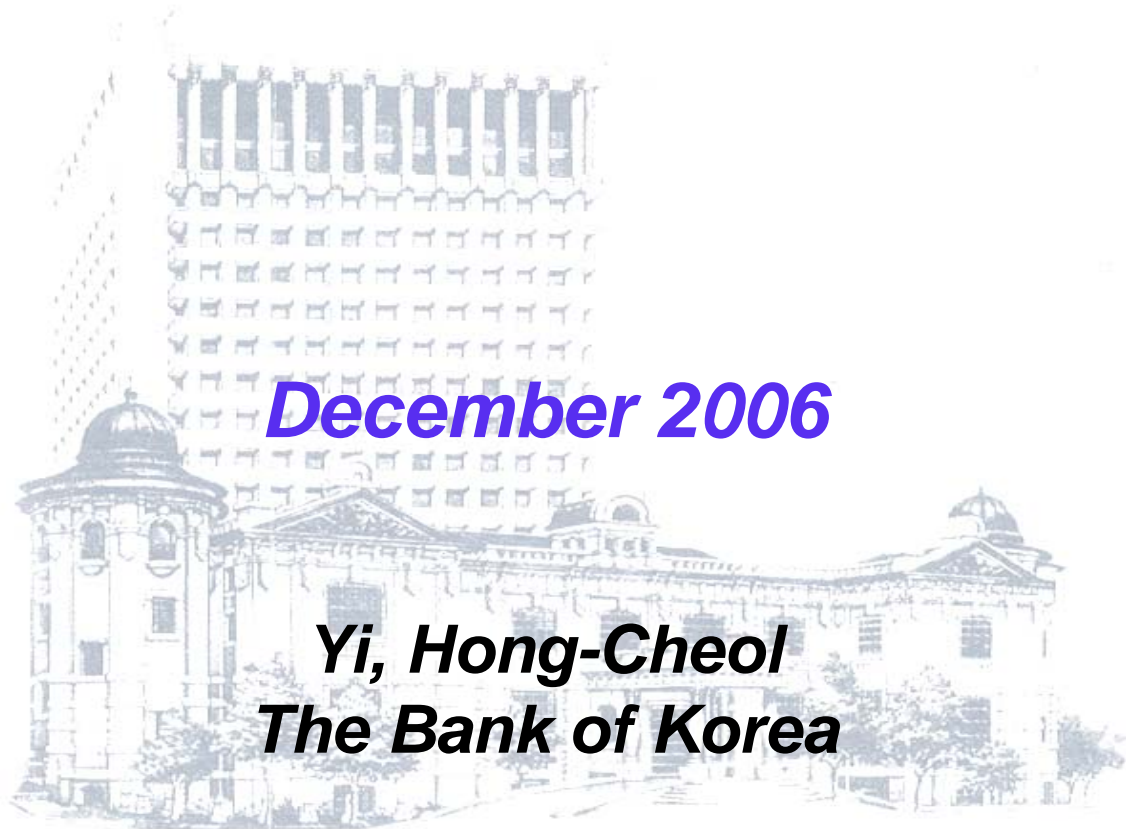


M&As and Competitiveness in the Korean Banking Industry since the 1997 Financial Crisis

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The Bank of Korea





CONTENTS

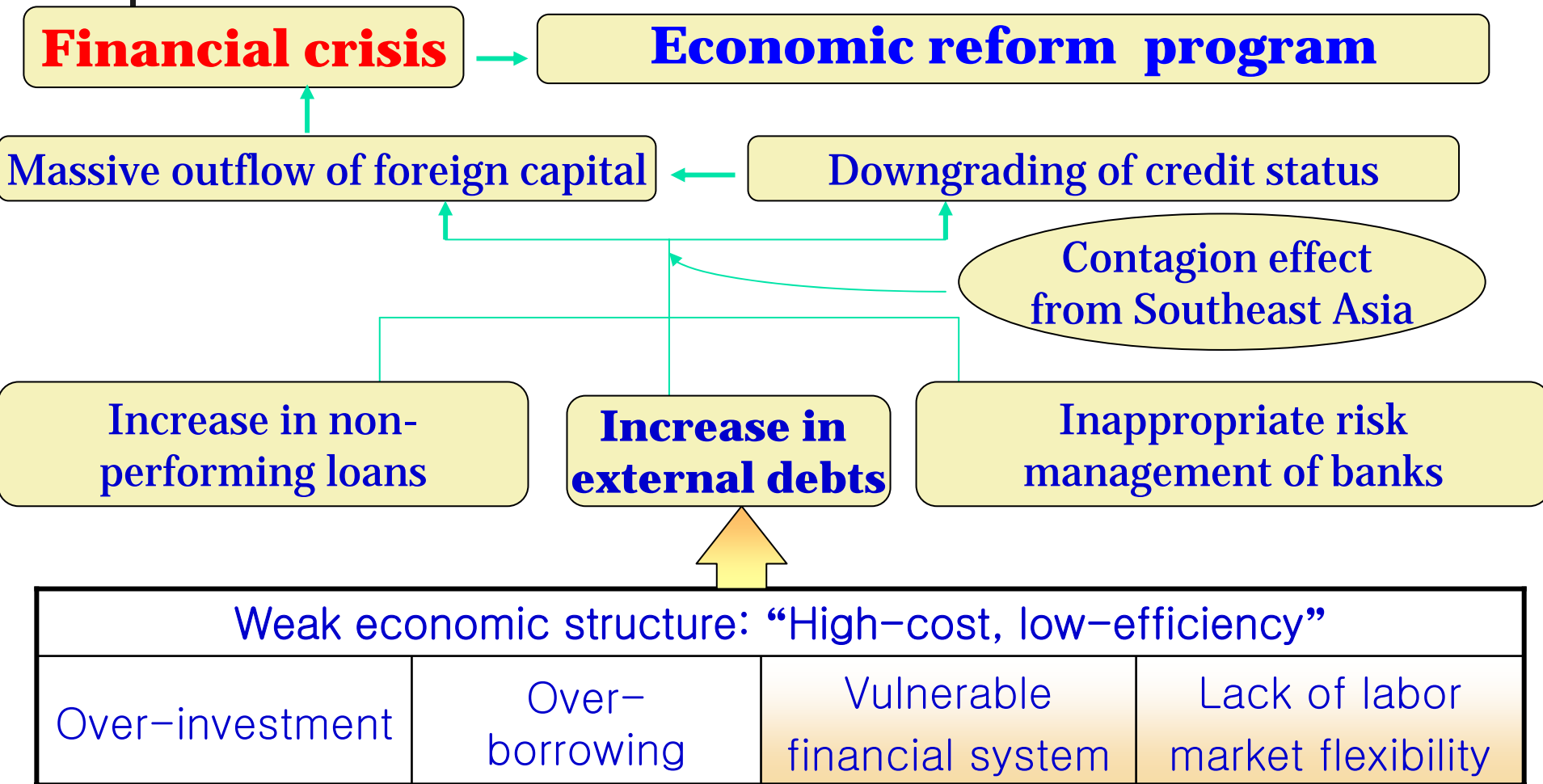
1. Overview
2. M&As in the Korean Banking Industry
3. Changes in Competitiveness
4. Closing Remarks



1-1. Overview

- **The Korean banking industry has undergone substantial structural reform since the 1997 financial crisis**

1-2. The Path to the 1997 Korean Financial Crisis



1-3. *The IMF Program Ignited an Early Stage of the M&As*

Implementation of comprehensive economic reform program

**Macroeconomic
stability**

**Corporate sector
restructuring**

**Financial sector
restructuring**

**Labor market
restructuring**

- Shaking out non-viable financial institutions
- Clearing-off bad loans
- Tightening prudential regulations
- Heightening transparency of financial institutions
- Reorganizing the governance of financial institutions

M&As



2-1. The First Stage of the M&As in Korea (1998.6~2000.8)

**In order to expedite the resolution of
unsound banks**



- **5 insolvent banks were forced to exit the market through P&A**
- **11 unsound banks merged to form 5 successor banks**



2-2. The Second Stage of the M&As in Korea since 2001

In order to become a leading bank in the domestic market



- **8 banks voluntarily merged to form 4 successor banks**
- **3 financial holding companies were established to facilitate M&As and help banks realize economies of scale**



2-3. The Number of Banks have Decreased

Changes in the number of banks

(January 1998 ~ November 2006)

	No. of banks as of the end of 1997	Exit and Merger		No. of banks operating	
		Exit	Merger		
Banks	33	15	5	10	18
Commercial Banks	26	13	5	8	13
(Nation-wide Banks)	(16)	(9)	(3)	(6)	(7)
(Local Banks)	(10)	(4)	(2)	(2)	(6)
Specialized Banks	7	2	-	2	5

2-4. Government Injected a Huge Amount of Public Funds

Public funds raised and injected

(November 1997~September 2006)

(in trillion won)

	Recapitali- zation	Compen- sation for losses	Repayment of deposits	Purchase of assets	Purchase of NPLs	Total
Issuing Bonds	42.2	15.2	20.0	4.2	20.5	102.1¹⁾
Collected Funds	7.7	3.1	7.4	6.7	17.4	42.3
Fiscal Sources	13.5	-	-	6.3	-	19.9
Others ²⁾	0.03	0.2	2.9	0.1	1.1	4.3
Total	63.5	18.5	30.3	17.3	39.0	168.5

Note : 1) Deposit Insurance Fund Bond (81.6 trillion won) and Non-Performing Loans Management Fund Bond (20.5 trillion won)

2) Borrowing from financial institutions, deposit insurance premiums, etc.



2-5. Privatization of State-owned Banks

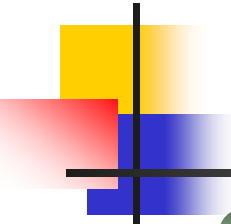
- **Through the injection of the public funds, 8 banks have been nationalized**
- **Four of those state-owned banks have been privatized so far**



2-6. Sales of Banks to Foreign Investors

➤ **3 banks have subsequently been sold to foreign investors**

- after the elimination of foreign equity capital limits in January 1998

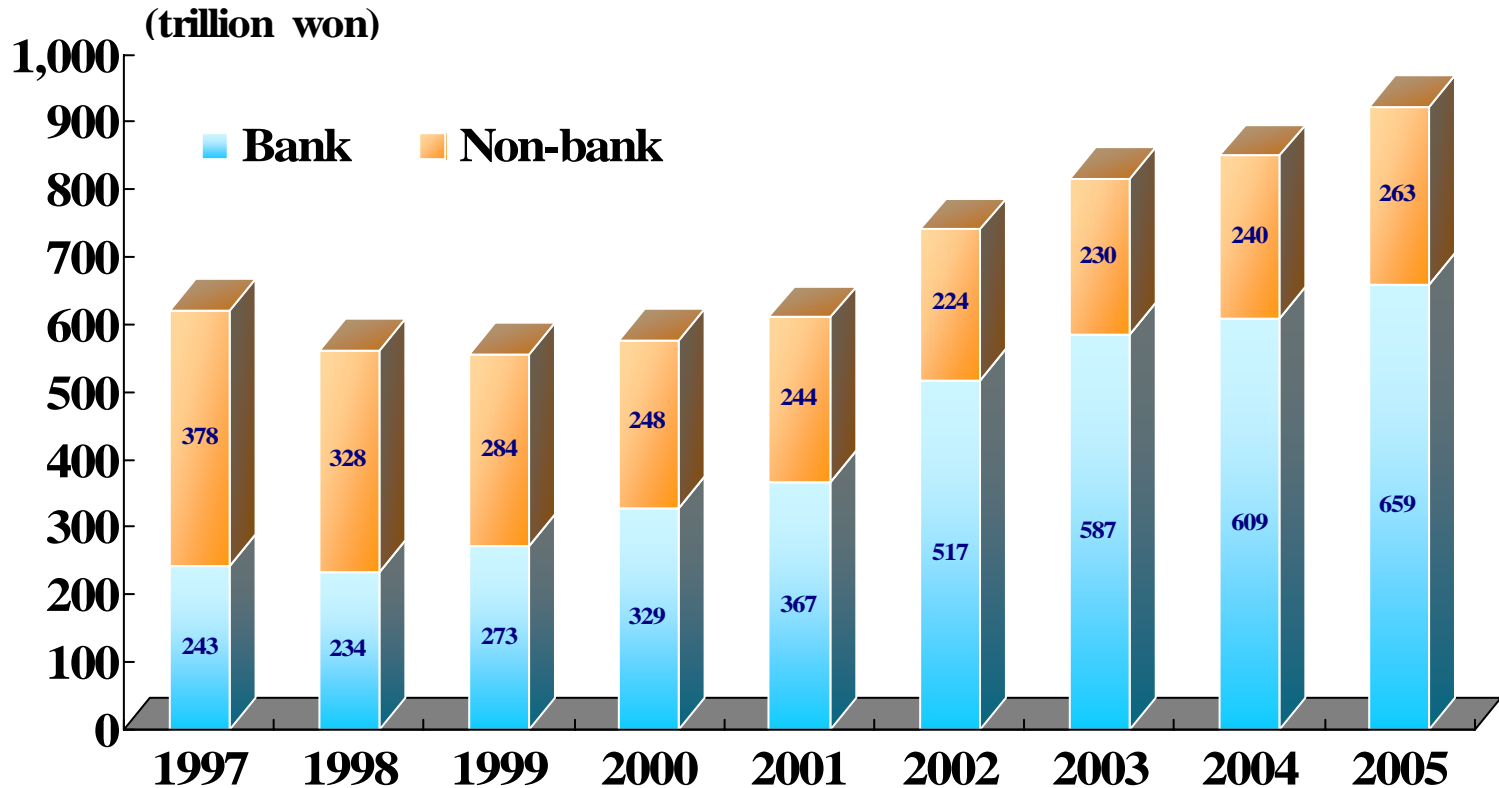


Changes in the number of non-bank financial institutions (As of the end of June 2006)

	Institutions as of the end of 1997 (A)	Type of resolution			Institutions newly established (C)	Institutions in operation (A-B+C)
		Exit	Merger	Total (B)		
Merchant banking corporations	30	22	7	29	1	2
Mutual savings banks	231	108	28	136	15	110
Securities companies	36	8	7	15	19	40
Insurance companies	45	11	6	17	9	37
Total	342	149	48	197	44	189

2-7. Increase in Banks' Share in the Financial Market

Trend of bank and non-bank financial institution lending





3-1. Changes in Competitiveness

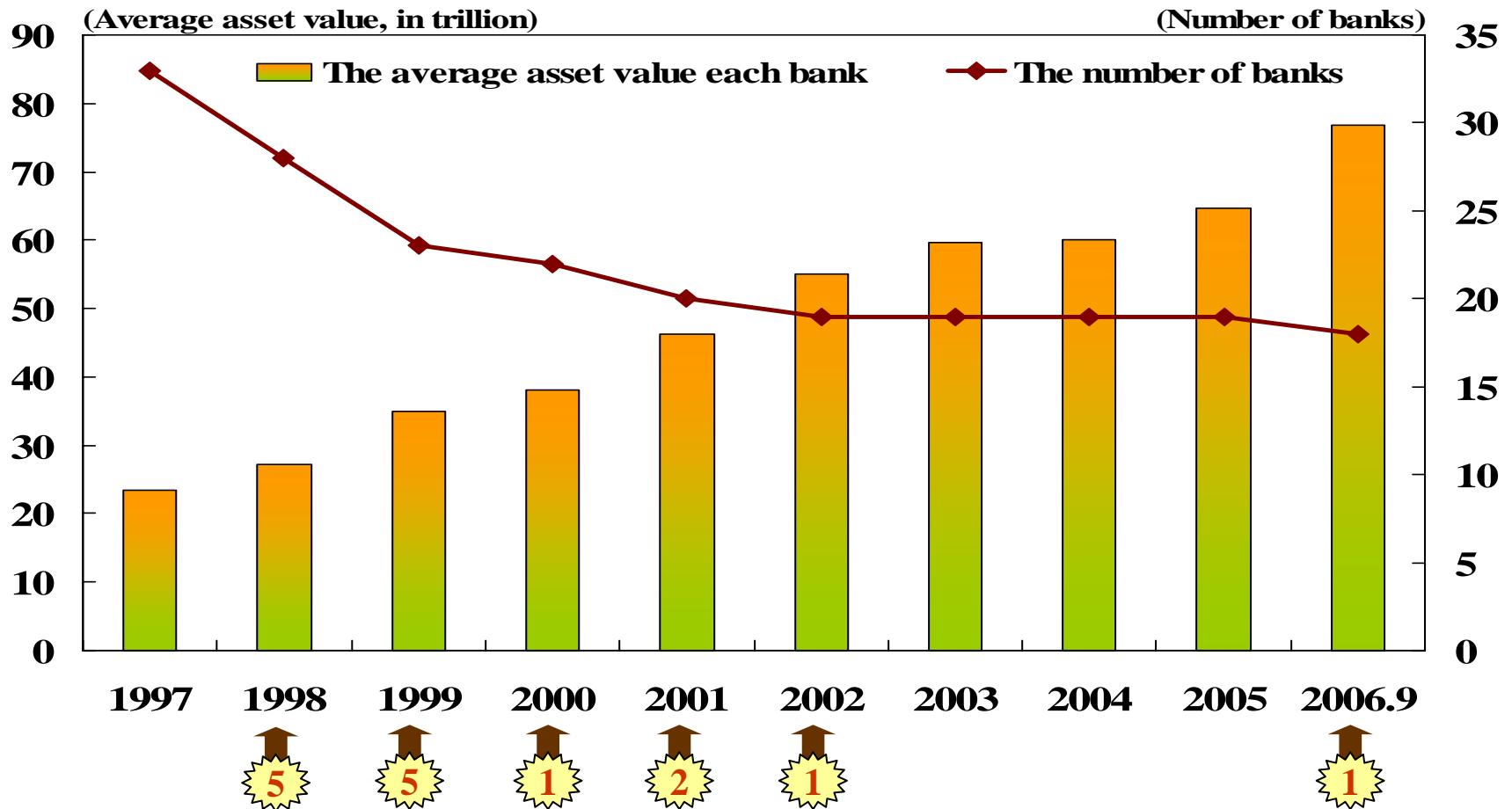
**M&As in the Korean
Banking Industry**

**Improved Profitability
and Soundness**

Some Side-effects

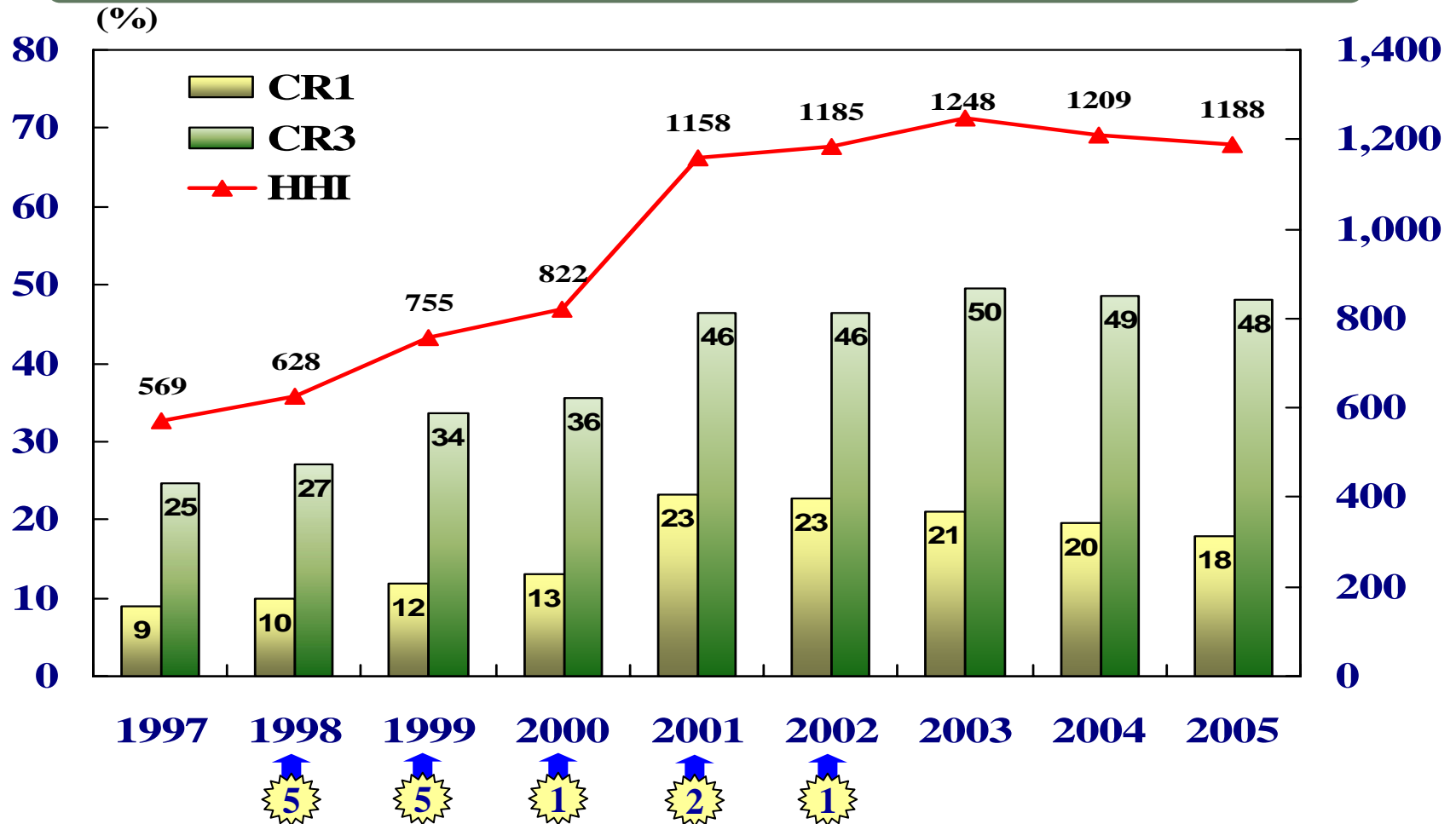
3-2. Increased Bank Size Resulting from the M&As

Trends in the number and size of banks in Korea



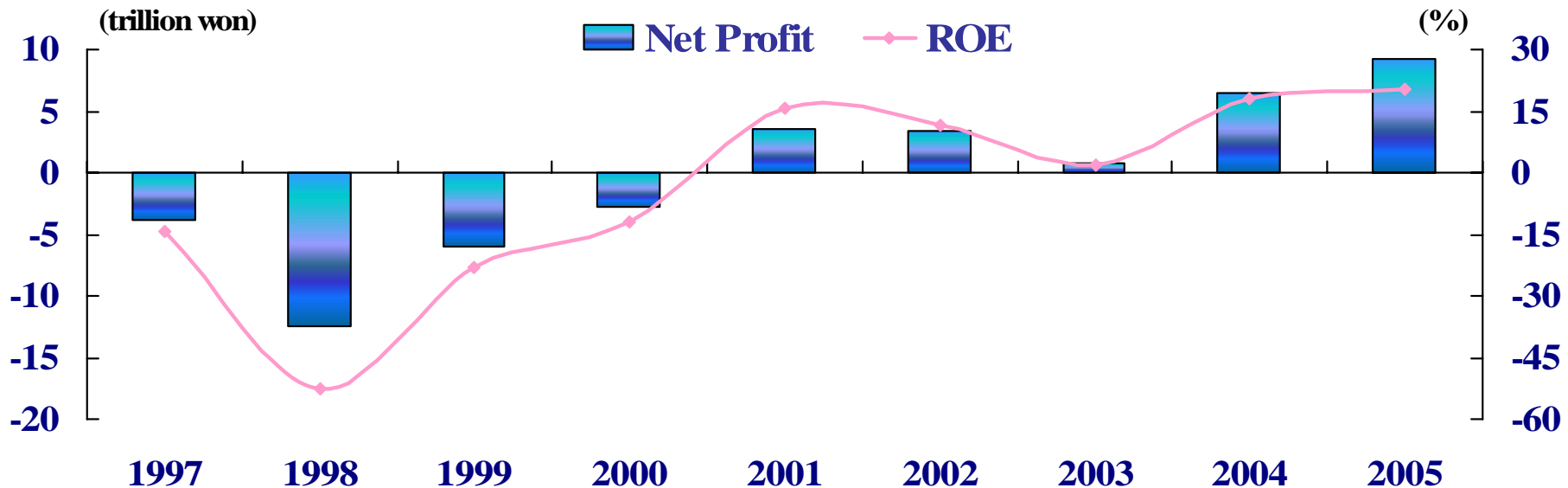
3-3. The M&As Have Deepened Market Concentration

Trends in market concentration indexes of banking market



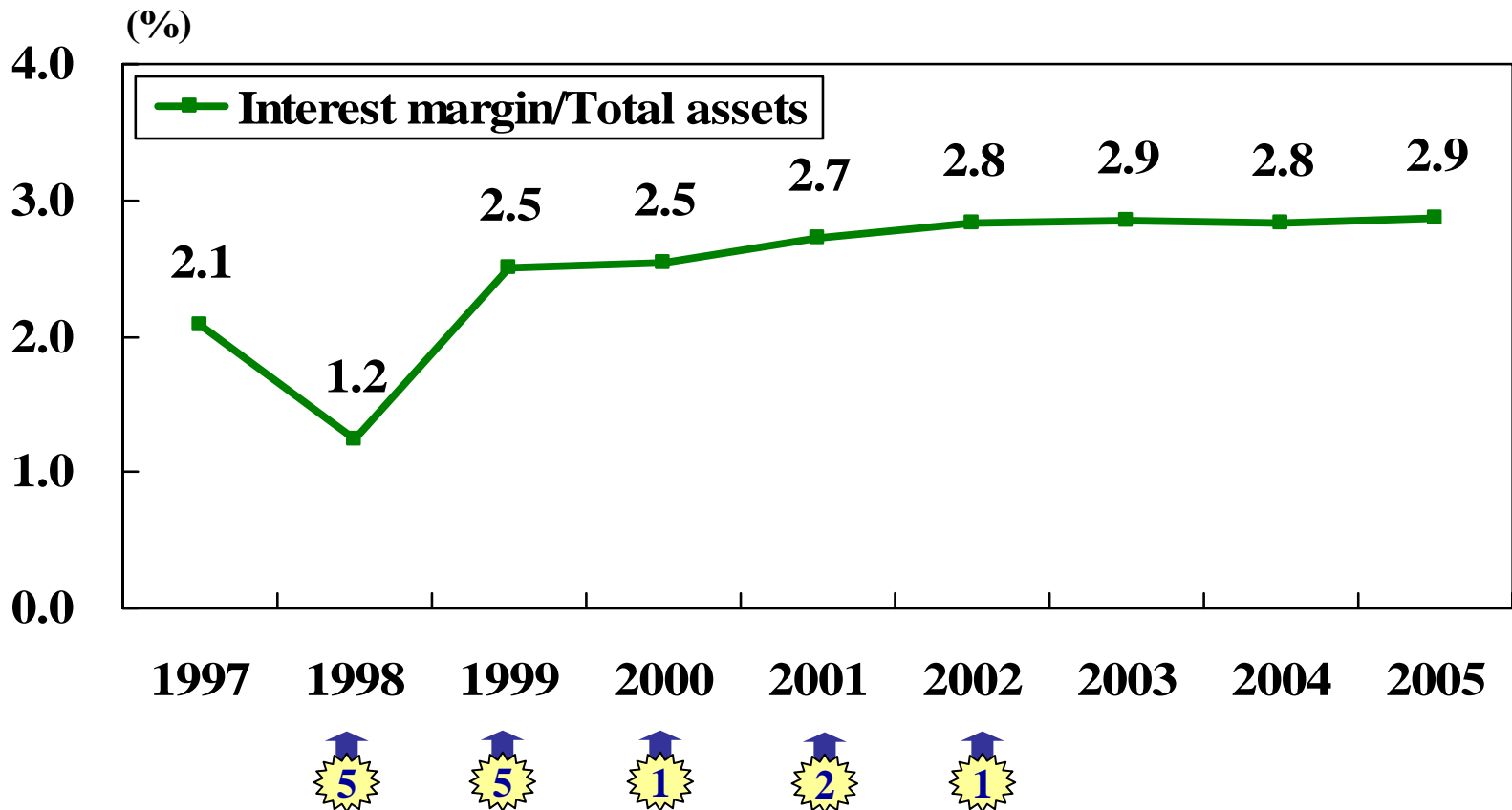
3-4. Enhanced Profitability of Banks

Trend of profitability of commercial banks



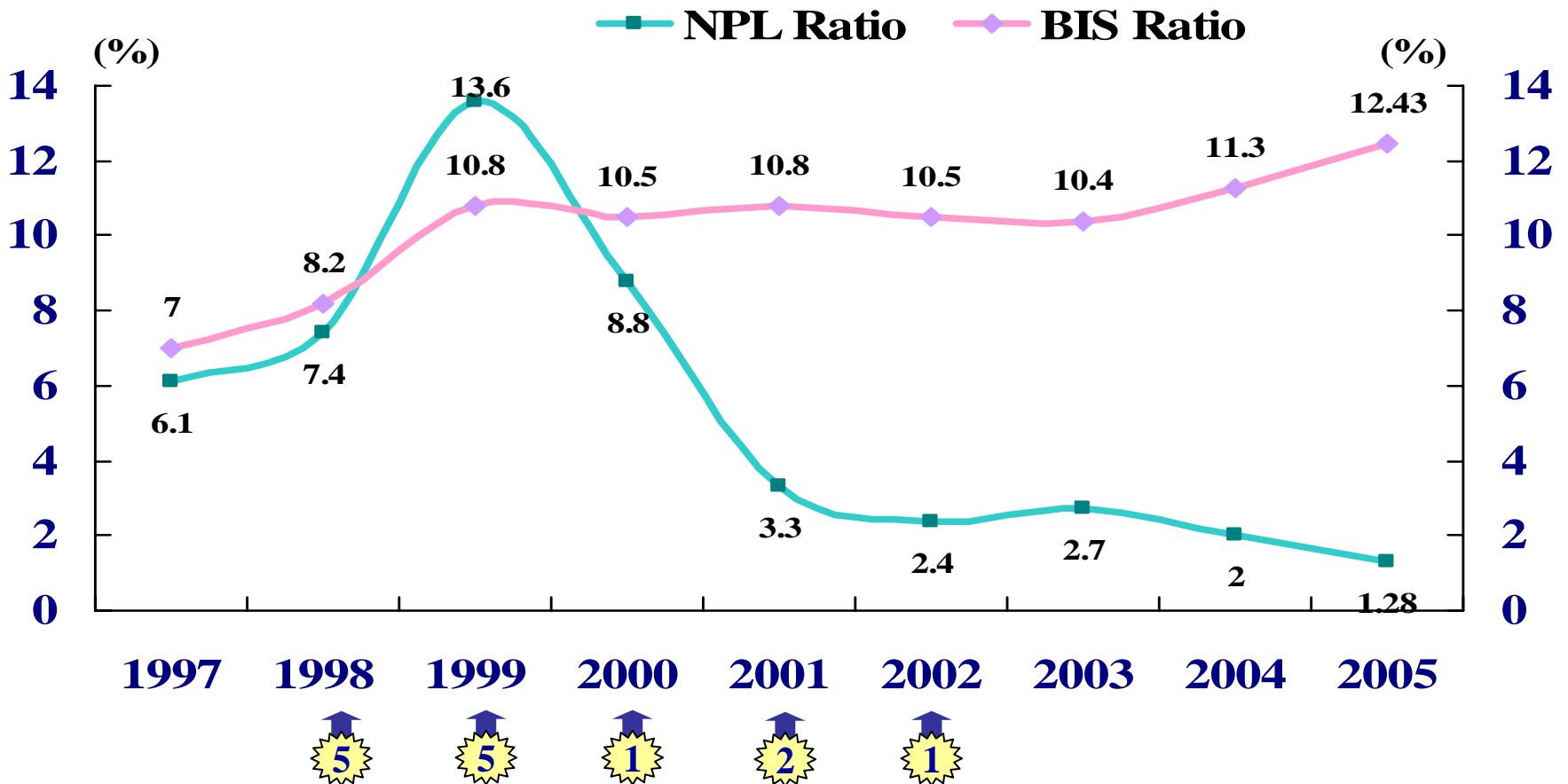
	1997	1998	1999	2000	2001	2002	2003	2004	2005
Net Profit (in trillion won)	-3.9	-12.5	-6.0	-2.8	3.6	3.4	0.7	6.4	9.2
ROA(%)	-0.9	-3.3	-1.3	-0.6	0.8	0.6	0.1	0.9	1.2
ROE(%)	-14.2	-52.5	-23.1	-11.9	15.9	11.7	2.0	18.0	20.3

Trend of the interest margin of commercial banks



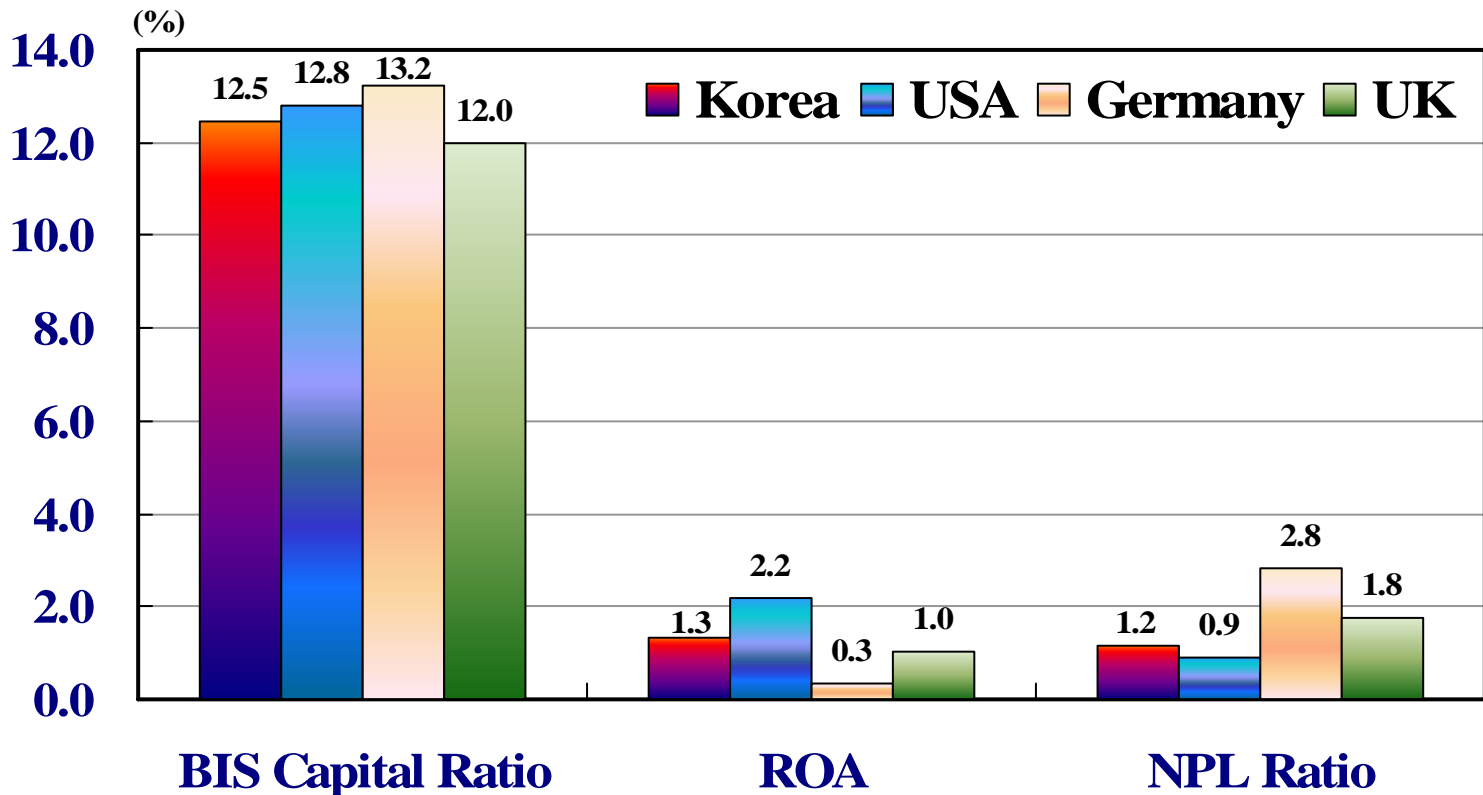
3-5. Enhanced Asset Quality of Banks

Trend of NPL and BIS Capital Adequacy Ratios of commercial banks



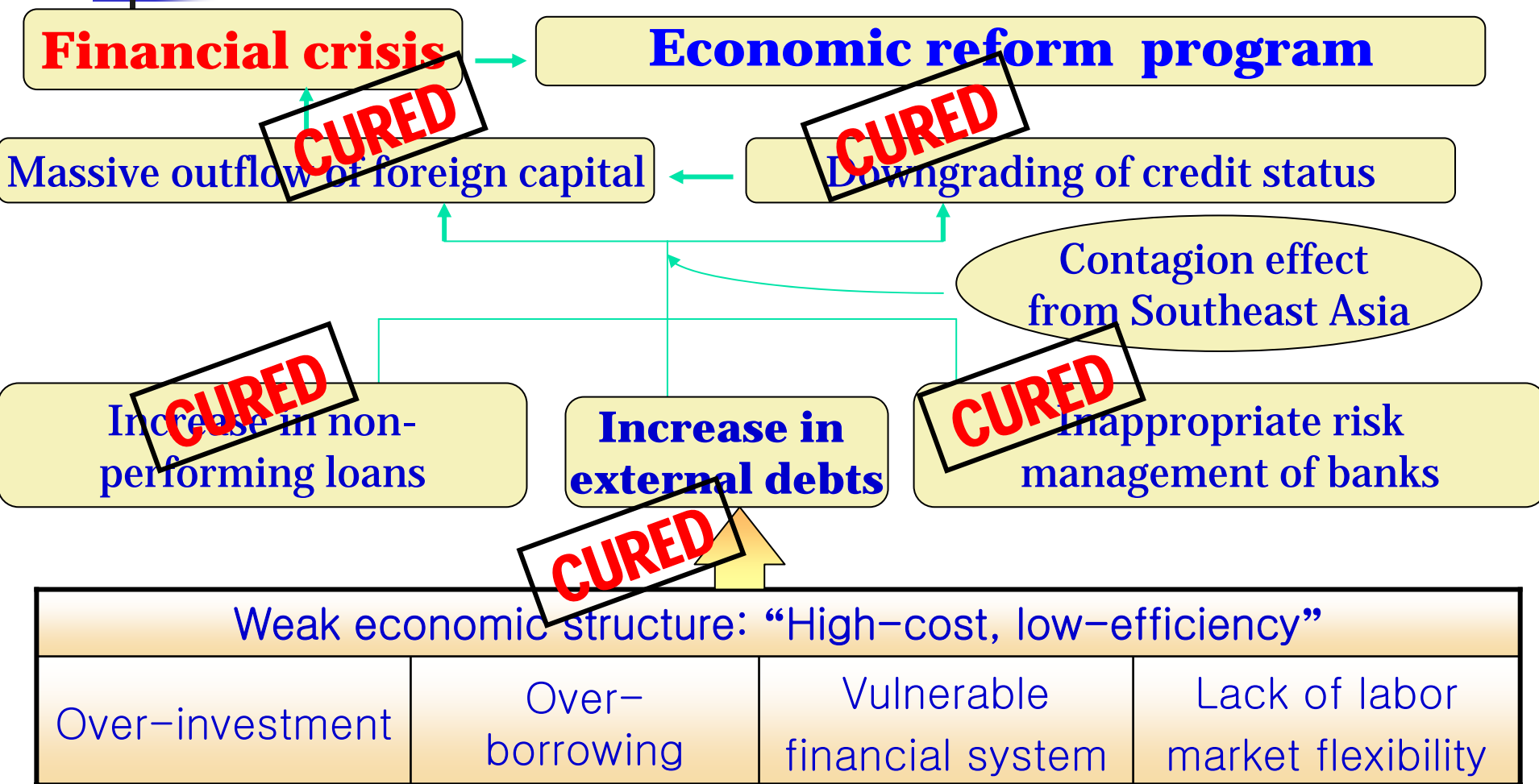
3-6. Korean Banks Now Show Good Management Performance

Comparative chart of bank management indexes¹⁾
between major countries



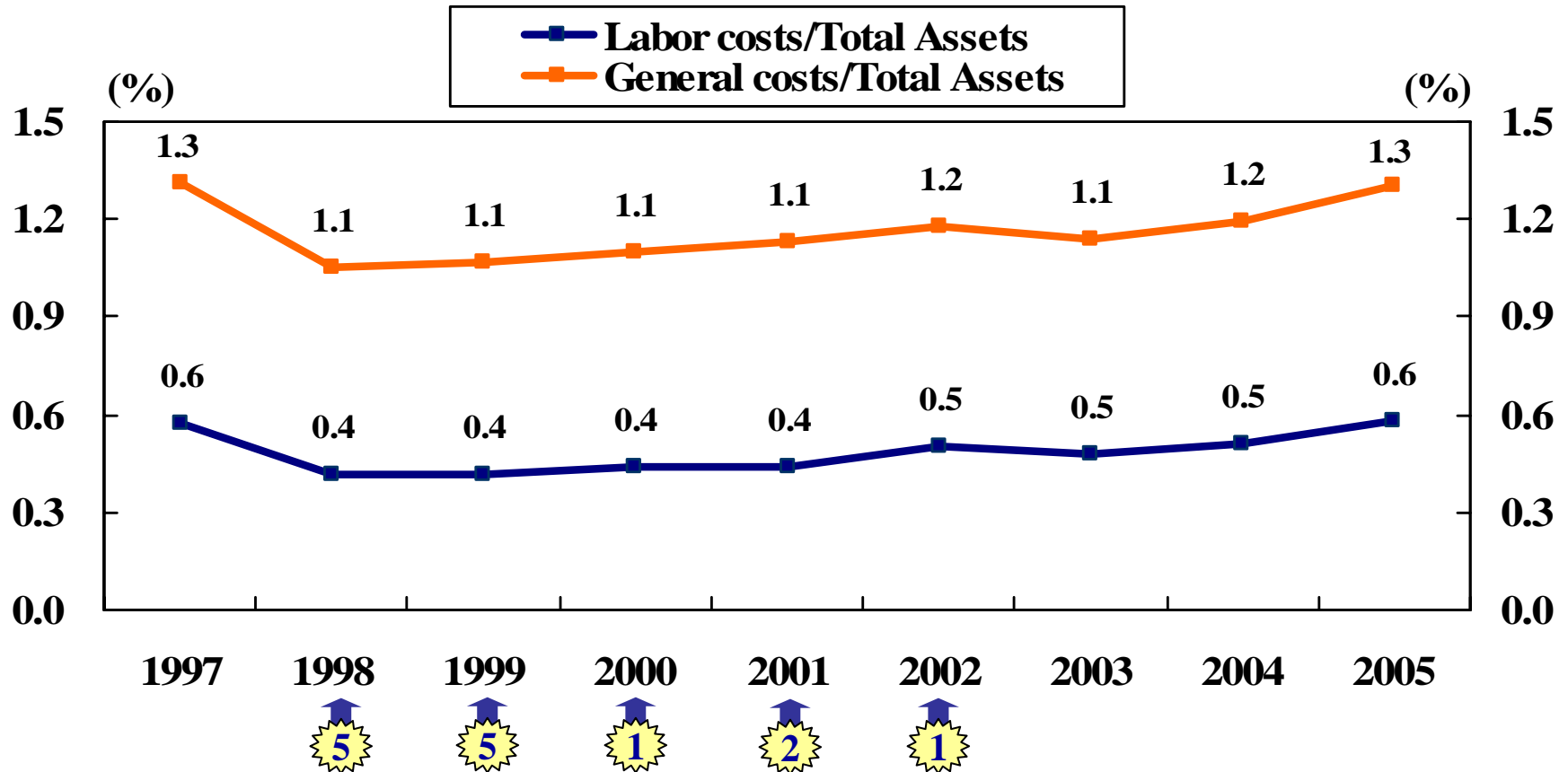
Note : 1) Arithmetic averages of the ten largest banks in each country

3-7. Revisiting the Risk Sources of the 1997 Financial Crisis



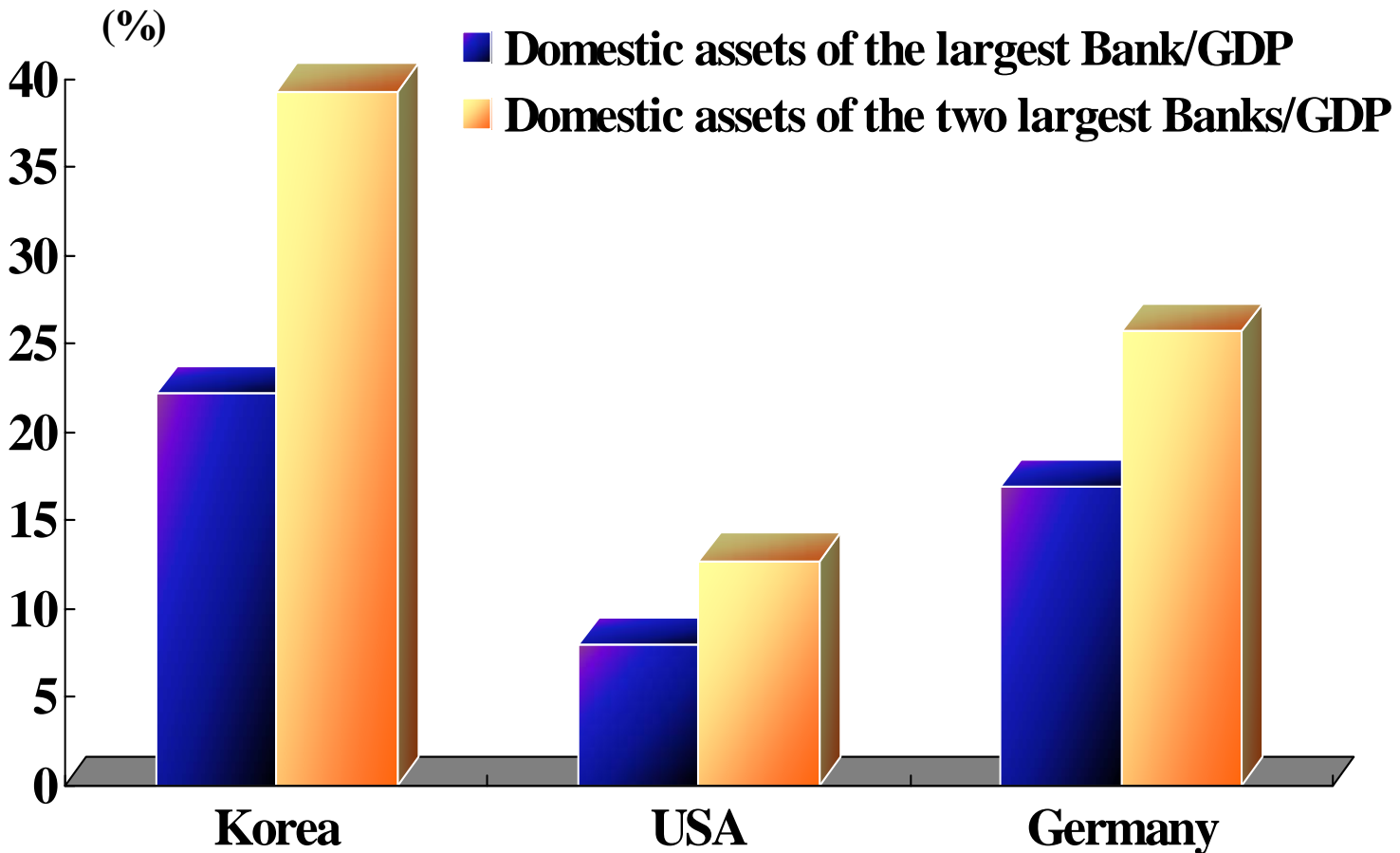
3-8. Influence of the M&As on Cost Efficiency of Banks is not Clear

Trends in cost efficiency indexes of commercial banks



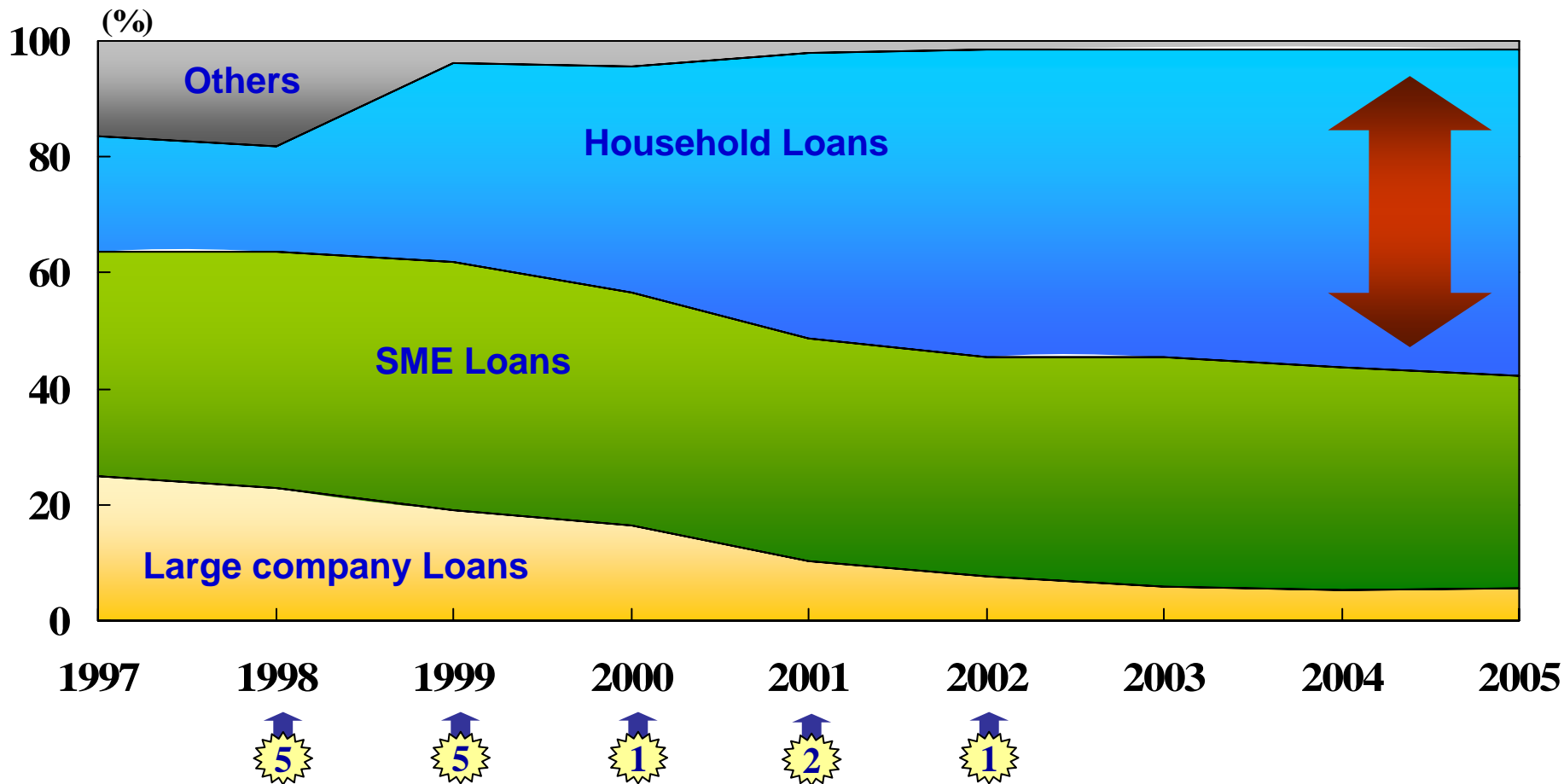
3-9. Increased Market Concentration Raises Concerns about TBTF and TBTR Risks

Ratios of large banks' assets to GDP in major countries



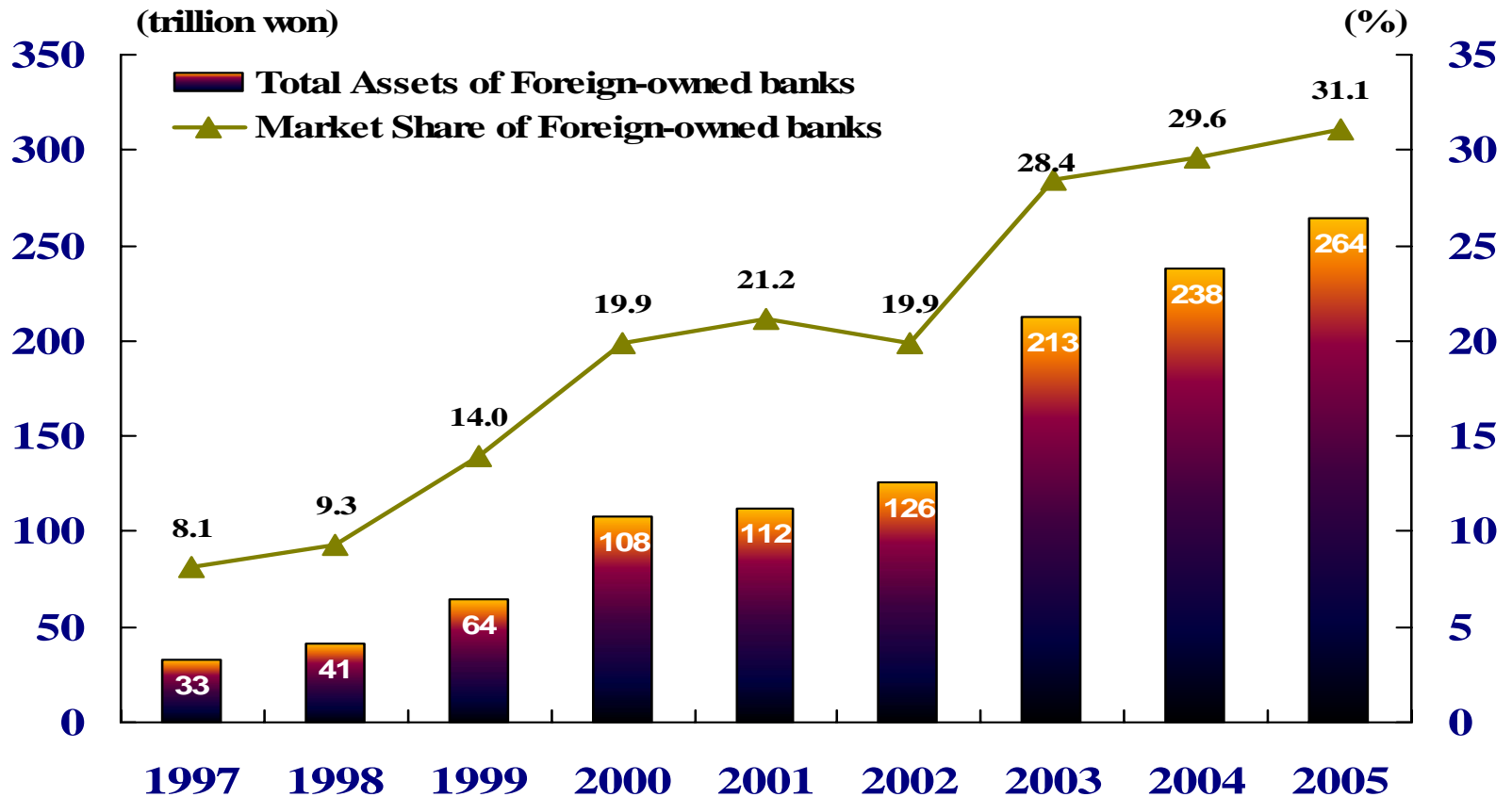
3-10. Have M&As Decreased the Share of SME Loans?

Trend of shares by sector in bank lending



3-11. Pros and Cons on Increased Market Share of Foreign-owned Banks in the Banking Sector

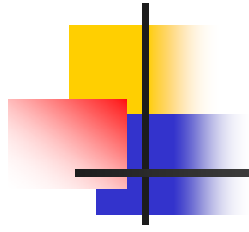
Trends of market share of foreign-owned banks





4. Closing Remarks

- **Competition among the large banks is fierce**
- **The profitability and asset soundness of banks have been improved**
- **Various researches are under way to analyze the effects of the M&As**



Thank you!