

Press Release

Total Bad Loans in Financial Sector Decrease in 2nd Quarter

As of end-June 2000, the total amount of loans classified as “substandard” and below at all domestic financial institutions stood at 82.5 trillion won, which represents a decrease of 7.9 trillion won from 90.4 trillion won recorded as of end-March 2000. Net substandard and below loans, which are substandard and below loans minus loan loss provisions, also fell to 44.0 trillion won. Accordingly, the ratio of substandard and below to total loans was reduced to 13.6 percent, which is down 1.7 percentage points from end-March 2000. Non-performing loans totaled some 60.9 trillion won, down 3.2 trillion won from end-March 2000, and accounted for 10 percent of total loans.

At banks, merchant banks, and merchant banking accounts in securities firms, the loans graded as substandard or below include those classified as “Substandard”, “Doubtful”, and “Estimated Loss” according to the Forward Looking Criteria (FLC), which reflect all potential losses in the loans. For other financial institutions, substandard and below loans refer to non-performing loans, which includes all loans overdue for more than three months and non-accrual loans.

Continuing sales and write-offs of bad loans were the main reasons for the decrease. During the period, domestic financial institutions disposed of 3.3 trillion won worth of bad loans through issuance of asset backed securities (ABS). In addition, they also had 3.3 trillion won worth of bad loans written off.

Asset Quality of Financial Institutions

(unit: trillion won, percent, percentage point)

Loans	End of			Change	
	1999 (A)	2000.3 (B)	2000.6 (C)	C-A	C-B
Total (A)	590.9	592.6	607.5	16.6	14.9
Substandard and below (B)	88.0	90.4	82.5	-5.5	-7.9
Ratio (B/A)	14.9	15.3	13.6	-1.3	-1.7
Net Substandard and below* (C)	49.6	49.0	44.0	-5.6	-5.0
Ratio** (C/A)	9.0	8.9	7.7	-1.3	-1.2
Non-Performing (D)	66.7	64.1	60.9	-5.8	-3.2
Ratio (D/A)	11.3	10.8	10.0	-1.3	-0.8

* total substandard and below loans – loan loss provisions

** (total substandard and below loans – loan loss provisions) / (total loans - loan loss provisions)

Banks accounted for 56.5 trillion won, or 68.5 percent, of total substandard and below loans in the domestic financial sector. Non-bank financial institutions followed with 16.5 trillion won, or 20.0 percent. Insurance companies and securities firms accounted for 5.4 trillion won and 4.1 trillion won, respectively.

As noted, substandard and below loans in the domestic financial sector were down as of end-June 2000 from end-March 2000. The greatest reduction in bad loans, however, was seen in the banking sector. Overall, banks decreased their substandard and below loans by 7.6 trillion won, accounting for the largest portion of the reduction in substandard and below loans in the entire financial sector. Insurance companies and non-bank financial institutions lowered their bad loans by 0.1 trillion won and 0.3 trillion won, respectively. However, substandard and below loans in merchant banks and securities firms slightly increased due to the introduction of FLC in June 2000. As a result, merchant banks and securities firms saw their bad loans increase slightly by 0.6 trillion won and 0.1 trillion won, respectively.

Asset Quality by Financial Sector (as of end-June 2000)

(unit: trillion won, percent, percentage point)

Loans	Bank	Non-Bank	Insurance	Securities	Total
Total (A)	502.5	49.6	46.1	9.3	607.5
Substandard and below (B)	56.5	16.5	5.4	4.1	82.5
Ratio (B/A)	11.2	33.3	11.7	44.1	13.6
Net Substandard and below* (C)	31.4	9.5	1.5	1.6	44.0
Ratio** (C/A)	6.6	22.3	3.6	23.5	7.7
Non-Performing (D)	35.2	16.2	5.4	4.1	60.9
Ratio (D/A)	7.0	32.7	11.7	44.1	10.0

* total substandard and below loans – loan loss provisions

** (total substandard and below loans – loan loss provisions) / (total loans - loan loss provisions)

If you have any questions, suggestions, and/or comments, please contact the Supervision Information Team at (82-2) 3786-8173 or the International Cooperation Office at (82-2) 3771-5975, fax (82-2) 3771-5985, or e-mail us at giovanni@fss.or.kr

Appendix

Asset Quality of Banking Sector

(unit: trillion won, percent, percent point)

Loans	Commercial Banks (17)			Specialized Banks(6)		
	2000.3 (A)	2000.6 (B)	B-A	2000.3 (A)	2000.6 (B)	B-A
Total (A)	339.3	348.1	8.8	146.1	154.4	8.3
Substandard and below (B)	47.4	43.3	-4.1	16.7	13.2	-3.5
Ratio (B/A)	14.0	12.4	-1.6	11.4	8.5	-2.9
Net Substandard and below* (C)	26.1	23.7	-2.4	9.7	7.7	-2.0
Ratio** (C/A)	8.2	7.2	-1.0	7.0	5.2	-1.8
Non-Performing (D)	27.2	26.7	-0.5	10.6	8.5	-2.1
Ratio (D/A)	8.0	7.7	-0.3	7.3	5.5	-1.8

* total substandard and below loans – loan loss provisions

** (total substandard and below loans – loan loss provisions) / (total loans - loan loss provisions)

Asset Quality of Insurance and Securities Companies

(unit : trillion won, percent, percent point)

Loans	Insurance Companies(39)			Securities Companies(64)		
	2000.3 (A)	2000.6 (B)	B-A	2000.3 (A)	2000.6 (B)	B-A
Total Loan(A)	43.9	46.1	2.2	10.5	9.3	-1.2
Substandard and below (B)	5.5	5.4	- 0.1	4.0	4.1	0.1
Ratio (B/A)	12.5	11.7	- 0.8	38.1	44.1	6.0
Net Substandard and below* (C)	1.6	1.5	- 0.1	1.4	1.6	0.2
Ratio** (C/A)	4.0	3.6	- 0.4	17.7	23.5	5.8

* total substandard and below loans – loan loss provisions

** (total substandard and below loans – loan loss provisions) / (total loans - loan loss provisions)

Asset Quality of Non-banking Sector

(unit: trillion won, percent, percent point)

Loans	Mutual Savings & Finance Companies (166)			Merchant Banks(7)		
	2000.3 (A)	2000.6 (B)	B-A	2000.3 (A)	2000.6 (B)	B-A
Total (A)	17.4	17.6	0.2	9.1	6.7	-2.4
Substandard and below (B)	6.0	5.5	-0.5	1.6	2.2	0.6
Ratio (B/A)	34.5	31.3	-3.2	17.6	32.8	15.2
Net Substandard and below* (C)	4.7	3.7	-1.0	0.5	1.0	0.5
Ratio** (C/A)	29.2	23.4	-5.8	6.3	18.2	11.9
Non-Performing (D)	6.0	5.5	-0.5	1.6	1.9	0.3
Ratio (D/A)	34.5	31.3	-3.2	17.6	28.4	10.8
Loans	Lease Companies (18)			Credit Unions(1,336)		
	2000.3 (A)	2000.6 (B)	B-A	2000.3 (A)	2000.6 (B)	B-A
Total (A)	16.2	15.1	-1.1	10.1	10.2	0.1
Sub-Standard (B)	6.7	6.5	-0.2	2.5	2.3	-0.2
Ratio (B/A)	41.4	43.0	1.6	24.8	22.5	-2.3
Net Substandard and below* (C)	2.8	2.8	-	2.2	2.0	-0.2
Ratio** (C/A)	22.8	24.6	1.8	22.4	20.2	-2.2
Non-Performing (D)	6.7	6.5	-0.2	2.5	2.3	-0.2
Ratio (D/A)	41.4	43.0	1.6	24.8	22.5	-2.3

* total substandard and below loans – loan loss provisions

** (total substandard and below loans – loan loss provisions) / (total loans - loan loss provisions)

Substandard and Below Loans by Bank (as of end-June, 2000)

(unit: billion won, percent)

	Substandard and below ¹⁾		Net substandard and below ²⁾	
	Amount	Ratio ³⁾	Amount	Ratio ³⁾
Chohung Bank	5,378.9	15.0	2,337.9	7.1
Hanvit Bank	9,271.3	17.3	5,677.1	11.3
Korea First Bank	3,735.7	21.8	1,345.8	9.1
Seoul Bank	2,844.9	21.7	1,695.4	14.2
Korea Exchange Bank	5,739.3	17.6	3,294.2	11.0
Kookmin Bank	4,496.9	9.2	2,543.1	5.4
Housing Bank	3,084.1	7.2	1,531.8	3.7
Shinhan Bank	1,536.2	4.9	663.6	2.2
KorAm Bank	1,884.3	11.7	1,053.2	6.9
Hana Bank	2,272.0	7.7	1,420.7	4.9
Peace Bank of Korea	497.9	13.6	359.1	10.2
Nationwide Commercial Banks(A)	40,741.5	12.6	21,921.9	7.2
Daegye Bank	593.9	8.9	384.0	5.9
Pusan Bank	504.5	8.8	304.7	5.5
Kwangju Bank	439.6	11.3	322.5	8.6
Cheju Bank	146.2	16.9	95.3	11.7
Chunbuk Bank	161.9	10.3	111.4	7.3
Kyongnam Bank	718.7	15.1	521.7	11.4
Regional Banks(B)	2,564.8	10.9	1,739.6	7.7
Commercial Banks(A+B)	43,306.3	12.4	23,661.5	7.2
Korea Development Bank	7,168.2	12.1	4,473.5	7.9
Industrial Bank of Korea	1,466.8	5.1	695.5	2.5
Export - Import Bank of Korea	1,278.9	10.8	706.0	6.3
National Agricultural Coop. Fed.	1,773.4	4.1	765.4	1.8
National Fed. of Fisheries	1,218.6	27.5	924.2	22.4
National Livestock Coop. Fed.	330.9	5.3	109.8	1.8
Specialized Banks	13,236.8	8.6	7,674.4	5.2

Note : 1) Based on FLC

2) total substandard and below loans – loan loss provisions

3) (total substandard and below loans – loan loss provisions) / (total loans - loan loss provisions)

