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*The following is English translation of the inaugural address Chairman/Governor Kim Yong-Duk delivered before the FSC/FSS officers and staff on August 6, 2007.*

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Good afternoon everyone,

I am delighted to be with you today. I must first say that I feel a sense of great personal honor standing before you today as the new Chairman and Governor. At the same time, I understand that I must carry with me the weight of the responsibilities I assume, especially at a time of uncertainties in markets at home and abroad. So it is reassuring to know that I will be carrying out my duties with a talented and dedicated group of professionals at the Financial Supervisory Commission and the Financial Supervisory Service.

This year marks the tenth anniversary of the Asian Financial Crisis. It also coincides with the tenth anniversary of the integration of Korea's financial supervisory authorities.

Over the past decade, Korea's financial services industry put the agony of the financial crisis behind and made a remarkable turnaround. Overall, Korea's financial market roughly tripled in size from the pre-crisis level. The market capitalization of Korean companies broke through the KRW1,000 trillion mark, a seven-fold increase from the pre-crisis period, and the daily trading volume of the foreign exchange market quadrupled to US$37.1 billion. The share of financial services in the economy jumped from 6.9% in 1999 to 7.5% last year. And the value added ratio of financial services, at 71.1% in 2006, was well ahead of other industries.

The profitability and the soundness of domestic financial institutions have also sharply improved. Domestic banks' ROA and BIS capital ratio—1.11% and 12.8%, respectively—were more than in line with global standards and more favorable than many banks in the developed countries. We also see domestic securities and insurance companies maintaining healthy balance sheet positions.

I believe that these accomplishments are, more than anything else, the fruit of bold restructuring and aggressive productivity gains that financial institutions pursued in the wake of the financial crisis. Much credit is also due to your dedication as the guardian of the financial services industry to promote soundness and stability of the financial market. So let me take this opportunity to express my gratitude to you and the professionals in the financial services industry for a job well done. I also pay tribute to Mr. Yoon Jeung-Hyun, my predecessor, for his strong leadership and his invaluable contributions to Korea's financial services industry for the past three years.

While it is clear that we have made significant strides in recent years, we all know that much work still lies ahead. For one, we know that domestic financial institutions and the market as a whole, despite obvious qualitative and quantitative improvement over the years, continue to lag behind many others in the developed economies in terms of global competitiveness and efficiency.

Compared to leading global financial services providers, domestic financial institutions remain under-sized and continue to rely heavily on lending, brokerage and other traditional businesses for a significant portion of their revenue. As a whole, domestic banks' assets are said to be about one-tenth of those of the major global banking organizations. And the capital base of domestic securities companies is estimated at somewhere around one-eightieth of that of the leading global investment banks. In terms of productivity, Korea's financial services sector ranked 19 out of 26 in a 2005 OECD survey. It is also said that there remain many shortcomings in the way domestic financial institutions manage risk. The phenomenon of herd behavior is also all too frequently observed in Korea's financial market.

Moreover, the level of globalization of domestic financial institutions is well behind those of the developed countries. As measured by Transnational Index in

2004, domestic banks scored 3.4, far behind 68.8 for Swiss banks and 40.3 for U.K. banks. We see similar lags in assets held and incomes earned by domestic banks overseas. In 2005, the proportion of domestic banks' overseas assets came to 2.3%, and net income 3.0%, well below the 20% to 90% range and the 40% to 70% range, respectively, for the leading global banks.

Many also point to shortcomings in financial supervision. As a result of integrated financial oversight and more vigorous prudential supervision, the soundness of domestic financial institutions has improved drastically over the years. But the level of staff specialization and supervisory practices are not yet where they should be. According to a survey on Korea's financial hub initiative at the end of 2006, reform of the financial supervisory system was cited as the most urgent challenge ahead of all others.

There is an acute shortage of well trained financial professionals and specialists as well. The workforce employed in Korea's financial services sector is estimated at 730,000, far more than 180,000 for Hong Kong and 110,000 for Singapore. But the proportion of highly trained financial professionals is said to be only 9% in Korea, compared with 44% in Hong Kong and 51% in Singapore. We know that what supports and sustains a competitive financial services sector is the individual competitive strength of the professionals in the financial services industry. This is an indicator that may well explain the persistently sluggish productivity growth of Korea's financial services industry.

Financial services industry is a high value added industry. Few other industries can match its potential to create value, contribute to economic growth, and generate well-paying jobs. Indeed, it is difficult to imagine the Korean economy moving up to the US$30,000-US$40,000 per-capita income level without a highly developed financial services industry.

How, then, did the financially developed countries manage to succeed where others have failed? In the U.K., the "Big Bang" in 1986 is widely credited with laying the groundwork and providing the stimulus that helped to transform the country into one of the world's foremost financial markets. With new policy initiatives and bold regulatory reform, the Big Bang spurred market openings and competition, which ultimately secured the U.K. an outsized place in the global financial markets. And with the creation of the Financial Services Authority as an integrated oversight body in 2000, the U.K. also adopted principle- and risk-based financial supervisory framework that propelled London into one of the most competitive global financial centers.

I intend to accomplish two things with you. The first is risk management. With the presidential and general elections coming up, we must make sure that risks in the financial market are effectively managed and no systemic risk arises in the economy so that the market continues to grow in a stable environment. The second is reform of financial supervision. With audacious reform of Korea's financial supervision, we can lay the stepping stone for Korea's ascendancy as a financial powerhouse in Northeast Asia.

When we look back, we see instances of striking distress in the financial market toward the end of each administration. Toward the end of 1997, it was the financial crisis. In 2003, it was the massive credit card delinquencies. The financial crisis was said to be the worst calamity to hit Korea since the Korean War. The economy contracted sharply and at one point pushed the unemployment level to 1,780,000 (Feb., 1999). The credit card crisis in 2003 drove nearly four million people (3.97 million, April, 2004) into credit delinquencies.

In both instances, we see that banks and other financial institutions failed to exercise appropriate risk management, credit grew too easily and too quickly, and regulators did not enforce effective prudential controls. There are obviously lessons to be learned from all this, and we must do everything we can to make sure we do not repeat the same mistake. As financial institutions manage risk on their own initiative, regulators will need to focus on systemic risks in the financial market and in the broad economy. And, as we do so, we must closely monitor and scrutinize all potential risks with financial supervision that is risk-based, market-friendly, and preemptive so as not to repeat mistakes of the past.

The other task is bold reform of financial supervision. With the standards and experiences of financially developed countries as our benchmarks, we must work to make sure that Korea's financial market continues to forge ahead and develop into Northeast Asia's financial hub.

The vision I would like to share with you is "world-class financial supervision, world-class financial economy." I propose four policy goals in pursuit of this vision. The first is reform of financial supervision system. The second is strengthening our supervisory oversight capacity and staff specialization. The third is facilitating and embracing financial globalization. The fourth is protecting financial consumers and creating a competitive level playing field for all.

With respect to reform of the financial supervision system, let us revamp our regulatory structure more in line with global standards. Let us also make the transition from sector-based to function-based supervision. We should also apply the same rule for the same business product or activity, do away with arbitrary rule-making, and strictly conform to sunset clauses.

Financial institutions' autonomy in the marketplace should be respected, and innovative product development and business activities should be actively encouraged. With the Capital Market Consolidation Act now set to take effect in 2009, there should also be a concerted, stepped-up effort to have a genuinely effective, well-functioning supervisory system in place by then. Let us do all we can so that the new law can serve as a potent catalyst for our own "Big Bang." Rules on starting a financial service business should be made much easier, and, where appropriate, consolidation through M&A and the creation of large, well-capitalized financial institutions should be encouraged.

I will also explore new ways to improve our supervisory oversight capacity and raise the level of staff specialization. As before, I intend to work vigorously to expand our global network with foreign supervisors and international organizations as well.

Along with this, I believe that we must work closely with the private sector to nurture a large pool of highly trained and experienced financial professionals. After all, they constitute the core of the competitive strength of our financial services industry.

As I noted earlier, the level of globalization of Korean financial institutions is not where we would like it to be. To ensure continued growth, risk diversification, and global competitiveness, domestic financial institutions must look to overseas markets as they represent hitherto untapped growth opportunities. By channeling ample liquidity at home into productive investments abroad, domestic financial institutions should be able to diversify and expand their global earnings. I also believe we should aggressively encourage foreign financial services providers to come to Korea. We are more likely to succeed in this endeavor if we can come up with objective and transparent regulatory approval standards and apply them in the most consistent and predictable manner. So, let us work to encourage domestic financial institutions to look beyond the home markets and at the same time welcome foreign companies to do business here at home.

I also believe that greater effort should be made to protect financial consumers. Protecting the rights and interests of investors in our capital markets as well as small business owners and low income financial consumers must remain our priority. We should also step up our monitoring of all unlawful and unfair conduct to ensure a fair and orderly marketplace for all.

Going forward, both the Financial Supervisory Commission and the Financial Supervisory Service must be renewed and revitalized as a service institution that caters to their customers with utmost independence and impartiality. Each must strive to earn respect for its authority as an independent supervisory organization on the merits of high supervisory caliber and ethical standards. As we do so, let us boldly do away with even the appearance of high-handed and overbearing conduct to those on the receiving end of financial supervision. Let us attend to financial institutions and consumers as our customers and work to earn their respect and trust.

Earning the trust of financial institutions with unquestioned justification for regulatory action takes, more than anything else, strong ethical standards and an uncompromising sense of integrity on our part. So let us take a look at ourselves and around us to make sure we measure up to what is expected of us.

To make sure we achieve the goals I just outlined, I intend to carry out four strategies in pursuit of financial supervision reform. They are (1) globalization, (2) professionalization, (3) integrity, and (4) informatization. I would like to see a roadmap, an action plan, for the policy objectives and strategies I noted above and see to it that it is carried out.

Respected Members of the Financial Supervisory Commission and the Financial Supervisory Service,

I would like to see everyone willingly take part, an active part, in our organizational reform that will help us achieve our goals. With many challenges and risks around us, this is no time to be complacent. Financial markets worldwide are becoming less certain of their direction due to such factors as interest rate concerns and growing imbalances in the global economy. At home, competition among financial service providers has been heating up, and herd behavior in the financial market very much remains a concern. As a result of new financial products and ever-growing trading volume— fueled in part by complex financial institutions and a variety of derivatives products—we see increasing volatility and uncertainty in the market.

In this environment, what is required of us is competent and capable financial supervision. I believe this requires aggressive reform. Let us not fear change or reform. In an ever-changing environment, organizations or individuals who shy away from change will only stagnate, be shunned by customers, and face precarious roads ahead.

I intend to lead our organization on the basis of individual competence and contributions made. Work performance will be judged objectively, fairly, and transparently, and recognition will be given to those who perform their duties ably and contribute to the success of the organization. I will be paying particular attention to staff education and training to raise their level of expertise and help them achieve organization objectives.

Lastly, I would like to see greater harmony between the Financial Supervisory Commission and the Financial Supervisory Service. To those outside, there is no distinction between the two. Insofar as our function is concerned, it's one and the same. If we are to ride the same boat and complete the journey together, all of us must speak with one voice. We must trust each other, rely on each other, and engage each other to solve our problems. As the head of both the Financial Supervisory Commission and the Financial Supervisory Service, I will certainly think carefully about how each can complement the other and produce the desired synergy.

We are entrusted with the crucial mission of overseeing risks in the financial market and advancing it for a world-class financial economy. So let's get started with eagerness and enthusiasm to get the job done and meet the expectations of the people. I will be your partner and work with you with all my heart and wisdom. So, let's get started on renewing and reinvigorating the Financial Supervisory Commission and the Financial Supervisory as a truly world-class supervisory organization.

Thank you.