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Financial Services Commission

Press Release

December 9, 2015

Creative Finance
Financial Inclusion
Solid Financial System

FSC-FSS Meeting for Monitoring Financial Market Conditions

The FSC and the FSS held a joint meeting this morning to monitor and preemptively respond to internal and external risk factors in financial markets amid rising possibility of the Fed's rate hike at the upcoming FOMC meeting next week.

Recent Financial Market Conditions

Externally, stock and bond markets in both developed and developing economies are sluggish as investors remain risk-averse ahead of a possible rate hike this month. Internally, growing uncertainties over the global economy increase volatility in domestic financial markets with net selling of stocks by foreign investors and increased appetite for safer assets.

Meanwhile, monetary policy divergence among the world's central banks will widen with the ECB's further monetary easing last week and the Fed's possible increase in the U.S. interest rates next week, which are likely to increase global market volatility.

The FSC will keep domestic risk factors in check so that such risks in combination with external factors should not heighten anxiety among market participants.

Overview of Korea's Financial Sector Soundness

Financial institutions across the sector maintain soundness in their capital adequacy and asset quality. It is unlikely that internal and external risks – e.g. increases in U.S. interest rates or corporate restructuring – undermine the soundness of the financial system.

Capital adequacy ratios of financial institutions across the sector have quite improved compared to those at the time of the 2008 global financial crisis to have a greater buffer against external shocks. As of the end of September 2015, financial institutions' capital adequacy ratios are 2 to 3 times higher than regulatory minimum requirements.

< Comparison of capital adequacy ratios between 2008 and September 2015 >

(unit: %)	Regulatory Requirements	end-2008 (A)	**end-Sept.2015 (B)**	**(B)-(A), %p**
Banks' BIS ratio	8.0	12.31	**13.96**	**1.65**
Insurers' RBC ratio1)	100.0	220.6	**284.8**	**64.2**
Brokerage firms' NCR2)	150.0	584.2	**405.4**	**△178.8**
Savings Banks' equity capital ratio	7.0 3)	9.28	**14.31**	**5.03**
Card companies' adjusted equity capital ratio	8.0	23.92	**26.41**	**2.49**

1) Revised calculation method for RBC applied since June 2011. The figure of the end-2008 is from the calculation by the previous method prior to revision.
2) In case of 9 brokerage firms which adopted new NCR rules, their NCR ratios are converted into the conventional NCR calculation method to derive the NCR figures in the table.
3) Savings banks with equity capital more than KRW 2 trillion or below KRW 2 trillion are subject to the minimum equity capital ratio of 6%.

Banks′ loan loss coverage ratios, likely to be affected by corporate restructuring, stand at 133.1% as of the end of September this year, which is enough to absorb losses from bad loans.

* **Ratios of loan loss provision to substandard loans(SBLs):** 120.5% (2013), 124.0%(2014), 133.1% (Sept.2015)

Stress tests by the FSS on each sector found that financial institutions have capacity to maintain appropriate levels of capital adequacy and liquidity in case of internal and external shocks. The FSS will conduct stress tests on a regular basis to closely monitor financial institutions′ capability to buffer a possible shock.

The FSC will also continue our effort to introduce the macroprudential framework of domestic systemically important banks(D-SIBs) and countercyclical capital buffer to strengthen soundness in the financial system.

FINANCIAL SOUNDNESS IN THE NON-BANKING SECTOR

The soundness of non-banking financial institutions[1] has continuously improved since 2012.

<Substandard or Below Loans(SBL) Ratios>

(unit: %)	end-2008 (A)	end-2012	end-2013	end-2014	**end-Sept. 2015 (B)**	**(B)-A), %p**
Savings banks	9.02	21.67	21.87	15.72	**11.63**	**2.61**
Mutual finance	1.80	2.43	2.82	2.50	**2.11**	**0.31**
Credit card firms	2.93	1.27	1.25	1.22	**1.14**	**△1.79**
CSFCs ex credit card firms*	2.70	3.45	3.24	3.03	**2.54**	**△0.16**

* Credit-Specialized Financial Companies(CSFCs) excluding card companies: e.g. leasing company, installment finance business, new technology venture capital companies

1 savings banks, mutual finance businesses, credit-specialized financial businesses, etc.

<Capital Adequacy Ratios>

(unit: %)	end-2008 (A)	end-2012	end-2013	end-2014	**end-Sept. 2015 (B)**	**(B)-A), %p**
Savings banks	9.28	8.36	11.10	14.01	**14.31**	**5.03**
Mutual finance	6.45	7.51	7.62	7.73	**7.80**	**1.35**
Credit card firms	23.92	25.80	27.76	27.33	**26.41**	**2.49**
CSFSCs ex credit card firms	14.50	15.50	15.90	16.08	**16.62**	**2.12**

* Minimum capital requirement ratios: 6~7% for savings banks, 2~5% for mutual finance companies, 8% for credit card firms and 7% for credit-specialized financial companies(CSFCs) excluding card companies

CORPORATE BOND MARKET CONDITIONS & POLICY DIRECTION

Corporate bond market has recently weakened with shrinking demand and surging corporate bond spreads, which is attributable to a combination of several factors such as the wait-and-see attitude of institutional investors ahead of Fed's rate increase, the effects of book closing at the end of the year and uncertainties over corporate restructuring. However, market participants generally view that the recent weakness is unlikely to lead to a prolonged slump or credit crunch in corporate bond market.

The government will complete corporate restructuring in a speedy manner to reduce credit risk-related uncertainties in corporate bond market. We will also boost institutional investors' demand through a pool of private pension funds, while easing regulations to further stimulate investments in corporate bond market.

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