



**Volume II No. 9**

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# **Weekly Newsletter**

**Special Issue :**

**▲ Bad Loans Decreased in 4<sup>th</sup> Quarter of 2000**

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## Special Issue : Bad Loans Decreased in 4<sup>th</sup> Quarter of 2000

**A**s of end-Dec. 2000, the total amount of loans classified substandard or below at all domestic financial companies fell 11.7 trillion won to 64.6 trillion won from 76.3 trillion at the end of the 3<sup>rd</sup> quarter. The net substandard or below loans, which are the sum of substandard or below loans minus total loan loss provisions, also fell 10.9 trillion won to 28.0 trillion won. Accordingly, the ratio of substandard or below loans to the total loans fell to 10.4%, down 1.9 percentage points from end-Sept. 2000. Non-performing loans dropped 10 trillion won to 50.2 trillion from 60.2 trillion at the end of the 3<sup>rd</sup> quarter.

The decrease in the amount of bad loans held by financial companies was mainly due to continuing sales of bad loans through issuance of asset-backed securities (ABS), extensive write-offs and loan recovery. During the period, domestic financial companies disposed of loans valued at 5.8 trillion won through ABS, wrote off 7.7 trillion won, and recovered 2.8 trillion won.

### Asset Quality of Financial Companies

(unit: trillion won, %, %-p)

Loans	End of			Change	
	1999. 12 (D)	2000.9 (E)	2000.12 (F)	(F)- (D)	(F)-(E)
Total (A)	590.9	619.7	621.4	30.5	1.7
Substandard or below (B)	88.0	76.3	64.6	-23.4	-11.7
Ratio (B/A)	14.9	12.3	10.4	-4.5	-1.9
Net Substandard or below <sup>1)</sup>	49.6	38.9	28.0	-21.6	-10.9
Ratio <sup>2)</sup>	9.0	6.7	4.8	-4.2	-1.9
Non-Performing <sup>3)</sup> (C)	66.7	60.2	50.2	-16.5	-10.0
Ratio (C/A)	11.3	9.7	8.1	-3.2	-1.6

1) total substandard or below loans – loan loss provisions

2) (total substandard or below loans – loan loss provisions) / (total loans - loan loss provisions)

3) including all loans overdue for more than 3 months and non-accrual loans

Loans held by banks accounted for 42.1 trillion won, or 65.2%, of the total substandard or below loans in the domestic financial sector. Non-banking financial companies followed with 14.7 trillion won, or 22.7 percent. Insurance companies and securities firms accounted for 3.8 trillion won and 4.0 trillion won, respectively.

Domestic banks managed the largest reduction in bad loans, reducing their holdings of substandard or below loans by 9.8 trillion won during the 4<sup>th</sup> quarter, 2000. The non-banking financial companies and insurance companies reduced their total bad loans by 1.3 trillion won and 0.6 trillion won, respectively. The securities companies saw no change in bad loans from the previous quarter.

### Asset Quality by Financial Sector (as of end-Dec. 2000)

(unit: trillion won, %)

Loans	Bank	Non-Bank	Insurance	Securities	Total
Total (A)	526.1	43.2	44.5	7.6	621.4
Substandard or below (B)	42.1	14.7	3.8	4.0	64.6
Ratio (B/A)	8.0	34.0	8.5	52.6	10.4
Net Substandard or below <sup>1)</sup>	17.1	8.0	1.4	1.5	28.0
Ratio <sup>2)</sup>	3.4	21.9	3.3	29.4	4.8
Non-Performing <sup>3)</sup> (C)	29.5	14.2	2.5	4.0	50.2
Ratio (C/A)	5.6	32.9	5.6	52.6	8.1

1) total substandard or below loans – loan loss provisions

2)(total substandard or below loans – loan loss provisions) / (total loans - loan loss provisions)

3) including all loans overdue for more than 3 months and non-accrual loans

### Banking Sector

As of end-Dec. 2000, 22 banks held substandard or below loans valued at 42.1 trillion, which reflects all potential losses under the Forward Looking Criteria (FLC) and is 9.8 trillion won less than the amount recorded at the end of 3<sup>rd</sup> quarter. Accordingly, the proportion of substandard or below loans to total loans decreased to 8.0 percent, down by 2.0 percentage points from end-Sept. 2000.

### Asset Quality of Banking Sector

(unit: trillion won, %, %-p)

Loans	Commercial Banks (17)			Specialized Banks (5)		
	End of		Change	End of		Change
	2000.9 (D)	2000.12 (E)	(E)-(D)	2000.9 (F)	2000.12 (G)	(G)-(F)
Total (A)	359.9	361.4	1.5	157.6	164.7	7.1
Substandard or below (B)	39.4	32.0	-7.4	12.5	10.1	-2.4
Ratio (B/A)	10.9	8.9	-2.0	7.9	6.1	-1.8
Net Substandard or below <sup>1)</sup>	21.2	12.5	-8.7	6.5	4.6	-1.9
Ratio <sup>2)</sup>	6.2	3.7	-2.5	4.3	2.9	-1.4
Non-Performing <sup>3)</sup> (C)	28.3	23.8	-4.5	8.4	5.7	-2.7
Ratio (C/A)	7.9	6.6	-1.3	5.3	3.5	-1.8

Note : The numbers in the parentheses are number of companies.

1) total substandard or below loans – loan loss provisions

2)(total substandard or below loans – loan loss provisions) / (total loans - loan loss provisions)

3) including all loans overdue for more than 3 months and non-accrual loans

### Non-Banking Financial Sector

As of end-Dec. 2000, 1,486 companies included in the non-banking financial sector reported a total of 14.7 trillion won worth of substandard or below loans, marking a decrease of 1.3 trillion won from end-Sept. 2000. However, the ratio of substandard or below loans to total loans decreased slightly to 34.0 percent, down by 0.1 percentage points from end-Sept. 2000.

### Asset Quality of Non-Banking Financial Sector

(unit: trillion won, %, %-p)

Loans	Mutual Savings & Finance Companies (147)			Merchant Banks (5)		
	2000.9 (D)	2000.12 (E)	(E)-(D)	2000.9 (F)	2000.12 (G)	(G)-(F)
Total (A)	17.2	15.7	-1.5	5.3	3.5	-1.8
Substandard or below (B)	5.5	5.8	0.3	2.0	1.3	-0.7
Ratio (B/A)	32.0	36.9	4.9	37.7	37.1	-0.6
Net Substandard or below <sup>1)</sup>	3.6	3.2	-0.4	0.9	0.7	-0.2
Ratio <sup>2)</sup>	23.5	24.4	0.9	21.4	24.1	2.7
Non-Performing <sup>3)</sup> (C)	5.5	5.5	0.3	1.5	0.8	-0.7
Ratio (C/A)	32.0	32.0	0.7	28.3	21.6	-6.7
Loans	Lease Companies (17)			Credit Unions (1,317)		
	2000.9 (H)	2000.12 (I)	(I)-(H)	2000.9 (J)	2000.12 (K)	(K)-(J)
Total (A)	14.2	13.7	-0.5	10.2	10.3	0.1
Substandard or below (B)	6.6	6.0	-0.6	1.9	1.6	-0.3
Ratio (B/A)	46.5	43.8	-2.7	18.6	15.5	-3.1
Net Substandard or below <sup>1)</sup>	2.6	2.9	0.3	1.6	1.2	-0.4
Ratio <sup>2)</sup>	25.5	27.4	1.9	16.2	12.1	-4.1
Non-Performing <sup>3)</sup> (C)	6.6	6.0	-0.6	1.9	1.6	-0.3
Ratio (C/A)	46.5	43.8	-2.7	18.6	15.5	-3.1

Note: The numbers in the parentheses are number of companies.

1) total substandard or below loans – loan loss provisions

2) (total substandard or below loans – loan loss provisions) / (total loans - loan loss provisions)

3) including all loans overdue for more than 3 months and non-accrual loans

### Insurance and Securities Sector

As of end-Dec. 2000, 40 domestic insurance companies recorded a total of 3.8 trillion

won worth of substandard or below loans, marking a decrease of 0.6 trillion won from end-Sept. 2000. The proportion of substandard or below loans to total loans also decreased to 8.5 percent, down by 0.9 percentage points from end-Sept. 2000.

As of end-Dec. 2000, 43 domestic securities companies recorded 4.0 trillion won worth of substandard or below loans, marking no change from end-Sept. 2000. However, the proportion of substandard or below loans to total loans rose to 52.6 percent, up 4.4 percentage points from end-Sept. 2000.

### Asset Quality of Insurance and Securities Companies

(unit : trillion won, %, %-p)

Loans	Insurance Companies (40)			Securities Companies (43)		
	End of		Change (E)-(D)	End of		Change (G)-(F)
	2000. 9 (D)	2000.12 (E)		2000.6 (F)	2000.9 (G)	
Total (A)	47.0	44.5	-2.5	8.3	7.6	-0.7
Substandard or below (B)	4.4	3.8	-0.6	4.0	4.0	0.0
Ratio (B/A)	9.4	8.5	-0.9	48.2	52.6	4.4
Net Substandard or below <sup>1)</sup>	1.0	1.4	0.4	1.5	1.5	0.0
Ratio <sup>2)</sup>	2.3	3.3	1.0	25.9	29.4	3.5
Non-Performing <sup>3)</sup> (C)	4.0	2.5	-1.5	4.0	4.0	0.0
Ratio (C/A)	8.5	5.6	-2.9	48.2	52.6	4.4

Note: The numbers in the parentheses are number of companies.

1) total substandard or below loans – loan loss provisions

2) (total substandard or below loans – loan loss provisions) / (total loans - loan loss provisions)

3) including all loans overdue for more than 3 months and non-accrual loans

## Major Financial Issues from Mar. 15 to Mar. 21

### Profitability of Commercial Banks in 2000

According to recently released figures for 2000, the interest spread between new loans and deposits at commercial banks stood at 2.36%, down from 3.15% in 1999 and 3.79% in 1998. Although both lending and deposit rates fell, the drop in lending rates was greater than that in deposit rates in 2000 mainly due to increasing competition among banks to attract new borrowers with low credit risk. Meanwhile, the interest spread between total loans and deposits in 2000 decreased to 3.29 %, down 0.33 percentage points from 1999.

### Trend of Won-Denominated Loan-Deposit Spread

(unit : % )

		1997	1998	1999	2000	Change <sup>2)</sup>
<b>New Loans and Deposits</b>	Lending Rates (A)	11.83	15.18	9.40	8.55	-0.85
	Deposit Rates (B)	9.74	11.39	6.24	6.18	-0.06
	(A-B)	2.09	3.79	3.15	2.36	-0.79
<b>Total Loans and Deposits<sup>1)</sup></b>	Lending Rates (C)	11.70	14.47	10.99	9.97	-1.02
	Deposit Rates (D)	8.52	10.75	7.37	6.67	-0.70
	(C-D)	3.18	3.73	3.62	3.29	-0.33

Note : 1) Including both new and existing loans & deposits

2) Change between 2000 and 1999

For 2000, the net interest margin (NIM) at commercial banks recorded 2.72%, a 0.17 percentage point drop from 2.89% in 1999. The decrease was mainly attributed to a rise in high-cost liabilities such as saving deposits and a fall in interest spread between loans and deposits.

In terms of the effective NIM, which is the NIM minus loan loss provision ratio and operating expenses ratio, commercial banks have recorded the fourth consecutive year of negative profit. A high loan loss provisioning brought about by the introduction of the Forward Looking Criteria and the clearance of ailing companies contributed to the negative effective NIM, offsetting reduction in operating expenses.

### NIM Trends

(unit: %, %p)

	1996	1997	1998	1999	2000	Change <sup>4)</sup>
NIM ( A ) <sup>1)</sup>	3.02	2.74	2.52	2.89	2.72	-0.17
Loan Loss Provisions Ratio ( B ) <sup>2)</sup>	0.64	0.99	1.61	2.46	2.38	-0.08
Operating Expenses Ratio ( C )	2.14	1.92	1.92	1.41	1.38	-0.03
Effective NIM (A-B-C)	0.24	-0.17	-1.01	-0.98	-1.04	-0.06
Gap Ratio of Interest-Bearing Assets <sup>3)</sup>	9.3	8.8	4.5	7.5	5.7	-1.8

Note : 1) (interest income – interest expense) / interest bearing assets

2) (loan loss provisions – transfer from allowance for acceptances and guarantees losses) / interest bearing assets

3) (assets with interest income – liabilities with interest expenses) / total assets

4) change between 2000 and 1999

## Introduction of Natural Disaster Insurance Product for Farmers

**O**n March 7, 2001, the FSS approved the introduction of a new insurance product by the National Agricultural Cooperative Federation that will protect apple and pear growers against natural disasters by offering compensation up to 80% of the total damages suffered.

Under the “Act on Insurance for Farm Products against Natural Disasters,” which went into effect on March 1 this year, the government will cover between 40%-50% of the total insurance premiums for apple and pear growers against natural disasters. Natural disasters covered under the insurance product are limited to storms, hail and frost. The coverage is limited to the fruits and excludes damages to the trees. The insurance premiums will vary according to the locality.

The range of eligible crops and the scope of natural disasters covered under the new insurance product are expected to be expanded next year.





**(Appendix)**

**1. Major Financial Statistics**

(unit: point, percent, won)

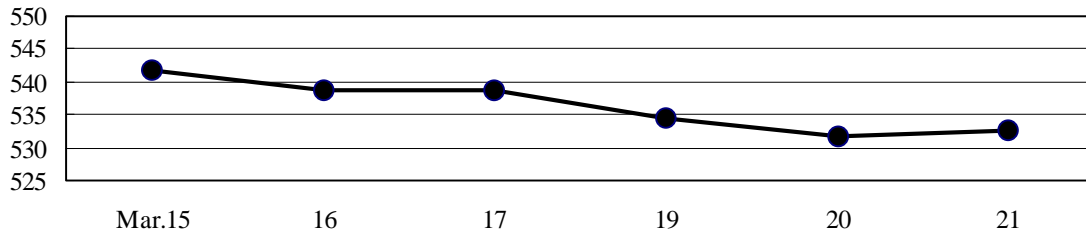
	Equity Indexes			Interest Rates				Exchange Rates	
	KOSPI Index	KOSPI 200 Index	KOSDAQ Index	Corp. Bond Yields (3 years)	Gov't Bond Yields (3 years)	Call Rate (1day)	CD Yields (91days)	Won/USD	Won/100 JPY
2000 July	705.97	89.35	115.80	9.17	8.07	5.12	7.06	1,116.0	1,018.25
Aug.	688.62	86.54	108.59	8.98	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.15	541.83	67.57	71.24	6.96	5.57	4.99	5.67	1,286.0	1,065.45
16	538.67	67.10	71.38	7.02	5.61	4.98	5.67	1,291.0	1,053.28
17	-	-	-	7.02	5.60	5.02	5.67	1,294.0	1,051.18
19	534.33	66.51	71.33	7.06	5.64	4.98	5.67	1,299.0	1,051.40
20	531.59	66.12	71.35	7.07	5.63	5.00	5.67	1,294.0	1,053.57
21	532.59	66.26	71.27	7.17	5.71	4.97	5.68	1,302.0	1,058.54

Note : End of Period

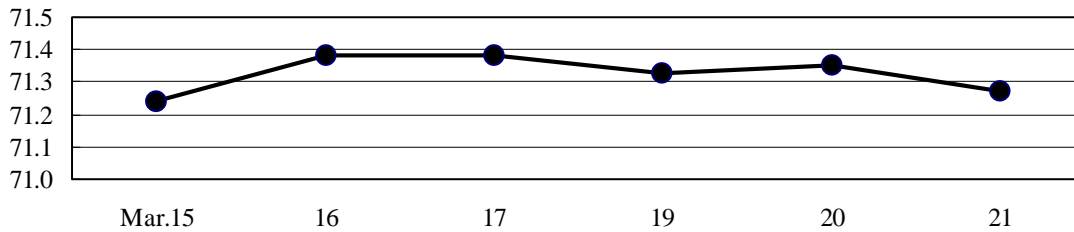


## 2. Daily Trends

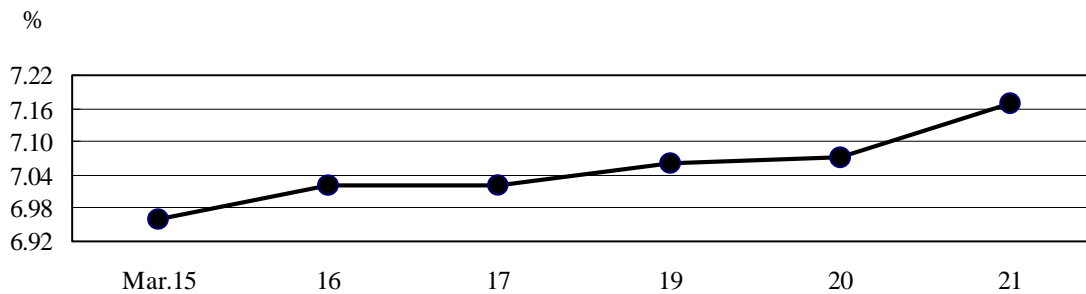
### 1) KOSPI



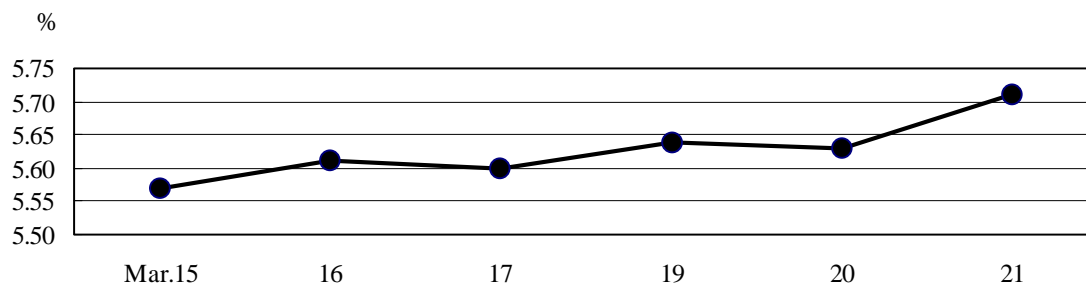
### 2) KOSDAQ Index



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

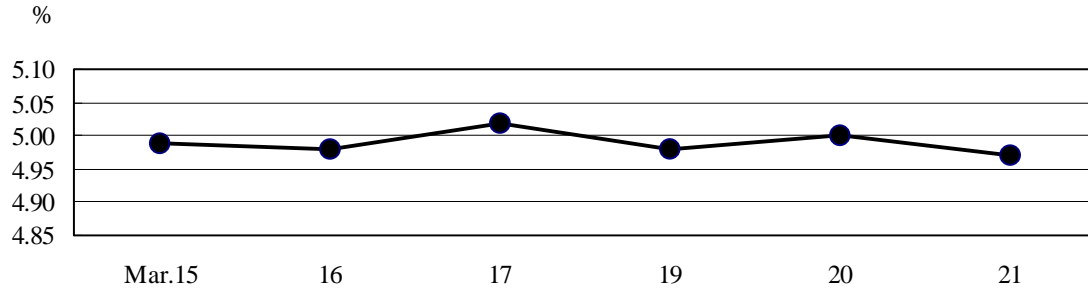


### 4) Yields on Government Bond (3 Years)

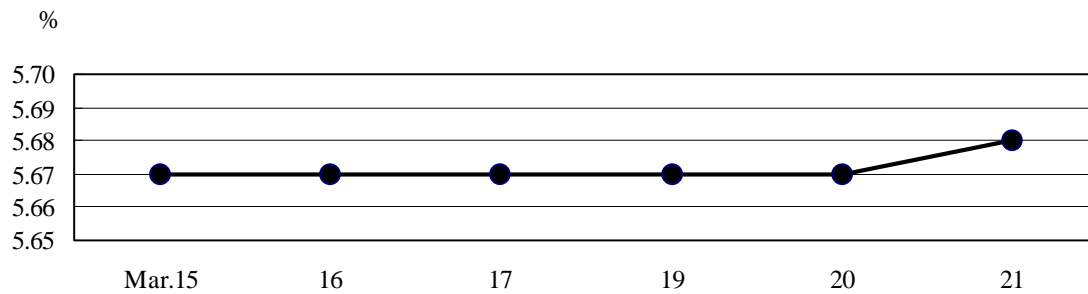




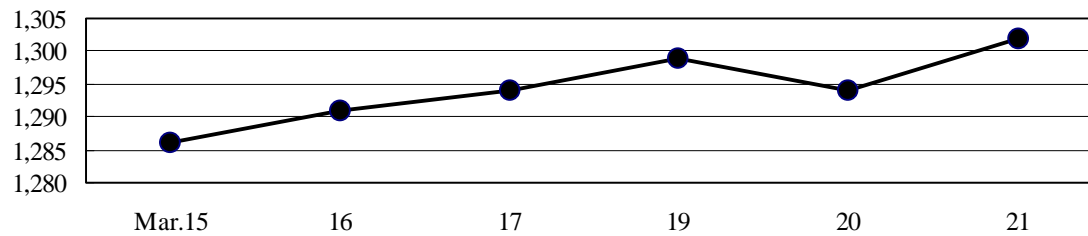
### 5) Call Rate (1 Day)



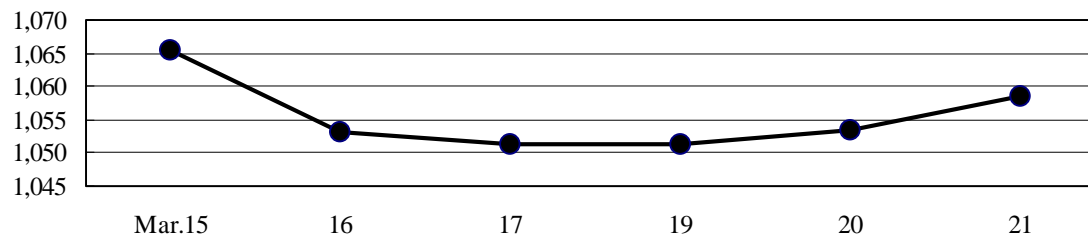
### 6) Yields on CD (91 Days)



### 7) Won/US Dollar



### 8) Won/100 Japanese Yen





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