

Key Frameworks for Korean Financial Market Stabilization

November 2008



Key Frameworks

FX Liquidity	Credit Stability	Banks' Soundness	Real Economy
<ul style="list-style-type: none"> • Keep sufficient foreign reserves and a balanced external debt profile • Guarantee FX debt issuance (10.30) • Supply Dollar liquidity BOK - \$10bn KEXIM - \$25bn • BOK - Swap line agreement with the FRB - \$30bn (10.30) 	<p data-bbox="424 366 784 454">For banks</p> <ul style="list-style-type: none"> • Expand purchasing Repo by BOK • Ease the KRW Liquidity Ratio Requirement (10.29) <p data-bbox="424 696 784 811">For non-banks, bond market</p> <ul style="list-style-type: none"> • Provide special liquidity facility for non-bank institutions (10.24) • Broaden eligible collateral for open market operations to bank debentures • Help to stabilize corporate bonds and ABCP Market with P-CBO 	<ul style="list-style-type: none"> • Tighter monitoring on banks' asset size & financing structure • Enhance risk management via MOU with financial authorities • Help securitize illiquid assets (e.g. MBS, covered bonds) <p data-bbox="828 953 1142 996" style="text-align: center;"><If necessary></p> <ul style="list-style-type: none"> • Support recapitalization of financial institutions • Enhance deposit guarantees 	<p data-bbox="1178 366 1827 432">Micro - Measures</p> <ul style="list-style-type: none"> • Support for Small and Medium Enterprises (10.1) <ul style="list-style-type: none"> - Initiate fast-track programs for differentiating viable companies - BOK - Increase the Aggregate Credit Ceiling Loans KRW 6.5trn → 9trn (10.23) - Supply KRW liquidity by State owned banks (KRW 3.3trn) - Expand public guarantee of SMEs loans (KRW 4trn) - KODIT - Help issue P-CBO (KRW 1trn) • Support for the Construction Industry <ul style="list-style-type: none"> - Purchase unsold assets held by construction companies - Provide credit enhancements to securitize corporate bonds - Provide tax-incentives for housing sector <p data-bbox="1178 1075 1827 1146">Macro - Measures</p> <ul style="list-style-type: none"> • Lower the Base interest Rate (5.00→4.25%) • Strong Fiscal stimulus packages



Measures for enhancing FX Liquidity

Swift Supply of Liquidity and Cooperative Effort with Other Key Nations

#1

Sufficient FX Reserves

- Current foreign exchange reserve as of October, 2008 (USD212.3bn)
- Balance external debt profile and maintain high liquidity

#2

Payment Guarantee for Bank Debts

- Banks' foreign currency borrowing guarantee up to USD100bn
- MOU agreement to reinforce monitoring and improve management

#3

Swift Supply of Foreign Exchange Liquidity

- BOK provides liquidity through the currency swap market (USD10bn)
- Government provides liquidity via KEXIM to support financing exporting and importing transactions (USD25bn)

#4

Swap Line with the FRB

- Swap line agreement with the FRB (USD30bn)

#5

Bilateral / Multilateral Swap Lines

- Expanding currency swap lines with other strategic countries



Measures for enhancing Credit Stability

Timely Supply of Liquidity in Response to Rising Counterparty Risks

#1

Lower the Interest Rate

- Preemptive measures for soft-landing of real sectors & financial stability
- Base rate: 4.25% *Inflation rate considered, more cuts are possible

#2

Expanding eligible securities for operation by BOK

- Allowing bank debentures and other bonds eligible for Repo transaction together with KTB, MSB, and KDIC bond

#3

Increase BOK's Aggregate Credit Ceiling Loans

- From the current ceiling, KRW 6.5tn to KRW 9.0tn
- Lowering the current interest rate, 3.25% to 2.5%

#4

Ease the KRW Liquidity Ratio to global standard

- Easing the requirement from 3 months to 1 month, following the global standard

#5

Supply Additional Liquidity to Non-bank Institutions

- Develop special facility to provide liquidity to local securities firms and asset management companies through the Korea Securities Finance Corp.

#6

Corporate Bonds And ABCP Markets

- Launching Primary-CBO(1 trillion KRW)



Measures for Enhancing Soundness of Banks

Enhance Risk Management to Withstand Market Turbulence

#1

Transparent information Disclosure to the Market

- Low delinquency ratios, NPL level, and all other financial figures are in good standing
- More active IRs to relieve concerns on bank's soundness

#2

Prevent Over-Expansion and Extreme Competition

- Monitor loan-to-deposit ratios & asset size for soft-landing
- Prevent over-competition among banks in bank debenture market

#3

De-leveraging

- Encourage de-leveraging by non core assets sales
- Issue covered bonds and develop other means to securitize illiquid assets

#4

Recapitalization

- Encourage recapitalization in banks
- If necessary, develop mechanism for increasing BIS ratio

#5

Deposit Insurance

- Evaluate the expansion of the deposit insurance scheme (KRW 50 million), if necessary



Measures for softening Real Economy Slowdown

Support for Small and Medium Enterprises and for Construction Industry

#1

Fast-Track Programs

- Improve the banks' loan qualification assessment capability for differentiating viable SMEs
- Provide sufficient liquidity to viable corporations

#2

Expand the Supply of Funds from State owned Banks

- Increase the funds available to small and medium enterprises (KRW3.3tn)
* IBK 24tn → 26tn , KEXIM 6.5tn → 7.0tn, KDB 2.5tn → 3.3tn

#3

Expand Public Guarantee of SME loans

- Expand public guarantee of SME loans by KRW 4tn
- Usage of guarantee to support issuance of P-CBO (KRW 1tn)

#4

Provide Liquidity for Construction Companies

- Controlled purchases of unsold assets held by construction companies (KRW 5tn)
- Provide credit enhancements to securitize corporate bonds
- Providing tax incentives for housing sector

#5

Strong Fiscal Stimulus Packages

- Expand the budget as a counter-cyclical policy
- Provide firmer safety net to lower income families & unemployed



Thank You

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