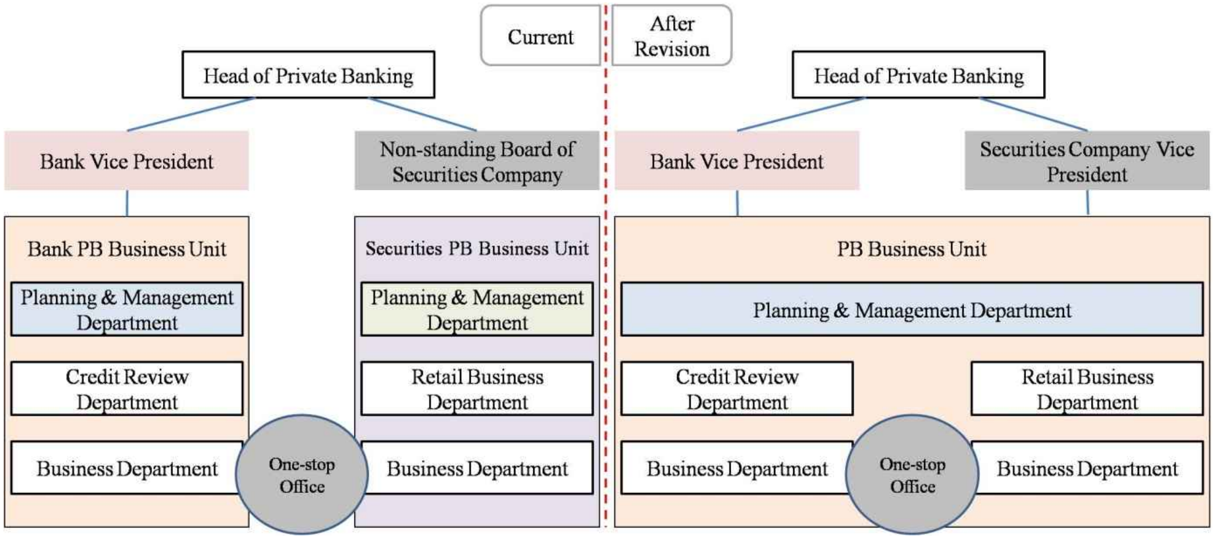
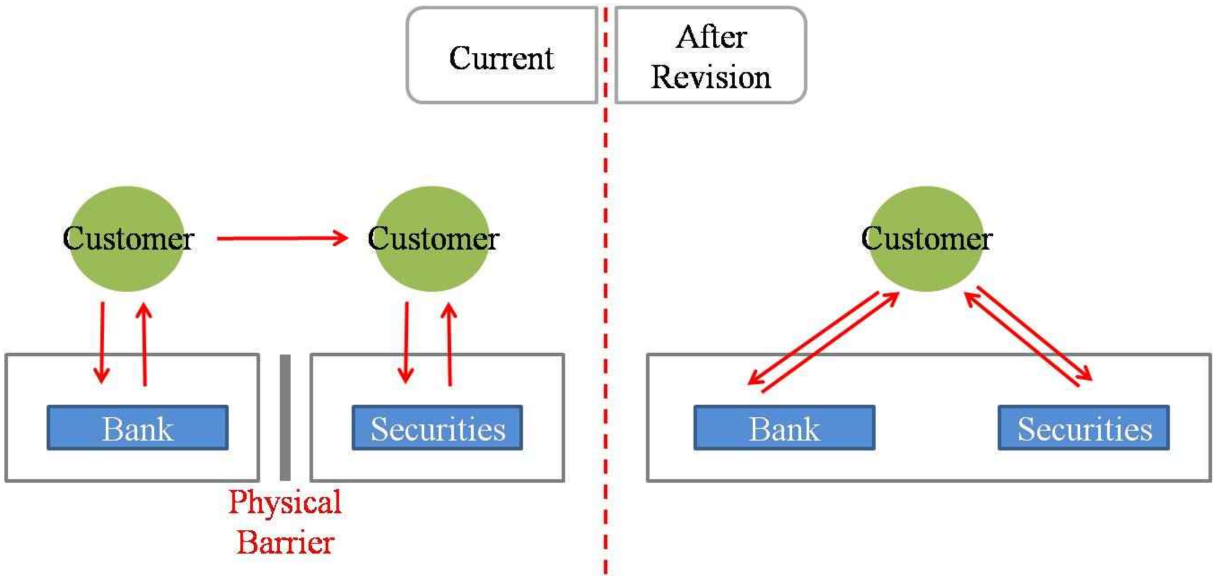


2. Support establishment of branch offices to provide one-stop financial services

(Current) Subsidiaries of a financial holding company are allowed to jointly operate businesses in a single office. However, restrictions related to physically distinguishing office space and providing simultaneous customer counseling by more than one employee at a time are posing profitability problems.

(After revision) Physical barriers distinguishing different business units in a single office space will be removed and employees of different business units will be enabled to provide customer counseling service simultaneously. Current prearrangement procedure with the FSS for one-stop office establishment will be abolished.

(Future schedule) Enforcement Decree of the Financial Holding Companies Act and the Regulation on Supervision of Financial Holding Companies will be revised.



3. Support overseas business expansion

(Current) Unless credit offerer is a financial holding company's subsidiary company and possesses more than 80% share, a financial firm had difficulty granting credit to their overseas offices with weak collateral because they are required to secure collateral worth 100% to 130% of the total amount of credit offering.

(After Revision) Sub-subsidiary companies of a financial holding company will be exempt from the requirement to secure collateral.
① Owner of more than 80% share: not required to secure collateral
② Owner of less than 80% share: only overseas offices of less than 2 years of operation are exempt from securing collateral

(Future schedule) Regulation on Supervision of Financial Holding Companies will be revised.

4. Expand scope of task outsourcing among subsidiary companies

(Current) Outsourcing tasks related to credit risk analysis and evaluation to other subsidiary companies is banned. Therefore, small-sized capital companies and savings banks are not only having difficulties to develop and operate internal credit evaluation model but are also unable to contract task outsourcing with other bank subsidiary companies.

(After revision) Of all credit risk analysis and evaluation tasks, tasks related to estimating internal credit ratings will be allowed to outsource to other subsidiary companies.

(Future schedule) Regulation on Supervision of Financial Holding Companies will be revised.

5. Extend the range of sub-subsidiary companies allowed to be owned by bank holding company

(Current) Banks are only allowed to own futures company that trades exchange-traded derivatives products.

(After revision) Banks will be allowed to own futures company that trades over-the-counter derivatives products.

(Future schedule) Enforcement Decree of the Financial Holding Companies Act will be revised.

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