

Press Release

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Bad Loans Fall Sharply in the Second Quarter

Figures compiled by the 1,565 domestic financial institutions show that, as of the end of the second quarter this year, loans classified as substandard or below (SBLs)—substandard, doubtful, or presumed loss loans—stood at 32.1 trillion won, 5.9 trillion won or 15.5% less than the first quarter total of 38.0 trillion won. The net SBLs or SBLs net of loan loss provisions fell 2.3 trillion won from the first quarter to 13.1 trillion won. Similarly, the ratio of SBLs to the total outstanding loans fell to 4.2% from 5.1%, while the ratio of net SBLs to net total loans (total loans net of loan loss provisions) fell to 1.8% from 2.2% at the end of the first quarter. The amount of non-performing loans (NPLs)—generally loans 3 months or more past due and loans in nonaccrual status—also fell 5.0 trillion won to 29.1 trillion won or 3.8% in the second quarter from 34.1 trillion won or 4.6% in the first quarter.

Most of the drop in SBLs in the second quarter came from 4.6 trillion won in loan write-offs, 3.1 trillion won in loan recoveries, and 1.6 trillion won in loans that were reclassified to normal or precautionary from substandard, doubtful, or presumed loss.

SBLs and NPLs Held by Domestic Lenders

(In trillions of won)

Loan Type	End of 1 st Qtr. 2002	End of 2 nd Qtr. 2002	Change
Total	744.1	772.8	28.7
SBLs	38.0	32.1	-5.9
SBL Ratio ¹	5.1%	4.2%	-0.9 p.p.
Net SBLs	15.4	13.1	-2.3
Net SBL Ratio ²	2.2%	1.8%	-0.4 p.p.
NPLs	34.1	29.1	-5.0
NPL Ratio ³	4.6%	3.8%	-0.8 p.p.

Note: 1) SBLs/Total loans outstanding;

2) Net SBL/(Total loans outstanding less loan loss provisions);

3) NPL/Total loans outstanding.

By lender, banks posted the largest quarterly drop of SBLs at 3.9 trillion won (21.5%), and

were followed by non-banking lenders at 1.2 trillion won (9.2%). Insurance and securities companies lowered SBLs by 0.2 trillion won (8.3%) and 0.6 trillion won (13.3%), respectively. Domestic banks held the lowest SBL ratio at 2.4%, and were followed by insurance companies at 4.6% and other non-banking lenders at 10.4%. Securities companies and investment trust management companies (ITMCs) on the other hand posted SBL ratio of 45.9% for the quarter, mainly due to unusual one-time events such as the assumption of bad assets as a result of a merger between a securities firm and a merchant bank.

**SBLs and NPLs By Lender:
End of June 2002**

(In trillions of won)

Loans	Bank	Non-Bank	Insurance	Securities and ITMCs	Total
Total	603.2	113.3	47.8	8.5	772.8
SBLs	14.2	11.8	2.2	3.9	32.1
SBL Ratio ¹	2.4%	10.4%	4.6%	45.9%	4.2 %
Net SBLs	7.3	3.7	0.9	1.2	13.1
Net SBL Ratio ²	1.2%	3.6%	1.9%	20.7%	1.8%

Note: 1) SBLs/Total loans outstanding;

2) Net SBL/(Total loans outstanding less loan loss provisions).

Banks

As of the end of the second quarter, 20 commercial and specialized banks held 14.2 trillion won in SBLs, down 3.9 trillion won from the first quarter. The ratio of SBLs to total loans fell from 3.1% to 2.4%, the lowest SBL ratio ever posted by domestic banks and a clear sign of the success of efforts by the banks and the FSC/FSS to lower the SBL ratio to below 3% and on par with the leading international banks by the end of 2002. It is worth noting that the FSC/FSS has continuously prodded domestic banks to lower bad assets by requiring those with SBL ratio above 3% at the end of 2001 to come up with plans to lower bad assets in 2002.

Of the SBLs banks disposed of during the second quarter, 36.9% were loan write-offs, 23.1% were loans recovered, and 19.3% were loan reclassifications from SBL to normal or precautionary. Among the banks, the Korea Development Bank, helped by loans write-offs totaling 937.4 billion won and loan reclassifications totaling 645.3 billion won, managed the lowest SBL ratio at 1.0% in the second quarter.

The bank net SBLs also fell by 1.4 trillion won to 7.3 trillion won, and the net SBL ratio by 0.3 percentage points to 1.2% during the period. The total NPLs stood at 11.5 trillion won at the end of June, 3.3 trillion won less than the total at the end of March.

**Bank SBLs and NPLs:
End of June 2002**

(In trillions of won)

Loans	15 Commercial Banks			5 Specialized Banks			Total		
	End of 1 st Qtr. 2002	End of 2 nd Qtr. 2002	Change	End of 1 st Qtr. 2002	End of 2 nd Qtr. 2002	Change	End of 1 st Qtr. 2002	End of 2 nd Qtr. 2002	Change
Total	404.2	425.3	21.1	176.7	177.9	1.2	580.9	603.2	22.3
SBLs	11.7	10.4	-1.3	6.4	3.8	-2.6	18.1	14.2	-3.9
SBL Ratio ¹	2.9%	2.4%	-0.5 pp	3.6%	2.1%	-1.5 pp	3.1%	2.4%	-0.7 pp
Net SBLs	6.2	5.7	-0.5	2.5	1.6	-0.9	8.7	7.3	-1.4
Net SBL Ratio ²	1.6%	1.4%	-0.2 pp	1.5%	0.9%	-0.6 pp	1.5%	1.2%	-0.3 pp
NPLs	10.0	8.2	-1.8	4.8	3.3	-1.5	14.8	11.5	-3.3
NPL Ratio ³	2.5%	1.9%	-0.6 pp	2.7%	1.9%	-0.8	2.5%	1.9%	-0.6 pp

Note: 1) SBLs/Total loans outstanding;

2) Net SBLs/(Total loans outstanding less loan loss provisions);

3) NPL/Total loans outstanding.

Non-Banking Lenders

For the second quarter of the year, 1,426 domestic non-banking lenders reported a total of 11.8 trillion won in SBLs, marking a drop of 1.2 trillion won from the previous quarter. The SBLs-to-total loan ratio fell to 10.4% from 12.4.0%, while the net SBLs fell by 600 billion won to 3.7 trillion won, which led to a net SBL ratio of 3.6% for the quarter, compared with 4.6% in the previous quarter.

Like banks, most non-banking lenders except credit card service companies managed to lower their bad asset holdings. For the mutual savings banks, the FSC/FSS amended certain regulatory provisions to facilitate mutual savings banks' writing off of small (petty) loans classified as presumed loss, which led to a 500 billion won drop in SBLs in the second quarter. The SBLs held by domestic credit card service companies, on the other hand, rose 100 billion won to 600 billion won, mainly due to increases in credit lending. But the second quarter SBLs-to-total loans ratio of domestic credit card service companies remained at 1.1%, the same level in the first quarter.

**Non-Banking Lenders' SBLs and NPLs:
End of June 2002**

(In trillions of won)

Loans	117 Mutual Savings Banks			3 Merchant Banks			1,252 Credit Unions		
	End of 1 st Qtr. 2002	End of 2 nd Qtr. 2002	Change	End of 1 st Qtr. 2002	End of 2 nd Qtr. 2002	Change	End of 1 st Qtr. 2002	End of 2 nd Qtr. 2002	Change
Total	16.9	17.0	0.1	2.8	2.8	-	10.8	10.9	0.1
SBLs	3.1	2.6	- 0.5	0.9	0.8	-0.1	1.3	1.3	-
SBL Ratio ¹	18.3%	15.3%	- 3.0 pp	32.1%	28.6%	- 3.5 pp	12.0%	11.9%	-0.1p.p.
Net SBLs	1.9	1.4	- 0.5	0.3	0.3	-	0.6	0.5	-0.1
Net SBL Ratio ²	12.1%	8.9%	-3.2 pp	13.6%	13.6%	-	5.9%	5.0%	- 0.9 pp

Loans	9 Credit Card Service Companies			18 Lease Companies			21 Installment Finance Companies		
	End of 1 st Qtr. 2002	End of 2 nd Qtr. 2002	Change	End of 1 st Qtr. 2002	End of 2 nd Qtr. 2002	Change	End of 1 st Qtr. 2002	End of 2 nd Qtr. 2002	Change
Total	47.4	55.1	7.7	8.5	7.1	-1.4	18.0	20.1	2.1
SBLs	0.5	0.6	0.1	3.4	2.7	-0.7	3.7	3.7	-
SBL Ratio ¹	1.1%	1.1%	-	40.0%	38.0%	-2.0 pp	20.6%	18.4%	-2.2 pp
Net SBLs	0.1	0.1	-	0.8	0.8	-	0.6	0.6	-
Net SBL Ratio ²	0.2%	0.2%	-	13.8%	15.7%	1.9 pp	4.1%	3.6%	-0.5 pp

Loans	6 New Technology Venture Capital Companies			Total		
	End of 1 st Qtr. 2002	End of 2 nd Qtr. 2002	Change	End of 1 st Qtr. 2002	End of 2 nd Qtr. 2002	Change
Total	0.7	0.3	-0.4	105.1	113.3	8.2
SBLs	0.1	0.1	-	13.0	11.8	-1.2
SBL Ratio ¹	14.3%	33.3%	19.0 pp	12.4%	10.4%	-2.0 pp
Net SBLs	0.0	0.0	-	4.3	3.7	-0.6
Net SBL Ratio ²	0.0%	0.0%	-	4.6%	3.6%	-1.0 pp

Note: 1) SBLs/Total loans outstanding;

2) Net SBLs/(Total loans outstanding less loan loss provisions).

Insurance and Securities Companies

The 44 domestic insurance companies reported 2.2 trillion won in SBLs as of the end of the second quarter, down 200 billion won from the first quarter. The SBLs-to-total loans ratio also fell to 4.6% from 5.1%. Similarly, the net SBLs fell to 900 billion won from 1.0 trillion won, and the net SBL ratio to 1.9% from 2.2% during the period.

Likewise, the 44 securities companies and 31 investment trust management companies (ITMCs) reported 3.9 trillion won in combined SBLs for the quarter, which is 600 billion won less than the amount reported for the first quarter. Their combined SBLs-to-total loans ratio, however, continued to remain high at 45.9% (42.5% in the first quarter), mostly due to unusual one-time events like the assumption of bad assets by Tong Yang Securities when it merged with Tong Yang & Hyundai Merchant Bank. The combined net SBLs fell by 200 billion won to 1.2 trillion won, while the net SBL ratio rose to 20.7% from 18.7% at the end of the first quarter.

Bad Loans Held by Insurance and Securities Companies and ITMCs: End of June 2002

(In trillions of won)

Loans	44 Insurance Companies			75 Securities Companies and ITMCs		
	End of 1 st Qtr. 2002	End of 2 nd Qtr. 2002	Change	End of 1 st Qtr. 2002	End of 2 nd Qtr. 2002	Change
Total	47.5	47.8	0.3	10.6	8.5	-2.1
SBLs	2.4	2.2	-0.2	4.5	3.9	-0.6
SBL Ratio ¹	5.1%	4.6%	-0.5 pp	42.5%	45.9%	3.4 pp
Net SBLs	1.0	0.9	-0.1	1.4	1.2	-0.2
Net SBL Ratio ²	2.2%	1.9%	-0.3 pp	18.7%	20.7%	2.0 pp

Note: 1) SBLs/Total loans outstanding;

2) Net SBLs/(Total loans outstanding less loan loss provisions).

Please forward questions, comments, or suggestions regarding this press release to the Financial Analysis Support Office (Tel: +82-2-3786-8180) or the International Cooperation Office (Tel: +82-2-3786-7911; Fax: +82-2-3786-7899; E-mail: cylee@fss.or.kr), Financial Supervisory Service.