Financial Services Commission
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Financial Supervisory Service
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# Press Release

For release on March 30, 2011 at noon

## MONITORING RESULTS OF DOMESTIC BANKS' FOREIGN CURRENCY FINANCING

### Overview

The Financial Services Commission (FSC) and the Financial Supervisory Service (FSS) have been operating an Emergency Financial Situation Room and holding Joint Financial Check-up Meetings as the need arose to monitor the effects of external risk factors such as earthquakes in Japan, unrest in the Middle East and European sovereign risk on domestic financial markets including foreign currency funding and management of domestic banking industry and foreign exchange market*.

*Refer to the press release dated 13 March 2011, "Result of Emergency Financial Check-up Meeting in relation to earthquakes in Japan"

### Foreign currency funding in the wake of earthquakes in Japan

As of March 20, 2011, domestic banks including foreign bank branches operating in Korea raised U$248.8 billion through foreign currency borrowings and deposits, etc. They had U$214.5 billion in foreign currency-denominated assets under management in the forms of foreign currency loans, trade financing and foreign currency securities, etc.

Since earthquakes in Japan on 11 March 2011, foreign currency funding*, mostly through foreign currency borrowings, increased by U$1 billion and foreign currency management** increased by U$2.6 billion. The increase of U$1 billion in foreign currency funding since March 11 mostly resulted from domestic banks raising more foreign currency funds.

* U$1.8 billion up in foreign currency borrowings, U$800 million down in foreign currency deposits
**U$1 billion up in foreign currency loans, U$1 billion up in trade financing, U$600 million up in foreign currency securities

Foreign currency funding and management of domestic banks and foreign bank branches

(Unit: U$ in billions)

| | End-'10 | End-Feb.'11 | Mar.10e (A) | **Mar.20e (B)** | **Change (B-A)** |
|---|---|---|---|---|---|
| **Funding** | 234.8 (157.8) | 240.7 (161.8) | 247.8 (161.8) | **248.8 (162.8)** | **+1.0 (+1.0)** |
| Borrowings[1)] | 178.6 (114.2) | 184.5 (116.7) | 191.1 (118.4) | **192.9 (120.3)** | **+1.8 (+1.9)** |
| Deposits | 27.0 (25.0) | 26.8 (25.1) | 28.5 (26.7) | **27.6 (25.9)** | **△0.8 (△0.8)** |
| **Management** | 203.4 (151.1) | 208.5 (153.8) | 211.9 (156.4) | **214.5 (157.5)** | **+2.6 (+1.1)** |
| Loans[2)] | 71.9 (61.3) | 73.1 (61.2) | 73.4 (60.9) | **74.4 (61.8)** | **+1.0 (+0.9)** |
| Trade financing | 53.5 (45.8) | 57.2 (48.7) | 58.0 (49.0) | **59.0 (49.8)** | **+1.0 (+0.8)** |
| Securities | 23.3 (10.9) | 24.0 (11.0) | 24.5 (11.3) | **25.0 (11.3)** | **+0.6 ( - )** |

Note 1) Borrowings= Bonds (domestic banks) + borrowings + borrowings from headquarters (foreign bank branches) + call money
2) Mostly corporate loans, excluding interbank loans such as call loans
3) Figures in parenthesis are for domestic banks only

An FSS survey of domestic banks and foreign bank branches conducted immediately after the earthquakes broke out in Japan found that there were no signs of capital outflows. Instead, borrowings from headquarters by domestic branches of four Japanese banks increased U$940 million from March 14 to 25 even after the breakout of earthquakes.

In addition, funding conditions for domestic banks remained stable after the earthquakes. The CDS premium on treasury bonds temporarily rose after the earthquakes to 108.5bp on March 15, but soon stabilized and came close to the pre-earthquake level.

CDS premium on treasury bonds (5-yr)

(Unit: in bp)

| | End-Feb. | Mar.10 | Mar.11 | **Mar.15** | Mar.18 | Mar.25 |
|---|---|---|---|---|---|---|
| CDS Premium | 101.8 | 101.7 | 102.0 | **108.5** | 102.3 | 102.4 |

The rollover rate of short-term borrowings remained at 100% or above before and after the earthquakes (133.9% from Mar.1~11, 162.8% from Mar.14~25), which means maturity extension was active.

Rollover rate of domestic banks' short-term borrowings (preliminary)

(Unit: in %)

| | Feb.'11 | Mar.1 ~ Mar. 11 | Mar. 14 ~ Mar.25 |
|---|---|---|---|
| Rollover rate | 88.0 | 133.9 | 162.8 |

**Assessment and future directions**

Since earthquakes in Japan, the domestic banking industry was found to have experienced no particular difficulty in funding and management.

Still, in response to a chance of greater volatility in domestic and international financial markets due to external risk factors such as unrest in the Middle East and European sovereign risk, as well as earthquakes in Japan, the FSC and the FSS will thoroughly monitor trends of foreign capital inflows and outflows and financial market trends, taking pre-emptive measures, if necessary.

In case SMEs that were hit hard by earthquakes in Japan and construction or export companies operating in the Middle East will have financial troubles, the regulator will provide financial support through policy-based lending, etc.

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