



Globalization of the Korean Financial Industry A Foreigner's Perspective

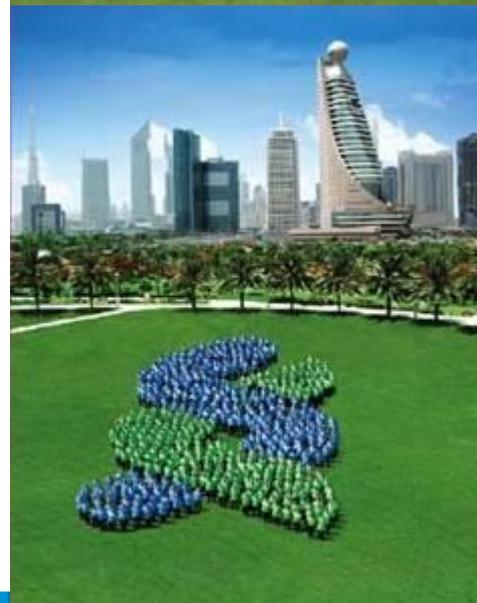


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Korea Economic Association, Seoul

Standard Chartered Bank – key facts

- 150+ years of History
- 75 countries, 80,000 employees
- 1,700 outlets & branches
- listed on the London, Hong Kong and Mumbai stock exchanges
- Market capitalisation: \$65.1bn*
- Strong presence in Asia, Africa, and Middle East



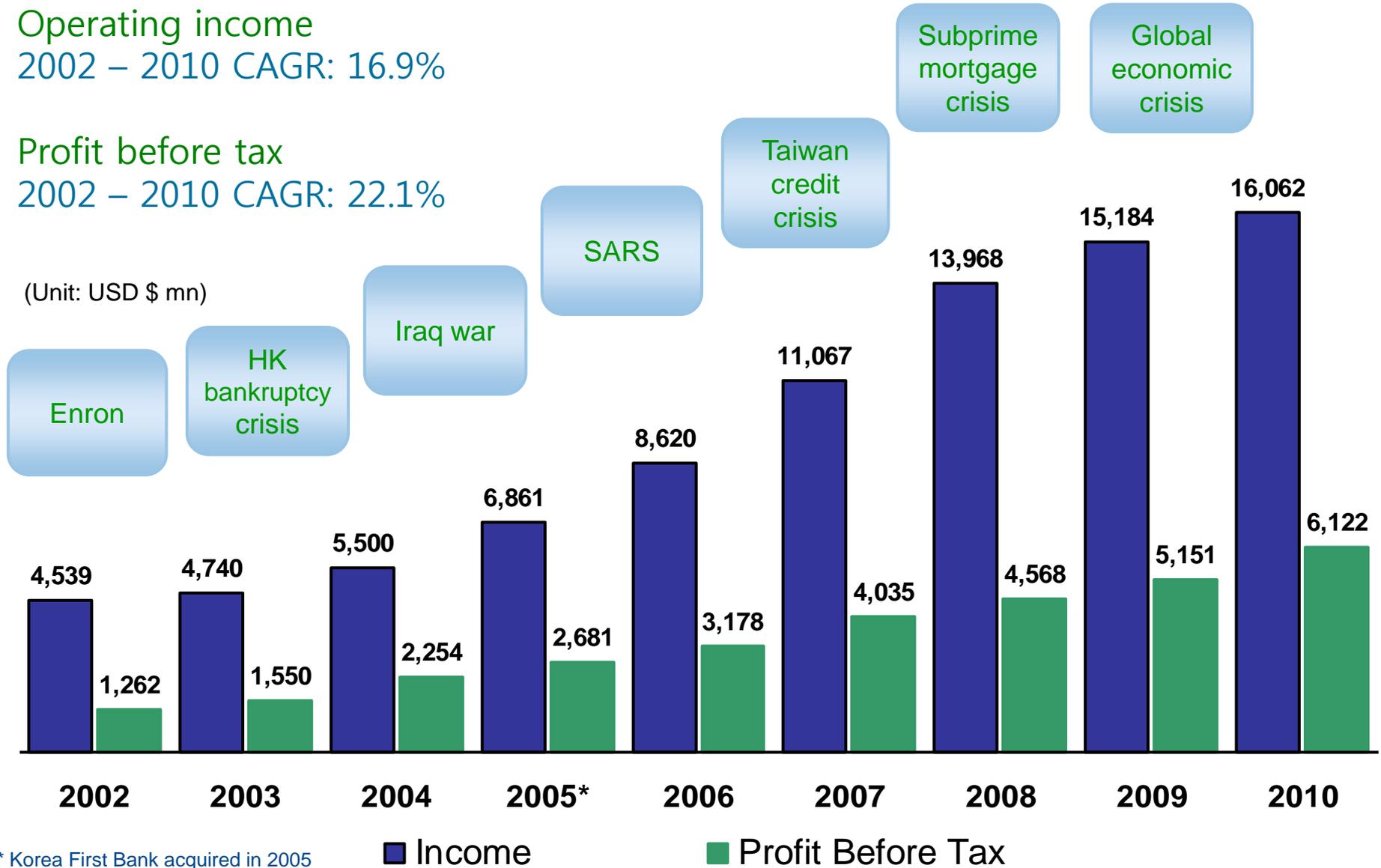
* As of 28 April 2011

Consistent delivery

Operating income
2002 – 2010 CAGR: 16.9%

Profit before tax
2002 – 2010 CAGR: 22.1%

(Unit: USD \$ mn)



* Korea First Bank acquired in 2005

- Late 1880's Branch established in Incheon
- 1967 Re-establishment of SCB Seoul Branch
- 2005 Korea First Bank Acquisition
- 2007 Yeahrum Savings Bank Acquisition (126 staff)
Acquired "A Brain Fund Services" now known as SC Fund Services (60 staff)
- 2008 Established SC Securities (86 staff)
Established SC Capital (152 staff) consumer finance business
American Express Korea integration
- 2009 Creation of Financial Holding Company (Standard Chartered Korea Ltd)

Standard Chartered Korea is the LARGEST foreign direct investor in the Korean financial services industry with an invested capital of more than USD 4.5bn

"Best Debt House in Korea" (Euromoney 2010)

"Best Transaction Bank" "Best Domestic Custodian" (Triple A Awards)

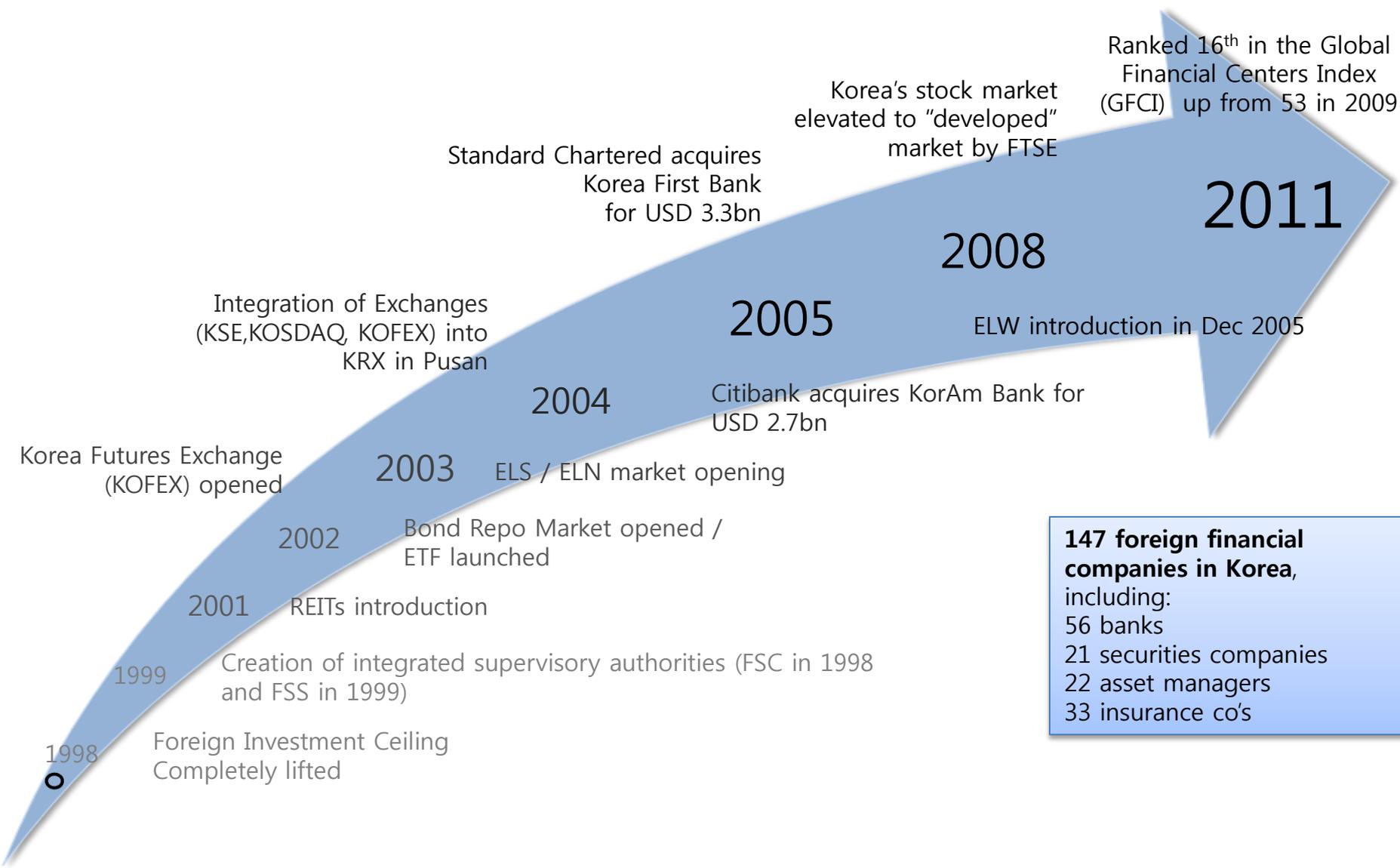
Franchise positioned for growth

- **Large branch network**
 - 380 branches,
7 PB branches and
7 corporate branches
3 SME Hubs
- **Consumer Banking**
 - >4m customers
 - >1.0m Internet Banking
- **Wholesale Banking**
 - Growing number of
corporate relationships
 - Largest dealing
room in Korea
- **Around 7,000 staff**



Chronology / Milestones

Korea's Financial Market Development

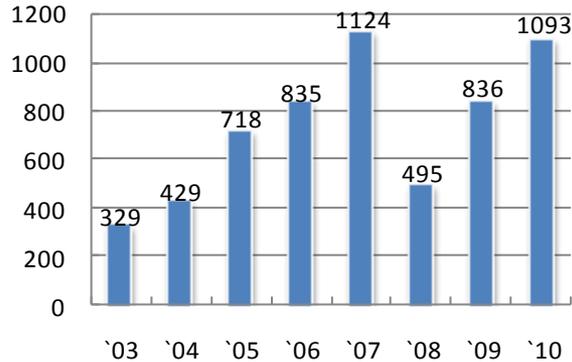


147 foreign financial companies in Korea, including:

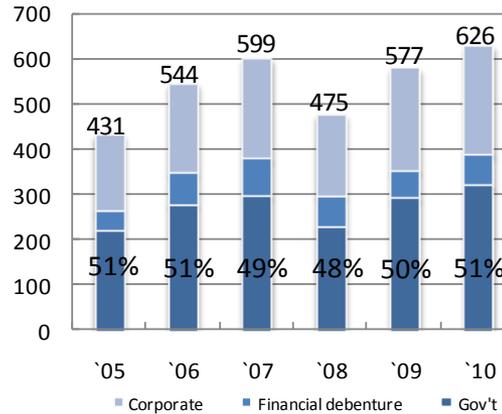
- 56 banks
- 21 securities companies
- 22 asset managers
- 33 insurance co's

Dynamic Growth in Korea's Financial Markets

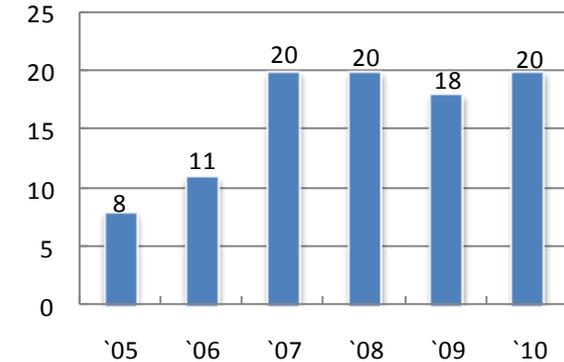
Stock Market Cap. (USD bn)



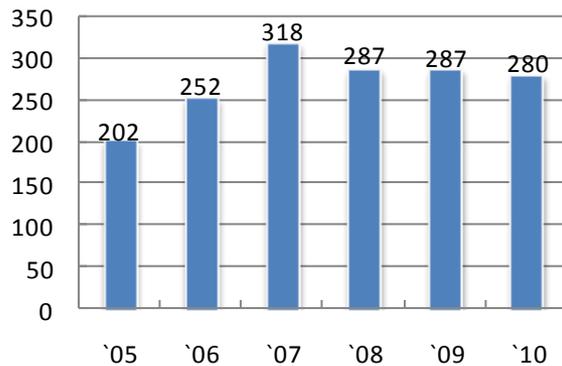
Bond Market Outstanding Amount (USD bn)



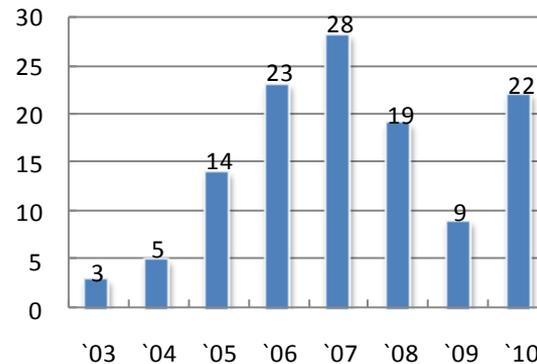
FX Market Daily Turnover (USD bn)



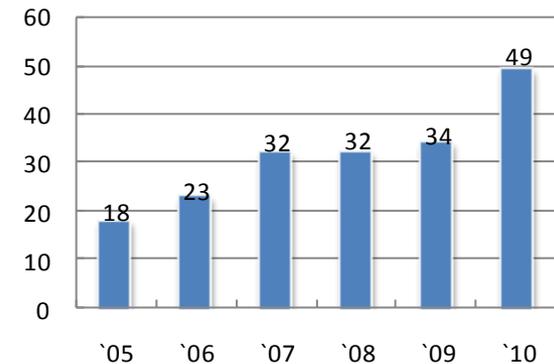
Assets under Management (USD bn)



Equity Linked Securities Issued (USD bn)



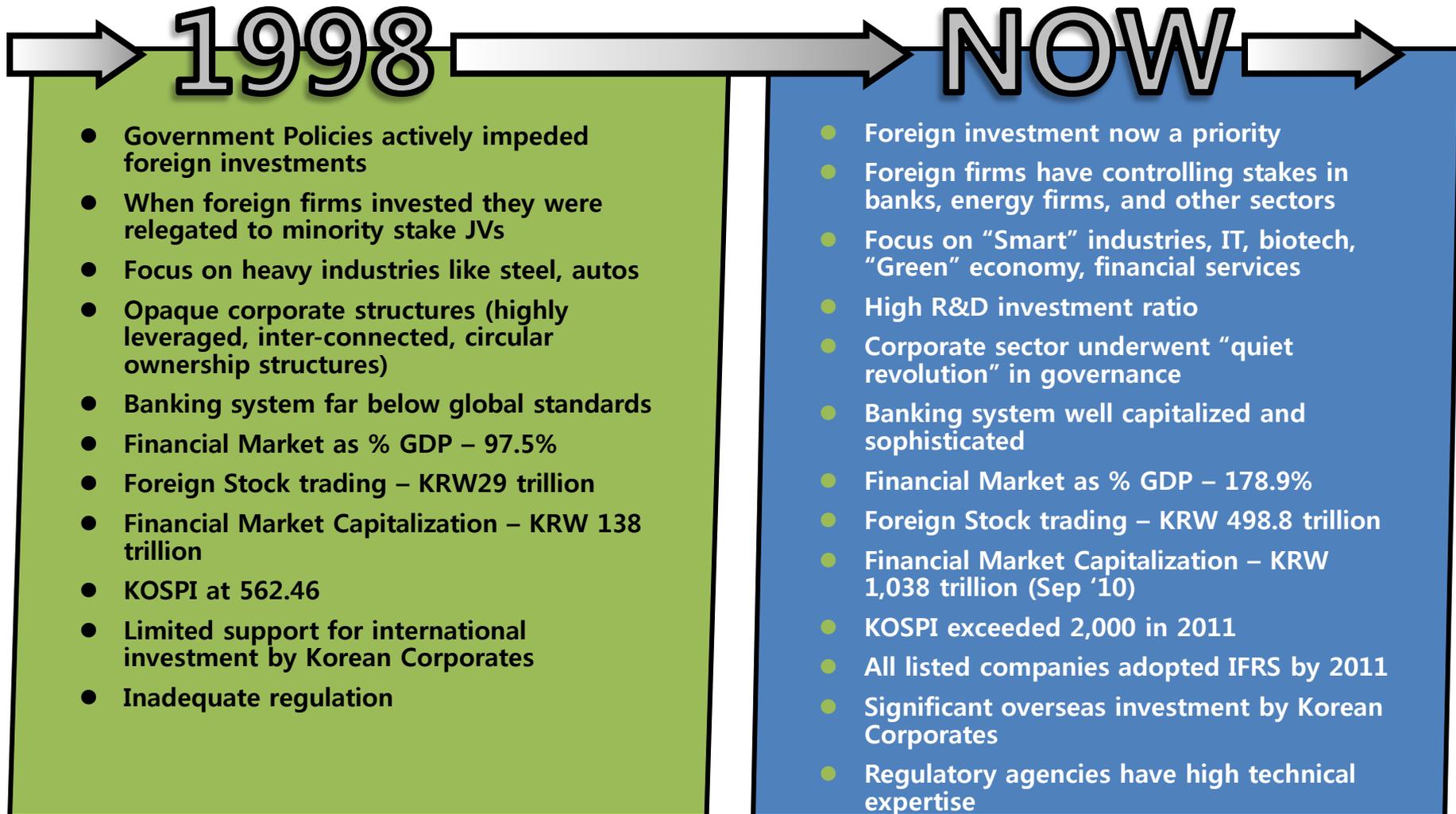
Daily Derivatives Trading (USD bn)



Rankings

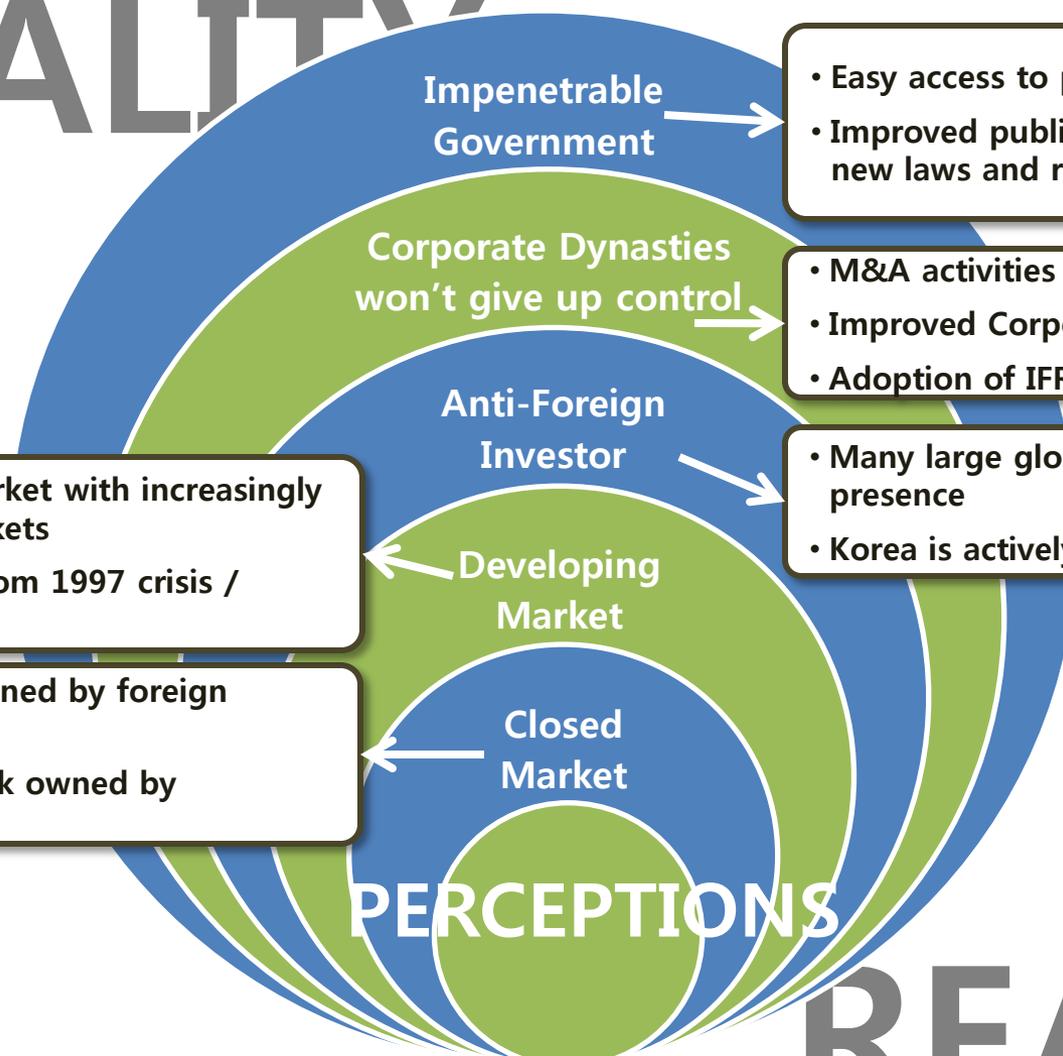
Korea's Financial Markets





The Myths about Korea: Perceptions & Reality

REALITY



• Easy access to policy makers and regulators
• Improved public hearing system ahead of new laws and regulations

• M&A activities at major Chaebols and SMEs
• Improved Corporate Governance
• Adoption of IFRS / Improved transparency

• Many large global players established strong presence
• Korea is actively inducing foreign investors

• Sophisticated market with increasingly deep capital markets
• Lessons Learnt from 1997 crisis / Paradigm shift

• 31% of stocks owned by foreign shareholders
• 49% of bank stock owned by foreigners

PERCEPTIONS

REALITY

General Business Environment in Korea

Evaluation

Area	Comment	Score
Political System	<ul style="list-style-type: none"> • Although young, democracy is deeply entrenched • Stable political situation • Freedom of expression; free (and investigative) press • Military not involved in politics • Geopolitical situation on Korean peninsular stable despite periodic tensions 	
Legal System	<ul style="list-style-type: none"> • Strong independent and fair Judiciary / Judges are proud of their independence • Reliable legal framework (enforceability of contracts / asset foreclosures) • Prosecution still a little heavy-handed • Number of lawyers per capita one of the lowest in G20 	
Taxation	<ul style="list-style-type: none"> • Corporate Income Tax down from 27.5% to 24.2% (Jan 2009~) • Withholding Tax (14% or applicable treaty rate) on interest income from Gov. Bonds held by non-residents re-introduced in 2011 • Personal Income Tax for Foreigners down from 18.7% to 16.5% (flat rate) 	
Human Resources	<ul style="list-style-type: none"> • Tremendous thirst for education • Foreign education in high demand (Korea #3 in newly enrolled students in US in 2009/2010 with 72,153; behind China and India) • Great young talent pool • Koreans are ambitious / they have to be the best • Koreans are hard workers and execute / implement quickly 	
Labor Laws	<ul style="list-style-type: none"> • Still very inflexible • Labor management relations in financial sector have improved over time 	

Regulatory Environment in Korea

Evaluation

Area	Comment	Score
Regulatory Framework	<ul style="list-style-type: none"> Intrusive but fair Integrated financial supervision with high level of technical expertise 	
Clarity Transparency	<ul style="list-style-type: none"> Web-based Q&A system for written enquiries Financial Laws and Regulations available in English since 2010 Interpretations and institutional guidance vs. personal opinions / verbal guidance 	
Dialogue	<ul style="list-style-type: none"> FSS Relationship Manager within Examination Departments Regular meetings between compliance officers and FSS officials Regular seminars for foreign banks with case studies and summary of general audit findings and sanction records Very open communication / easy access to regulators 	
Licensing	<ul style="list-style-type: none"> Clear licensing but stringent requirements in the financial sector Gradual increase in license granted for financial investment businesses Inconsistency between branch offices and locally incorporated subsidiaries 	
Outsourcing Delegation	<ul style="list-style-type: none"> Inconsistency between branch offices and subsidiaries on IT outsourcing Need for more clarity between core and non-core functions Delegation appropriately allowed for branches 	
Audits	<ul style="list-style-type: none"> In the past, Audits were rule based rather than risk or principle based Recent efforts to move to risk based Audits Recent efforts to reduce burden on auditees 	

Living Environment in Korea for Foreigners Evaluation

Area	Comment	Score
Housing	<ul style="list-style-type: none"> • Good supply of quality housing, rents stable • No restriction on foreign ownership of land or apartments 	
Schools	<ul style="list-style-type: none"> • Shortage of foreign schools addressed • New foreign schools opening (e.g. Dulwich Sept 2010, Dwight 2012) 	
Cultural Activity	<ul style="list-style-type: none"> • Rich and diverse program of concerts, operas, theatres, social activities • Significant investments in Seoul (museums, events) • Increasing range of international restaurants and food markets 	
Services	<ul style="list-style-type: none"> • Seoul Global Center very helpful to foreigners • English speaking "foreigner only" desks in city offices • Very efficient airport, easy immigration process 	
Recreational Value	<ul style="list-style-type: none"> • Seoul "Green City" recent beautification projects (parks, and greeneries, Han Riverbanks development, restoration projects) • Improved Air quality (buses, taxis, home heating on LNG) • Very safe city – lower crime rate than Tokyo, Paris or New York 	
Financial Services	<ul style="list-style-type: none"> • Available to foreigners in English language • Most ATM's offer English services 	
Language	<ul style="list-style-type: none"> • English and Chinese increasingly widely spoken • Improved support for learning Korean, Signboards all in English/Korean 	

- **Lessons learnt from 1997** Asian financial crisis and improvements implemented thereafter
- **Effective Policy responses** to 2008 financial crisis
 - Led to early Financial System Stabilization
- **Effective Prudential Regulations**
 - Higher risk disclosure / client protection standards under FSCMA
 - Existing OTC derivatives selling regulations (issued in Dec 2005) also proved effective
 - Mortgage Lending Rules (Korea's LTV ratio < 50%)
 - FX Derivatives - re-introduction of the "real demand" principle (hedging only) for corporates in Jan 2010
 - New Limits on net open derivatives positions in Oct 2010
 - Re-introduction of Withholding Tax on non-resident bond holdings in Jan 2011
 - Interest Rate Caps to be lowered towards 29% p.a. in 2011
- **Macro-Prudential Stability Levy** ("Bank Levy")
 - Aimed at reducing FX volatility stemming from excessive inflows/outflows in capital
 - 2-20 bp levy per annum
 - Scope of foreign currency liabilities yet to be decided
 - To be effective August 2011



SWOT Analysis

Korean Financial Sector

Strengths:

- ✓ Strong and resilient banking sector
- ✓ Asset Soundness & Profitability up
- ✓ Fast moving and ambitious society
- ✓ Neutral political reputation of Korea
- ✓ Good macro-prudential management
- ✓ Excellent young talent pool
- ✓ Top end IT infrastructure

Weaknesses:

- ✓ Very fragmented non-banking sector
- ✓ Savings Bank crisis / "PF" loans
- ✓ Household debt increase
- ✓ Declining Savings rates
- ✓ Excessive credit card competition
- ✓ Korean Won not yet internationalized
- ✓ Complex FX regulations
- ✓ Labor laws inflexible

Opportunities:

- ✓ Wealth accumulation – ageing society
- ✓ Geo-graphically well positioned
- ✓ Financial sector consolidation
- ✓ Creation of "National Champions"
- ✓ Follow Korean companies abroad
- ✓ Reform of "home grown" hedge fund legislation expected in 2H2011

Threats:

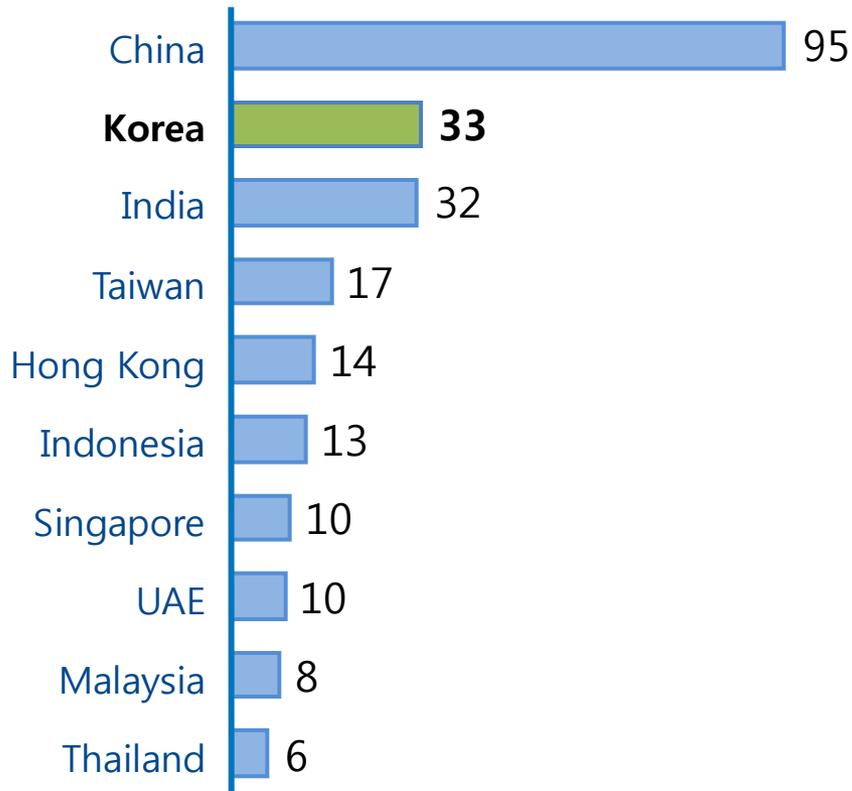
- ✓ Geopolitical tensions – North Korea
- ✓ Public perception of foreign capital
- ✓ Uncertainties around Withholding Tax
- ✓ 90% of mortgage loans are on variable interest rate basis with "Interest-only"
- ✓ Rising regulatory cost of compliance
- ✓ Labor management relations
- ✓ Nationalistic thinking



Strong and Growing Financial Sector

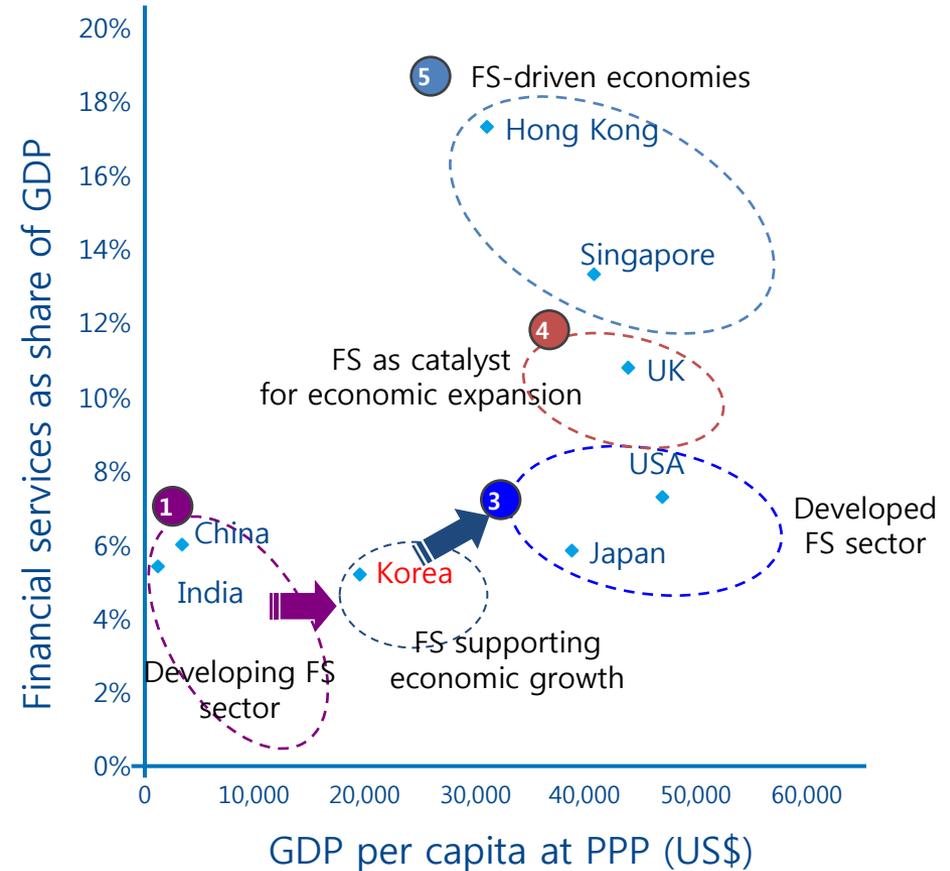
Asia's 2nd largest retail banking market

Retail banking revenue pool ex-Japan (US\$B)



Source: McKinsey; Standard Chartered analysis as of 2008

Financial Services ("FS") sector expected to grow



Sources: Oliver Wyman analysis, IMF, National statistics

Korea's Financial Sector – Quo vadis?

- ✓ Form **political consensus** on a financial center development strategy
- ✓ Encourage in-bound and out-bound expansion
- ✓ Encourage **market consolidation** in the fragmented non-bank financial sector
- ✓ Korea's needs strong and profitable banks ("**National Champions**")
- ✓ Provide further capital to KEXIM and K-Sure to increase support for Korea's overseas projects
- ✓ Re-visit FX Liberalization Plans and gradually **internationalize Korean Won** (allow offshore trading and settlement in Korean Won)
- ✓ Remove growth impediments in the operational environment
- ✓ Convince public that financial services sector is a **key growth engine with multiplier effects** on accounting, legal, education, hospitality and IT services industry

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