



## **News Briefing for Foreign Correspondents**

Financial Supervisory Service  
October 9, 2008

### Soundness of Domestic Banks

- Korea's banking sector is sound in terms of asset strength, capital adequacy, profitability, and other soundness measures. Domestic banks' ROA and ROE ratios, at 0.88% and 12.53%, respectively, are in line with or better than many banks in the developed countries.
- Domestic banks' average delinquency rate has risen slightly from 0.70% at end-2007 to 0.87% at end-September, 2008. The average coverage ratio (a measure of reserves against potential loan losses) of 197.1% and BIS capital ratio of 11.36% strongly suggest that domestic banks will be able to easily absorb loan losses.
- The Korean won-based liquidity ratio was 107.7% at end-August, while foreign currency-based liquidity ratio was 100.5% at end-September, both higher than the recommended level of 100% and 85%, respectively.
- The loan/deposit ratio (including CDs) stood at 103.2% at end-September, slightly lower than 105.4% at end-July. Because of their deposit-like characteristics, CDs are often included in determining the loan/deposit ratio (e.g., the U.S.). The over-the-counter sale of CDs accounts for approximately 80% of the total.
- It has been reported that Korean banks are borrowing in dollars and lending in won. This is incorrect because local banks are mostly financing won-denominated loans with deposits, CDs, and won-denominated bond issues.
- As of end-June, 2008, foreign currency assets came to US\$227.7 billion, which closely matched US\$236.2 billion in foreign currency liabilities.

### Household Mortgages

- Bank household mortgage loans outstanding totaled KRW231.8 trillion at end-September.
- In 2008, bank mortgage lending rose by roughly KRW1.4 trillion a month.



- Mortgage loans are sound, particularly when the low loan-to-value ratio (47.0%) and delinquency rate (0.44%) and the high coverage ratio (311.7%) are taken into account.

### SME Lending

- The growth of bank lending to small- and medium-sized enterprises (SMEs) has slowed somewhat since August. SME loans outstanding at end-September totaled KRW416.7 trillion.
- There has been a slight increase in new loan defaults since July (mostly from construction and real estate sectors). Given the low overall delinquency rate (1.5%) and the high overall coverage ratio (138.4%), the expectation going forward is that domestic banks will be able to easily absorb losses from the likely future defaults.

### Foreign Currency Liquidity

- Korean banks are encountering some difficulties securing overseas funding as a result of disruptions in the global credit markets following the collapse of Lehman Brothers on September 15.
- But the difficulties mostly stem from domestic banks' preference to deal with the maturing debt without using their foreign currency assets so as not to disrupt foreign currency credit flows to the market.
- It should also be noted that external funding did deteriorate in the wake of the collapse of Lehman Brothers, but it nevertheless continued as domestic banks managed to secure certain level of funding on the back of their strong credit relationship with foreign lending institutions.
- Foreign liquidity ratio (for three months or less) stood at 100.5% at the end of September, above the recommended level of 85%.
- The government is also taking active steps to ensure a steady flow of credit in the foreign currency market. On October 6, the government began to inject US\$5 billion in fresh foreign currency credit to local banks through the Export-Import Bank of Korea in an effort to boost foreign currency liquidity.