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# **Weekly Newsletter**

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## Banking Sector Performance in FY2000

In FY2000, Korea's 22 commercial and specialized banks incurred a combined net loss of 4.2 trillion won, down 1.3 trillion won from the 5.5 trillion won recorded in FY1999. Among the 22 banks, 12 banks posted net profits totaling 2.7 trillion won, while the 10 remaining banks posted net losses totaling 6.9 trillion won. Kookmin Bank topped the list with 719.7 billion won in net income, while Hanvit Bank suffered the largest net loss at 3.0 trillion won.

By source of income, interest income increased to 13.1 trillion won, up 1.1 trillion won from FY1999, due to higher profits in government bond trading. Fee income increased to 4.7 trillion won, up 1.4 trillion won in FY1999, mainly due to increased use of credit cards and the expanded business tie-ups with other financial companies. On the other hand, trust income suffered a combined net loss of 1.4 trillion won in FY2000, down 0.3 trillion from FY1999. Declining sales of "money in trust" accounts, increased loan loss provisions for potential losses at "workout" companies, and investment losses in securities were attributed for the greater losses.

Losses related to bad assets fell from 15.7 trillion won in FY1999 to 13.6 trillion in FY2000. Of the total, loan loss provisions accounted for 10.3 trillion won and losses resulting from the disposition of distressed assets accounted for 3.3 trillion won. Aggressive asset disposal by banks to clean up non-performing assets, and the increases in loan loss provisions for potential losses stemming from failures of companies under workout programs, were primarily responsible for the losses in FY2000.

Meanwhile, the return on assets (ROA) for the 22 banks stood at -0.59% in FY2000, up from -0.84% in FY 1999. Korea First Bank (KFB) recorded the highest ROA with 1.13%, followed by Kookmin Bank with 0.97%, and Housing & Commercial Bank (H&CB) with 0.94%.

### Business Performance in Banking Sector (FY 2000)

(unit: billion won, %)

Bank	FY1999		FY2000		Change	
	Net Income	ROA(%)	Net Income	ROA(%)	Net Income	ROA(%p)
Chohung	-698.0	-1.69	101.1	0.21	799.1	1.90
Hanvit	-1,987.2	-2.82	-3,006.4	-4.36	-1,019.2	-1.54
Korea First	-1,004.6	-3.21	306.4	1.13	1,311.0	4.34
Seoul	-2,233.1	-9.59	-519.8	-2.53	1,713.3	7.07
Korea Exchange	-802.8	-1.80	-403.7	-0.90	399.1	0.91
Kookmin	107.9	0.16	719.7	0.97	611.8	0.80
Housing & Commercial	451.3	1.02	523.8	0.94	72.5	-0.07
Shinhan	113.1	0.30	372.8	0.85	259.7	0.55
KorAm	50.3	0.24	-396.0	-1.59	-446.3	-1.83
Hana	144.3	0.47	20.5	0.05	-123.8	-0.41
Peace Bank of Korea	-94.9	-1.13	-118.3	-1.40	-23.4	-0.27
<b>Nationwide Commercial Banks (A)</b>	<b>-5,953.7</b>	<b>-1.42</b>	<b>-2,399.9</b>	<b>-0.53</b>	<b>3,553.8</b>	<b>0.89</b>
Daegu	30.8	0.29	15.6	0.13	-15.2	-0.16
Pusan	5.0	0.05	10.2	0.09	5.2	0.04
Kwangju	-92.5	-1.41	-140.5	-2.18	-48.0	-0.77
Cheju	6.2	0.45	-20.7	-1.59	-26.9	-2.04
Jeonbuk	-0.5	-0.02	6.1	0.20	6.6	0.22
Kyungam	8.7	0.12	-311.2	-4.05	-319.9	-4.17
<b>Regional Commercial Banks (B)</b>	<b>-42.3</b>	<b>-0.11</b>	<b>-440.5</b>	<b>-1.07</b>	<b>-398.2</b>	<b>-0.96</b>
<b>Commercial Banks (A+B)</b>	<b>-5,996.0</b>	<b>-1.31</b>	<b>-2,840.4</b>	<b>-0.57</b>	<b>3,155.6</b>	<b>0.74</b>
Korea Development Bank	211.7	0.27	-1,398.4	-1.77	-1,610.1	-2.04
Industrial Bank of Korea	188.3	0.49	404.2	0.92	215.9	0.43
Export-Import Bank	9.6	0.06	13.7	0.10	4.1	0.04
National Agricultural Cooperative Federation <sup>1)</sup>	180.9	0.34	169.6	0.24	-11.3	-0.10
National Federation of Fisheries	-89.1	-1.11	-544.5	-6.75	-455.4	-5.63
<b>Specialized Banks (C)</b>	<b>501.4</b>	<b>0.26</b>	<b>-1,355.4</b>	<b>-0.63</b>	<b>-1,856.8</b>	<b>-0.88</b>
<b>Total (A+B+C)</b>	<b>-5,494.6</b>	<b>-0.84</b>	<b>-4,195.8</b>	<b>-0.59</b>	<b>1,298.8</b>	<b>0.25</b>

Note: 1) Taking into account the figures for the Livestock Cooperative, which was consolidated with NACF, net income is 191.1 billion won and the ROA is 0.31% in FY1999



## Prompt Corrective Action Introduced to ITMCs

Effective from April 1, 2001, investment trust management companies (ITMCs) will be subject to the Prompt Corrective Action (PCA) in line with continued efforts to prevent the deterioration of capital structures and to ensure management soundness. Similar to the case of securities companies, the equity capital ratio will serve as the major criterion for the management status evaluation (MSE).

The equity capital ratio is defined as net equity capital divided by total risk amount. The net equity capital is defined as the amount of total assets minus total liabilities plus subordinated borrowings. The total risk amount consists of market risk, counter-party risk, credit concentration risk, base risk, and trust property risk.

The same definitions of risks applied for the equity capital ratios of securities companies are adopted for calculating market risk, counter-party risk, and credit concentration risk. The base risk is calculated as one fourth of the sum of current expenses and financial expenses in excess of financial revenues. The amount of trust property risk is calculated as 0.1 percent of the total net assets in investment trust. However, 0.2 percent is applied for assets subject to book value evaluation, e.g. money market fund (MMF).

### PCA Classification for ITMCs

Enforced PCA Measure	Criteria
Management Improvement Recommendation	- equity capital ratio of less than 150% - overall MSE rating of 3 <sup>rd</sup> grade or higher and capital adequacy ratio of 4 <sup>th</sup> grade or lower - occurrence of financial incidents or non-performing loans in large amount
Management Improvement Requirement	- equity capital ratio of less than 120% - overall MSE rating of 4 <sup>th</sup> grade or lower - occurrence of financial incidents or non-performing loans in large amount
Management Improvement Order	- equity capital ratio of less than 100% - designation as non-viable financial company

## FSC Approves Establishment of Woori Financial Holding Company

On March 23, 2001, the Financial Supervisory Commission (FSC) approved the establishment of Woori Financial Holding Company Ltd. (Woori FHC) pursuant to Chapter 3 of the Financial Holding Company Act. Woori FHC is to be incorporated with equity shares to be transferred from five subsidiary banks - Hanvit Bank, Peace Bank, Kwangju Bank, Kyongnam Bank, and Hanaro Merchant Bank - that are under the control of the Korea Deposit Insurance Corporation (KDIC). In addition to the five subsidiary banks, Woori FHC will control nine subsidiaries of those five subsidiary banks.

### *Woori FHC's Subsidiaries*

<b>Banks</b>	<b>Assets (Capital) In Billion Won</b>	<b>Number of Employees</b>
Hanvit Bank	75,548.8 (2,764.4)	11,597
Peace Bank	6,310.4 (273.0)	1,505
Kwangju Bank	6,246.3 (170.4)	1,237
Kyongnam Bank	7,598.2 (259.0)	1,474
Hanaro Merchant Bank	5,466.1 (30.0)	121
<b>Total</b>	<b>101,169.8 (3,496.8)</b>	<b>15,934</b>

### *Subsidiaries of Subsidiaries*

<b>Name</b>	<b>Assets (Capital) In Billion Won</b>	<b>Number of Employees</b>
Hanvit Securities Co.	526.8 (164.8)	844
Hanvit Investment Trust Management Co.	37.4 (30.0)	34
Hanvit Bank System	7.5 (4.5)	202
Hanvit Credit Information Co.	12.6 (3.0)	668
Hanvit America	338.0 (44.1)	93
P.T. Hanvit Indonesia	220.3 (22.3)	40
BCcard Co.	567.0 (44.0)	656
Korea Finance Security	9.7 (8.0)	358
Nexbitec. Co.	2.5 (1.0)	104
<b>Total</b>	<b>1,721.8 (321.7)</b>	<b>2,999</b>

\* Total assets of Woori FHC: 102.89 trillion won

\* Total number of employees of Woori FHC: 18,933



With regard to the “subsidiaries of subsidiaries” whose management have demonstrated poor performance, Woori FHC has been required to submit liquidation plans for Hanvit Leasing & Finance Co. and Kyongnam Leasing Co. to the FSC for approval by the end of August this year. For the 12 companies that have already submitted their liquidation plans, the FSS will review the outcome of their liquidation plans for approval.

To ensure management soundness and a strong capital base, Woori FHC will endeavor to clean up all non-performing assets held by its subsidiaries. Public funds are to be injected into Hanvit and three other subsidiary banks in order to substantially lower their non-performing asset holdings and meet the 10% BIS capital adequacy ratio. Public funds will also be made available for Hanaro Merchant Bank to enable it to set aside sufficient loan loss provisions and meet the 10% BIS capital adequacy ratio.

With combined assets of 103 trillion won, Woori FHC will become the world’s 90<sup>th</sup> largest bank in terms of total assets. Woori FHC plans to enhance competitiveness by pursuing economies of scale, and to achieve increased investment efficiency and cost reductions by combining IT investments and sharing the networks of its subsidiaries. Woori FHC also expects to boost management efficiency through the synergy effects produced by integrating the investment banking businesses, credit-card business, and the development of new financial products. And to bring about a more effective and innovative management structure, highly qualified professional managers will be hired to lead the management at the new holding company.

Woori FHC expects to finalize the organizational structure of its subsidiaries by June of next year.

## **New Insurance Dividend System Introduced**

The FSS announced plans to introduce a new dividend system to the insurance industry in April 2001. Under the new system, a portion of expense savings will be paid out as dividends to policyholders in order to facilitate the equitable distribution of savings from expense loading.



Expense savings refer to the difference between estimated and actual expenses incurred. The dividend amount will be determined as a product of the insurance amount and the dividend scale for expense savings that will be determined by individual insurance firms. The dividend amount will also be paid out in proportion to individual policyholders' contribution to the accrual of expense savings.

Policies eligible to receive the dividends from expense savings will be limited to active insurance policies with one year or more of persistency under life insurance, long term non-life insurance, individual annuity, and retirement insurance contract.

Meanwhile, from the end of FY 2001, life insurance firms will be required to set aside an adequate amount of reserves in advance for the purpose of paying out all types of dividends, which will enhance the capital structure soundness of life insurance companies.

**(Appendix)**
**1. Major Financial Statistics**

(unit: point, percent, won)

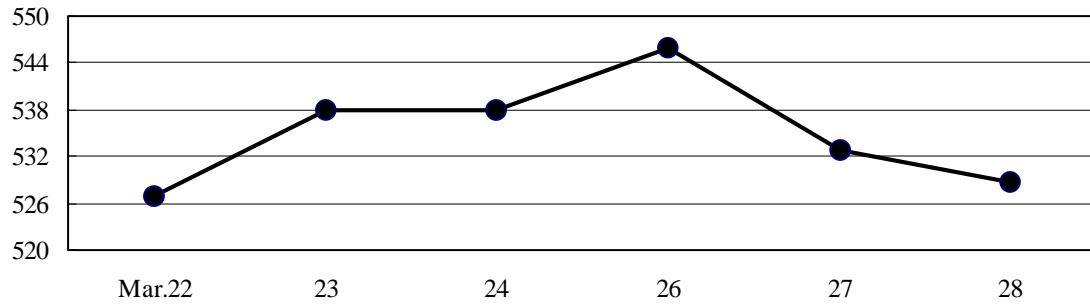
	Equity Indexes			Interest Rates				Exchange Rates	
	KOSPI Index	KOSPI 200 Index	KOSDAQ Index	Corp. Bond Yields (3 years)	Gov't Bond Yields (3 years)	Call Rate (1day)	CD Yields (91days)	Won/USD	Won/100 JPY
2000 July	705.97	89.35	115.80	9.17	8.07	5.12	7.06	1,116.0	1,018.25
Aug.	688.62	86.54	108.59	8.98	7.79	5.11	7.05	1,109.0	1,042.10
Sept.	613.22	76.47	90.17	9.04	8.07	5.05	7.05	1,115.0	1,030.88
Oct.	514.48	64.00	74.68	8.59	7.64	5.33	7.02	1,139.0	1,045.91
Nov.	509.23	63.48	67.26	8.35	7.16	5.32	6.94	1,213.5	1,092.26
Dec.	504.62	63.35	52.28	8.14	6.74	5.36	6.88	1,261.0	1,101.31
2001 Jan.	617.91	77.98	84.36	7.38	5.68	5.26	5.94	1,258.0	1,080.29
Feb	578.10	72.14	76.76	6.77	5.43	5.05	5.68	1,249.0	1,075.33
Mar.22	527.05	65.47	70.64	7.29	5.85	5.06	5.69	1,316.0	1,063.00
23	537.97	67.01	70.61	7.21	5.76	4.96	5.69	1,309.0	1,064.66
24	-	-	-	7.21	5.76	4.88	5.69	1,305.0	1,062.18
26	545.98	68.04	72.77	7.14	5.68	5.04	5.69	1,311.0	1,062.83
27	532.90	66.25	71.86	7.17	5.72	5.01	5.69	1,308.0	1,066.45
28	528.79	65.77	70.58	7.31	5.88	4.97	5.70	1,304.0	1,067.10

Note : End of Period

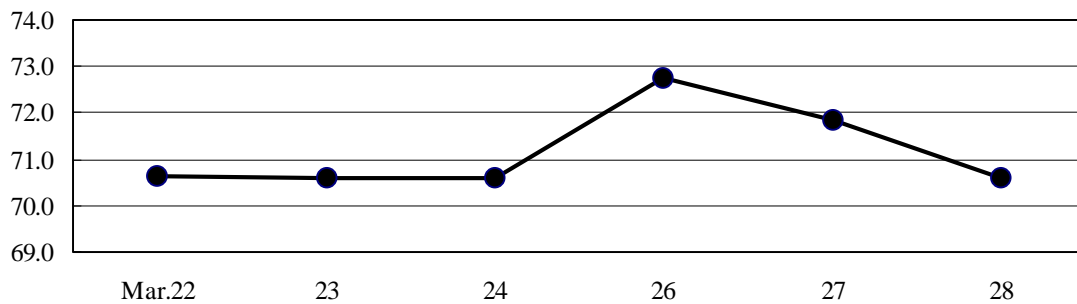


## 2. Daily Trends

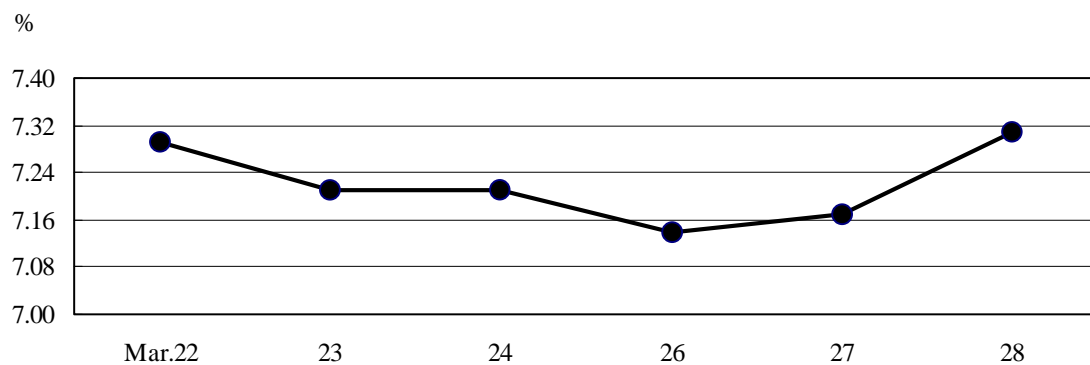
### 1) KOSPI



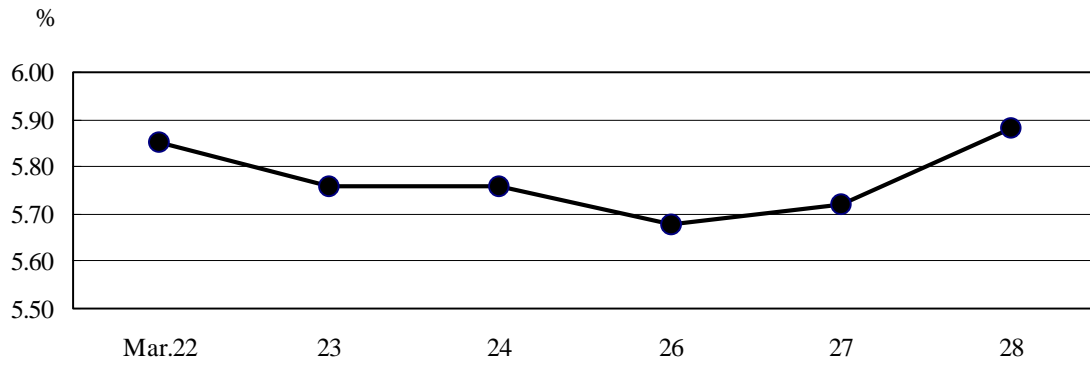
### 2) KOSDAQ Index



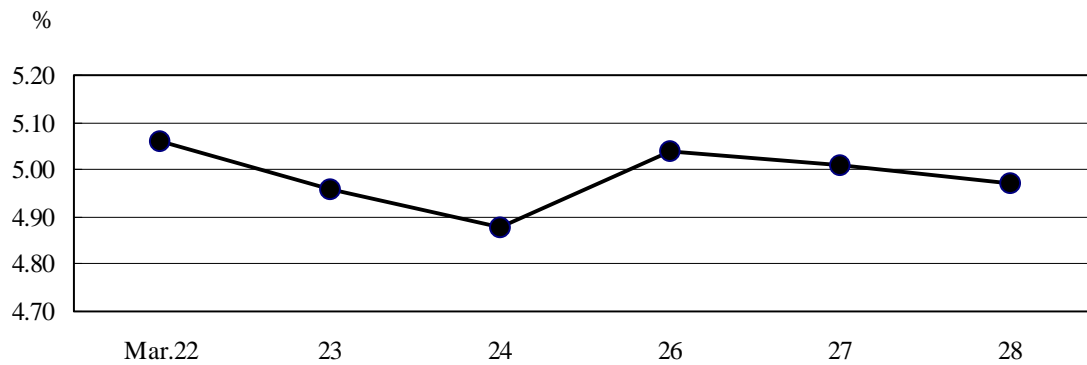
### 3) Yields on Corporate Bond (3 Years)



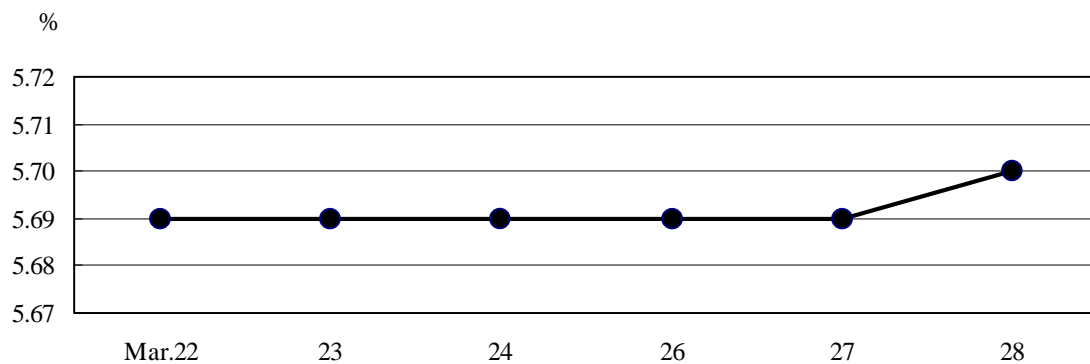
**4) Yields on Government Bond (3 Years)**



**5) Call Rate (1 Day)**

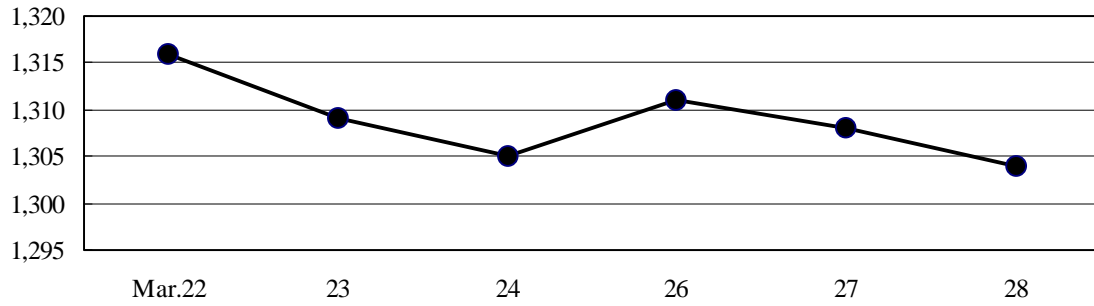


**6) Yields on CD (91 Days)**

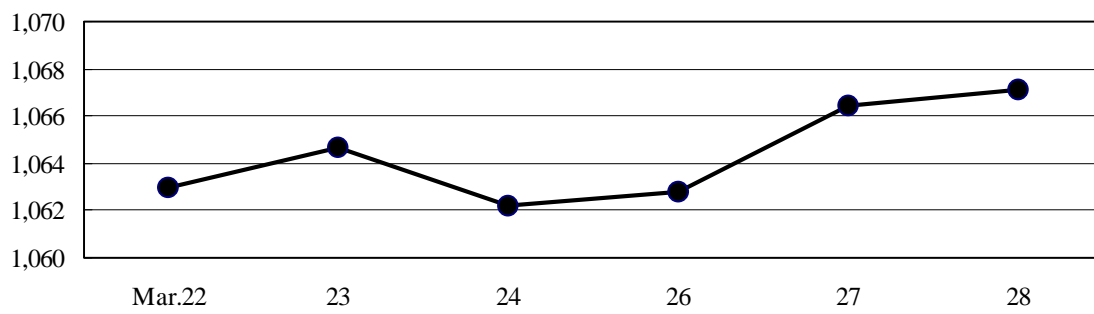




**7) Won/US Dollar**



**8) Won/100 Japanese Yen**





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