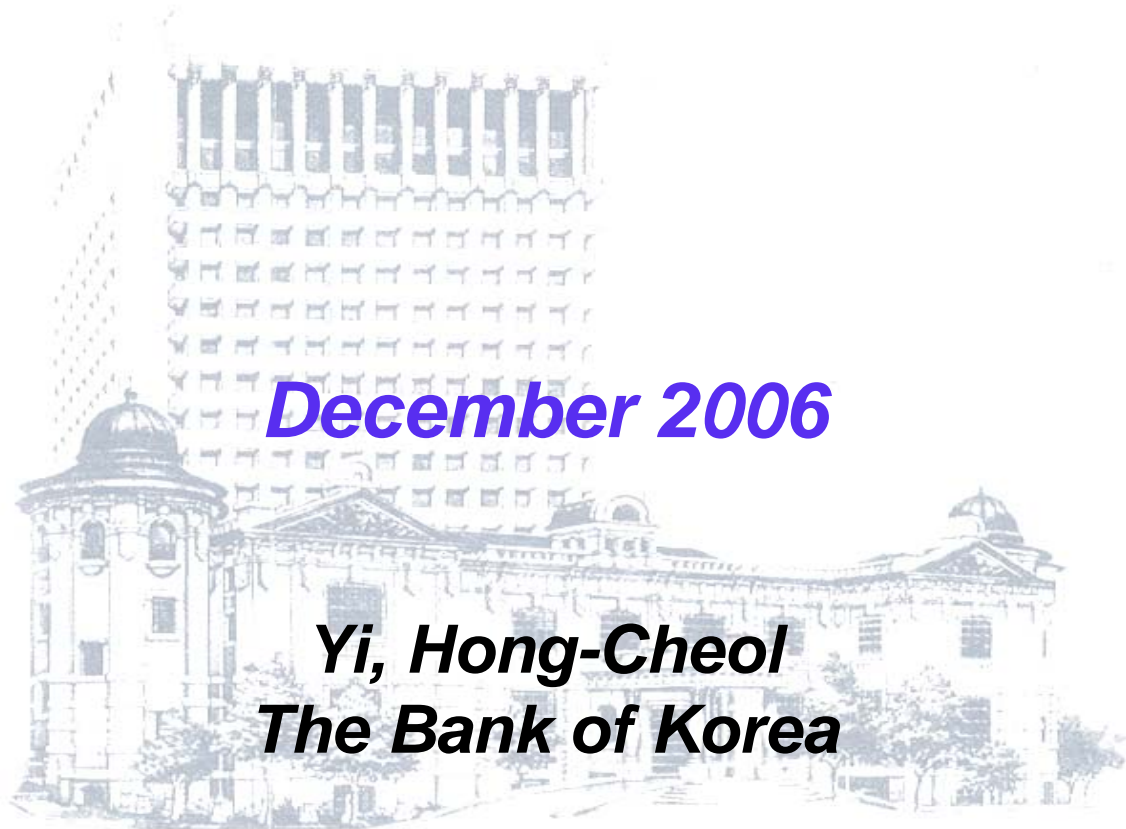


# *M&As and Competitiveness in the Korean Banking Industry since the 1997 Financial Crisis*

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**The Bank of Korea**





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1. Overview
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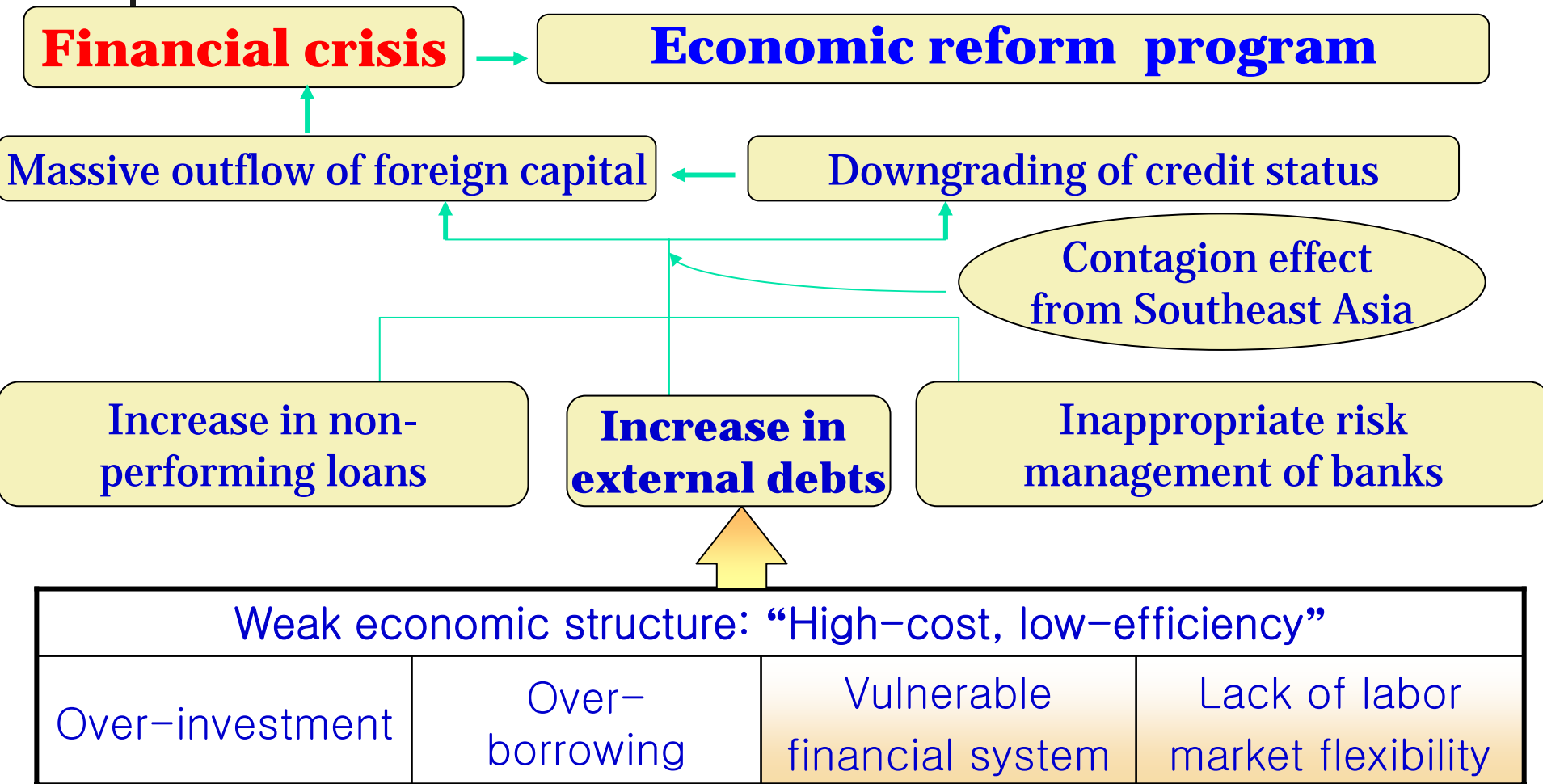


## *1-1. Overview*

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- **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)*

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**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*

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**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		
<b>Banks</b>	<b>33</b>	<b>15</b>	<b>5</b>	<b>10</b>	<b>18</b>
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)

	Recapitalization	Compensation for losses	Repayment of deposits	Purchase of assets	Purchase of NPLs	Total
Issuing Bonds	42.2	15.2	20.0	4.2	20.5	<b>102.1<sup>1)</sup></b>
Collected Funds	7.7	3.1	7.4	6.7	17.4	<b>42.3</b>
Fiscal Sources	13.5	-	-	6.3	-	<b>19.9</b>
Others <sup>2)</sup>	0.03	0.2	2.9	0.1	1.1	<b>4.3</b>
<b>Total</b>	<b>63.5</b>	<b>18.5</b>	<b>30.3</b>	<b>17.3</b>	<b>39.0</b>	<b>168.5</b>

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*

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- **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*

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

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

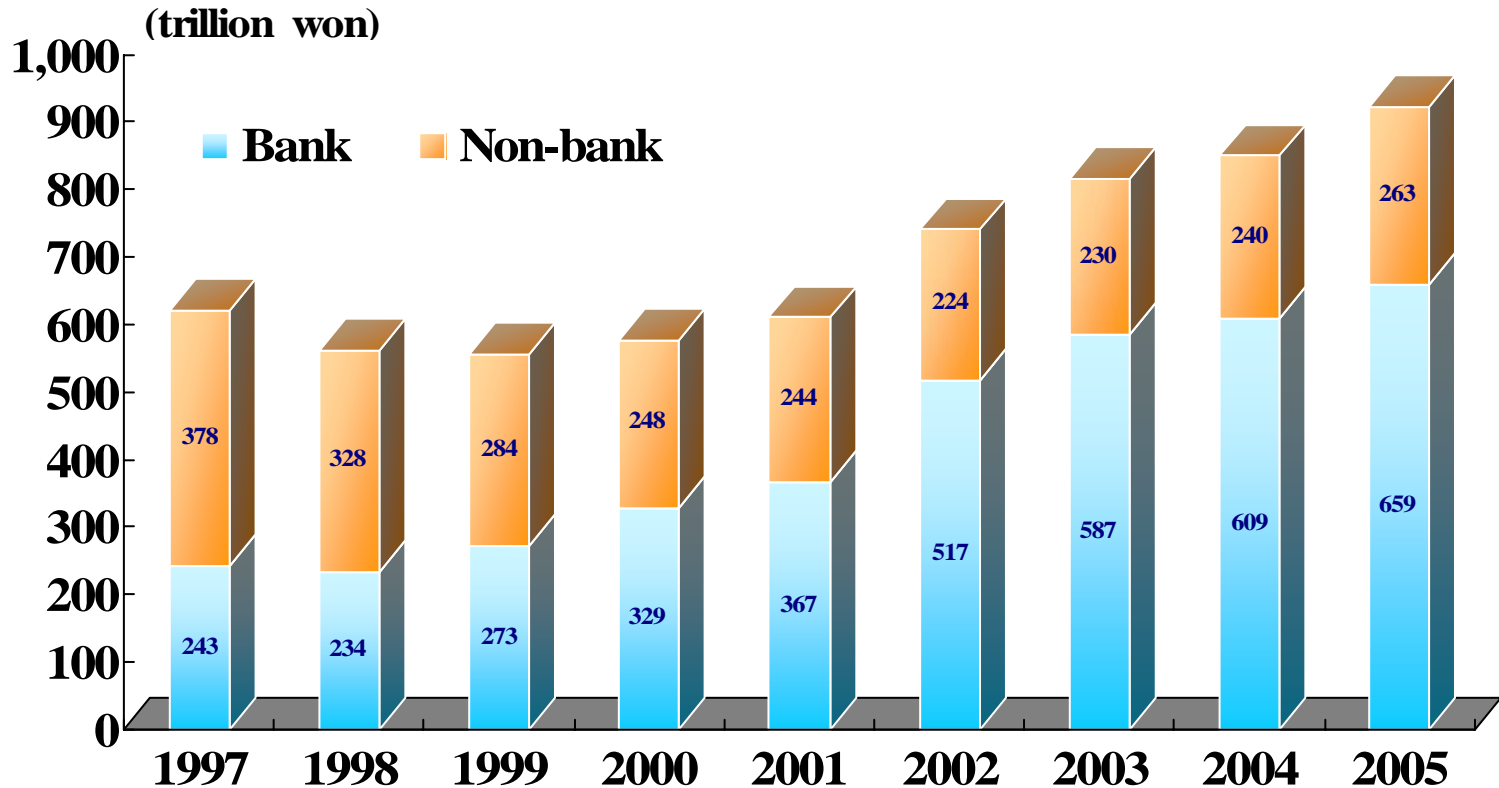


## Changes in the number of non-bank financial institutions (As of the end of June 2006)

	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)		
<b>Merchant banking corporations</b>	30	22	7	29	1	2
<b>Mutual savings banks</b>	231	108	28	136	15	110
<b>Securities companies</b>	36	8	7	15	19	40
<b>Insurance companies</b>	45	11	6	17	9	37
<b>Total</b>	<b>342</b>	<b>149</b>	<b>48</b>	<b>197</b>	<b>44</b>	<b>189</b>

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

### Trend of bank and non-bank financial institution lending





## *3-1. Changes in Competitiveness*

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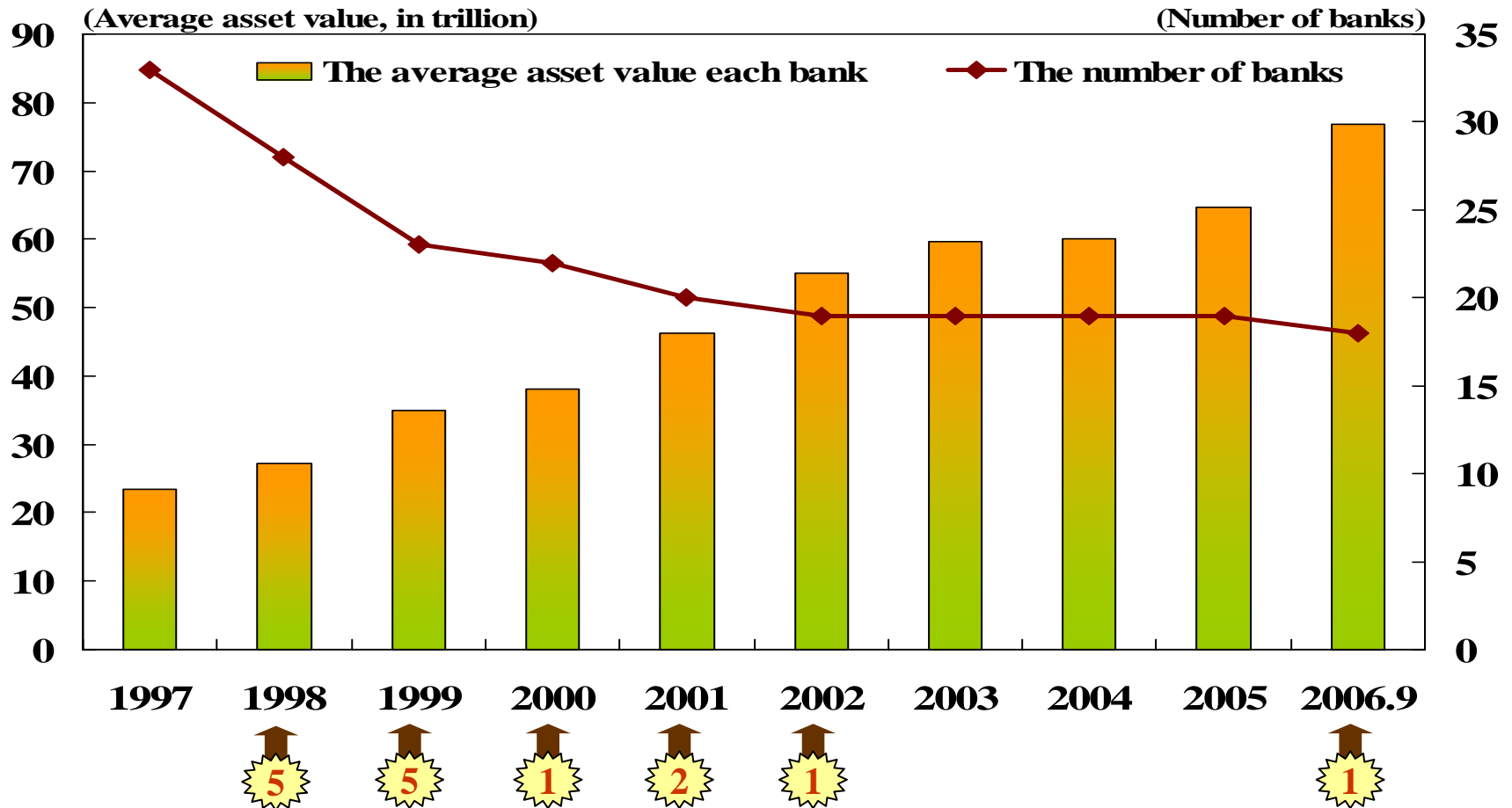
**M&As in the Korean  
Banking Industry**

**Improved Profitability  
and Soundness**

**Some Side-effects**

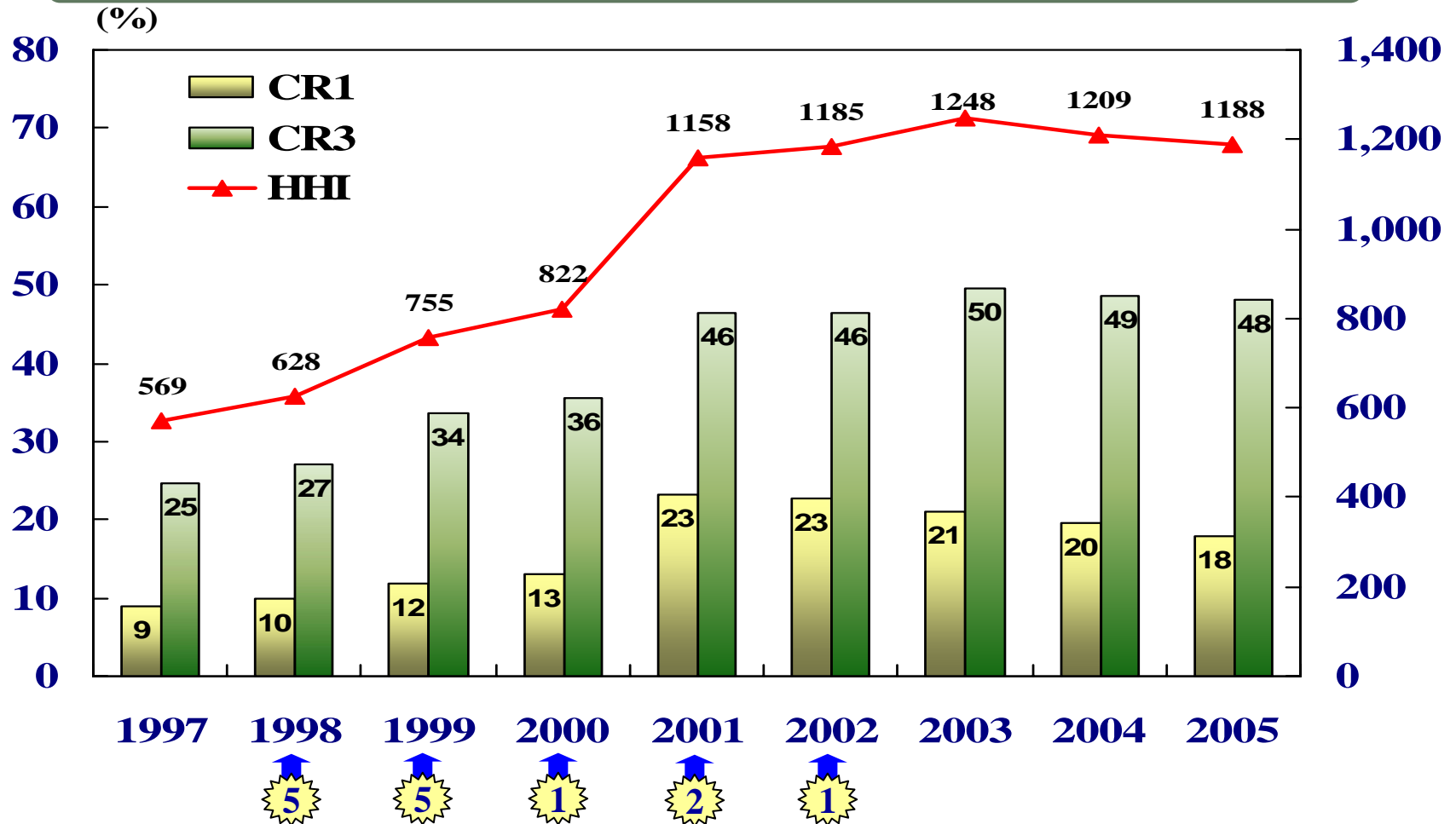
# 3-2. Increased Bank Size Resulting from the M&As

## Trends in the number and size of banks in Korea



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

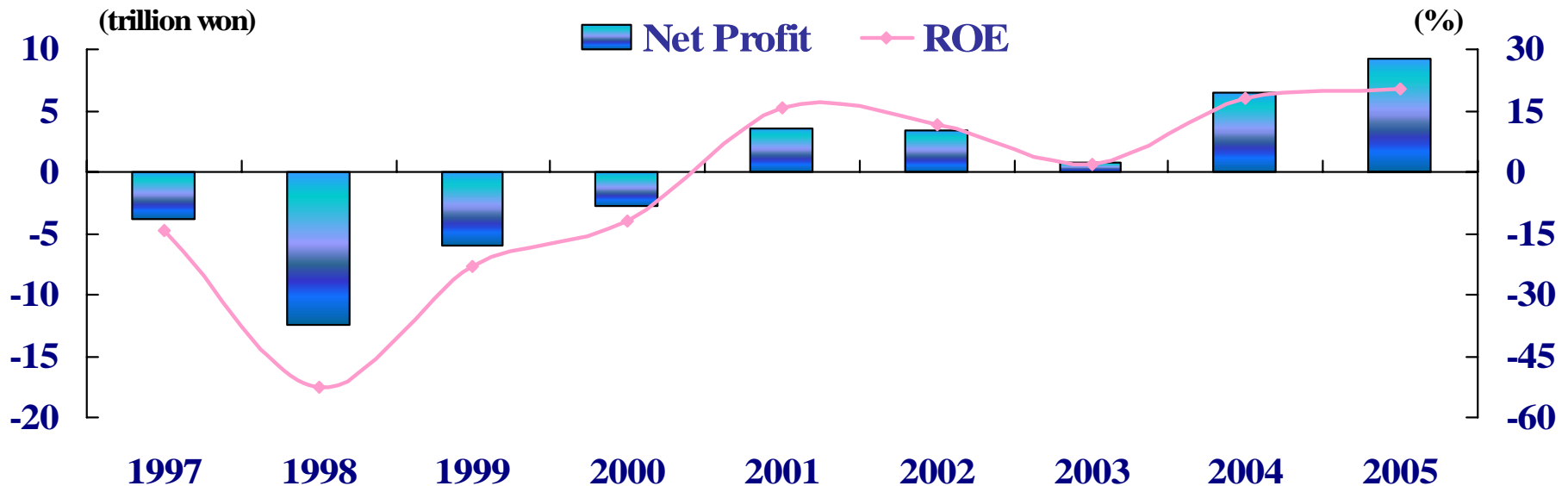
## Trends in market concentration indexes of banking market





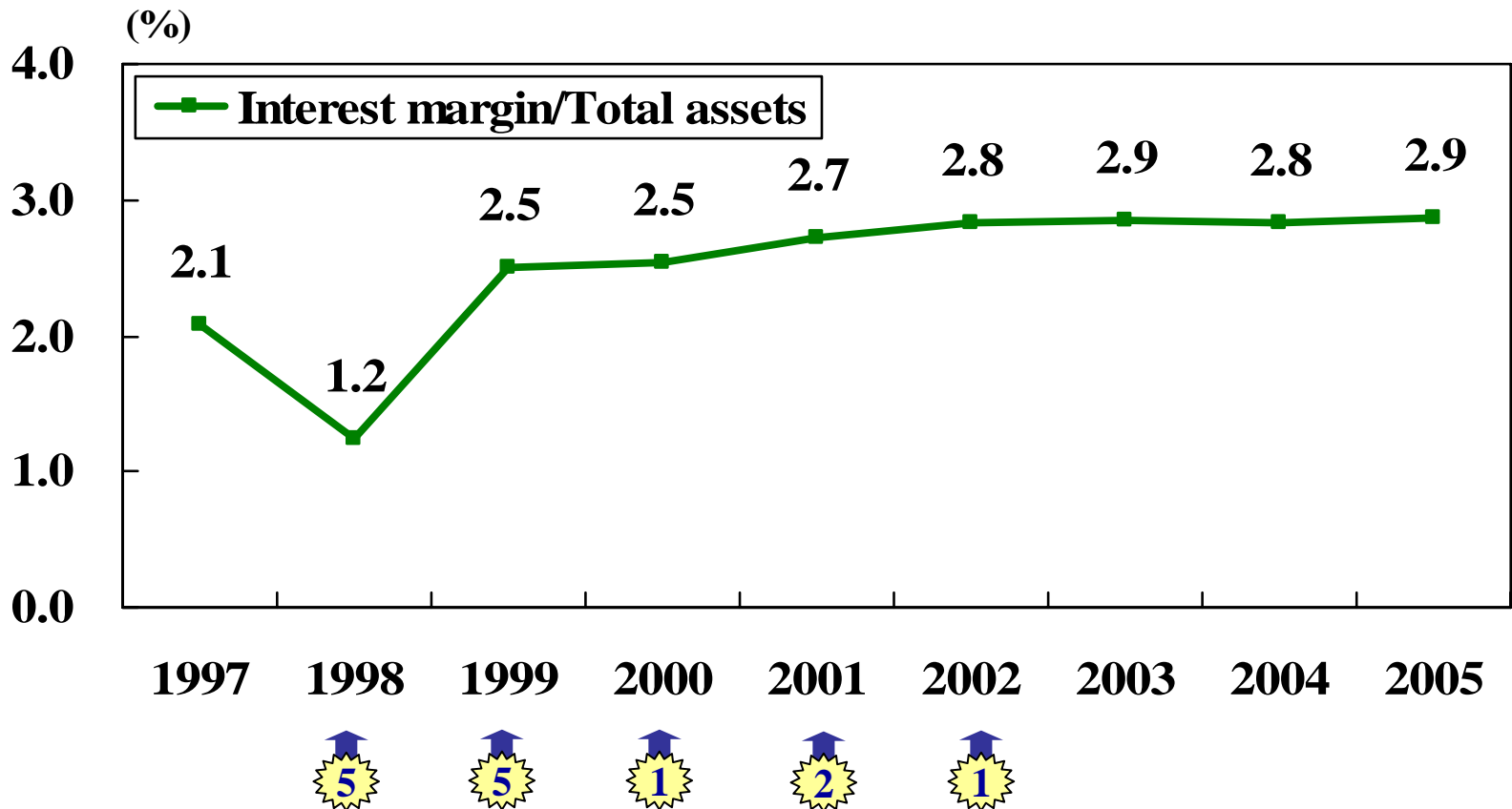
# 3-4. Enhanced Profitability of Banks

## Trend of profitability of commercial banks



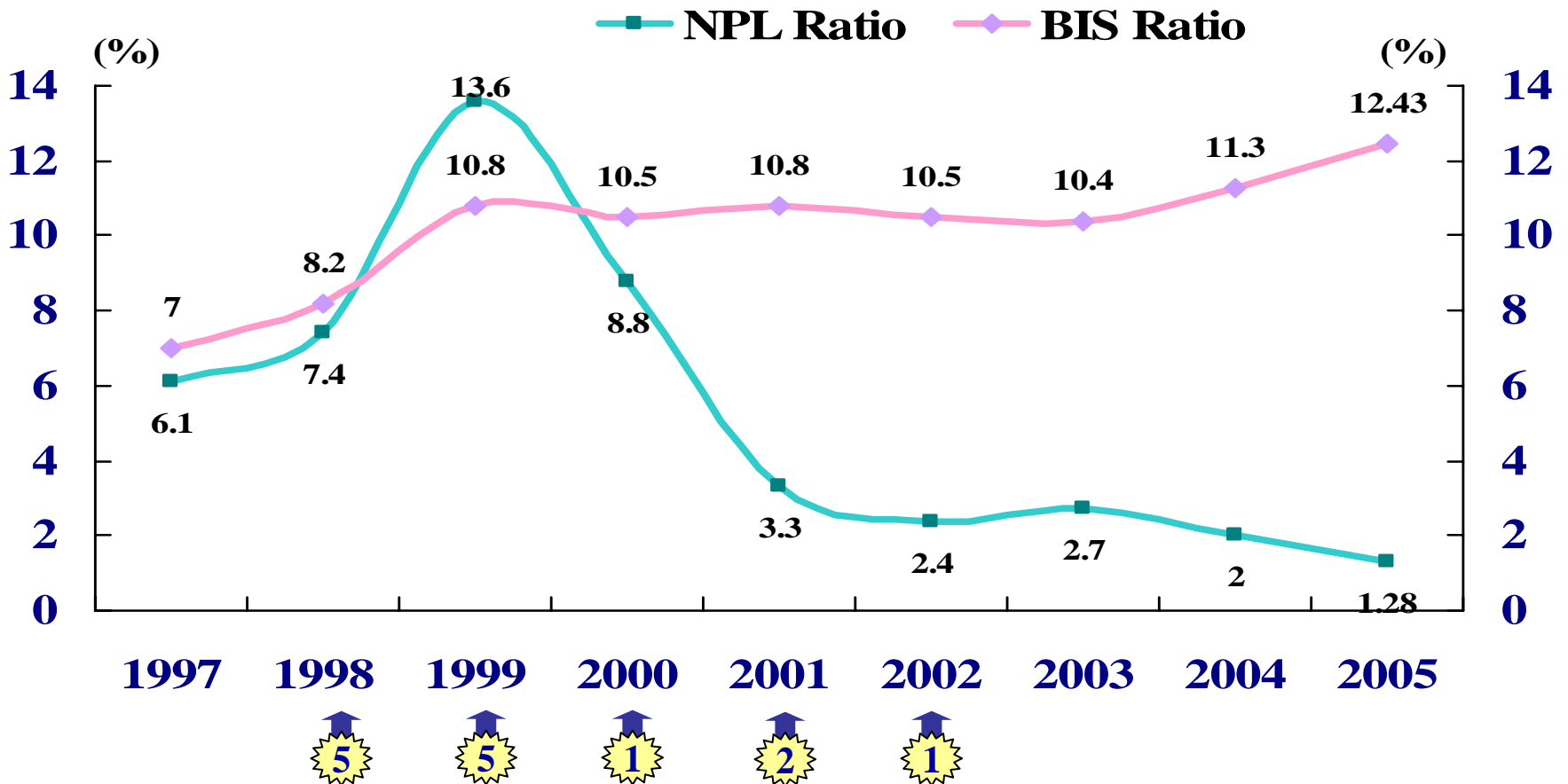
	1997	1998	1999	2000	2001	2002	2003	2004	2005
<b>Net Profit (in trillion won)</b>	<b>-3.9</b>	<b>-12.5</b>	<b>-6.0</b>	<b>-2.8</b>	<b>3.6</b>	<b>3.4</b>	<b>0.7</b>	<b>6.4</b>	<b>9.2</b>
<b>ROA(%)</b>	<b>-0.9</b>	<b>-3.3</b>	<b>-1.3</b>	<b>-0.6</b>	<b>0.8</b>	<b>0.6</b>	<b>0.1</b>	<b>0.9</b>	<b>1.2</b>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

## Trend of the interest margin of commercial banks



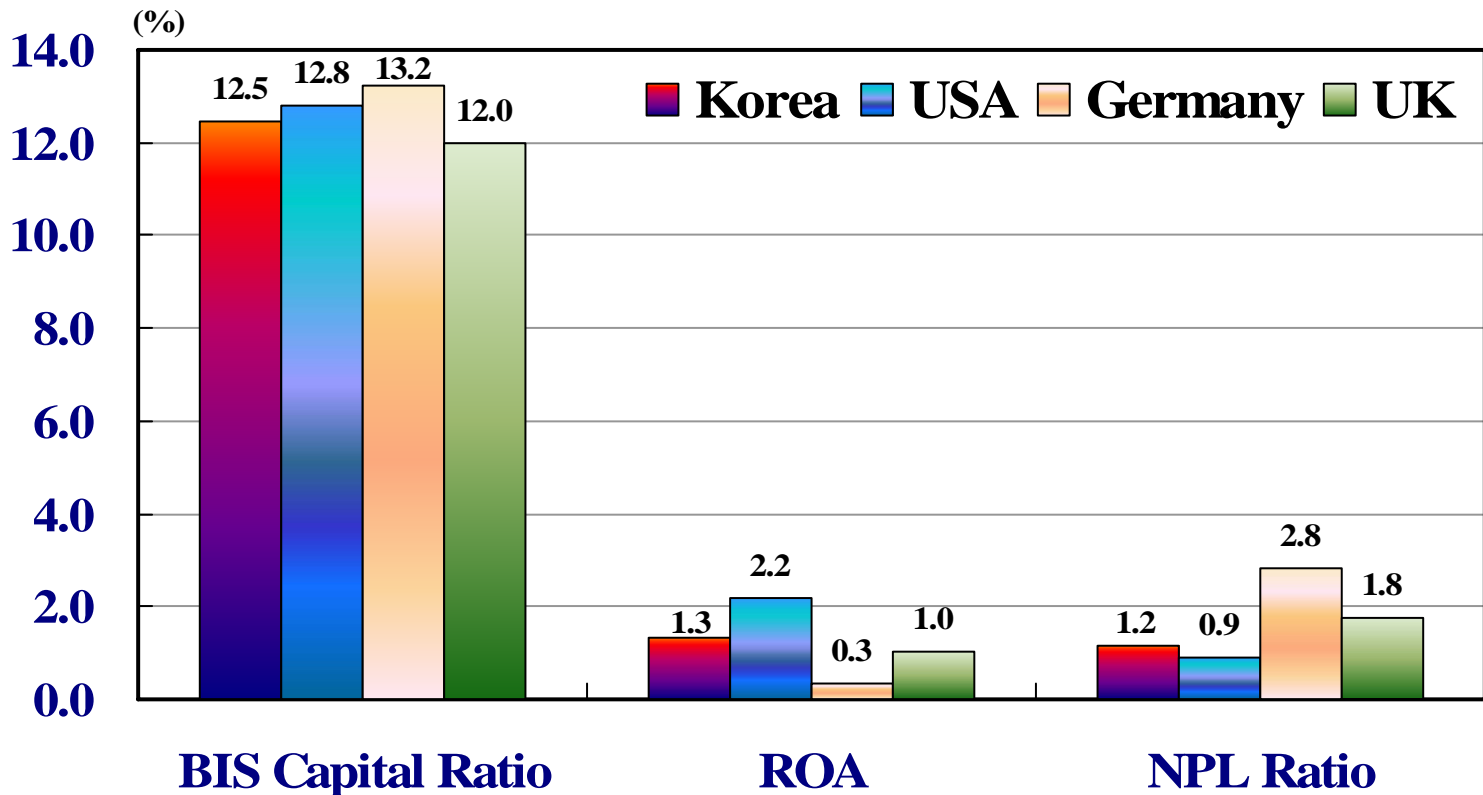
# 3-5. Enhanced Asset Quality of Banks

## Trend of NPL and BIS Capital Adequacy Ratios of commercial banks



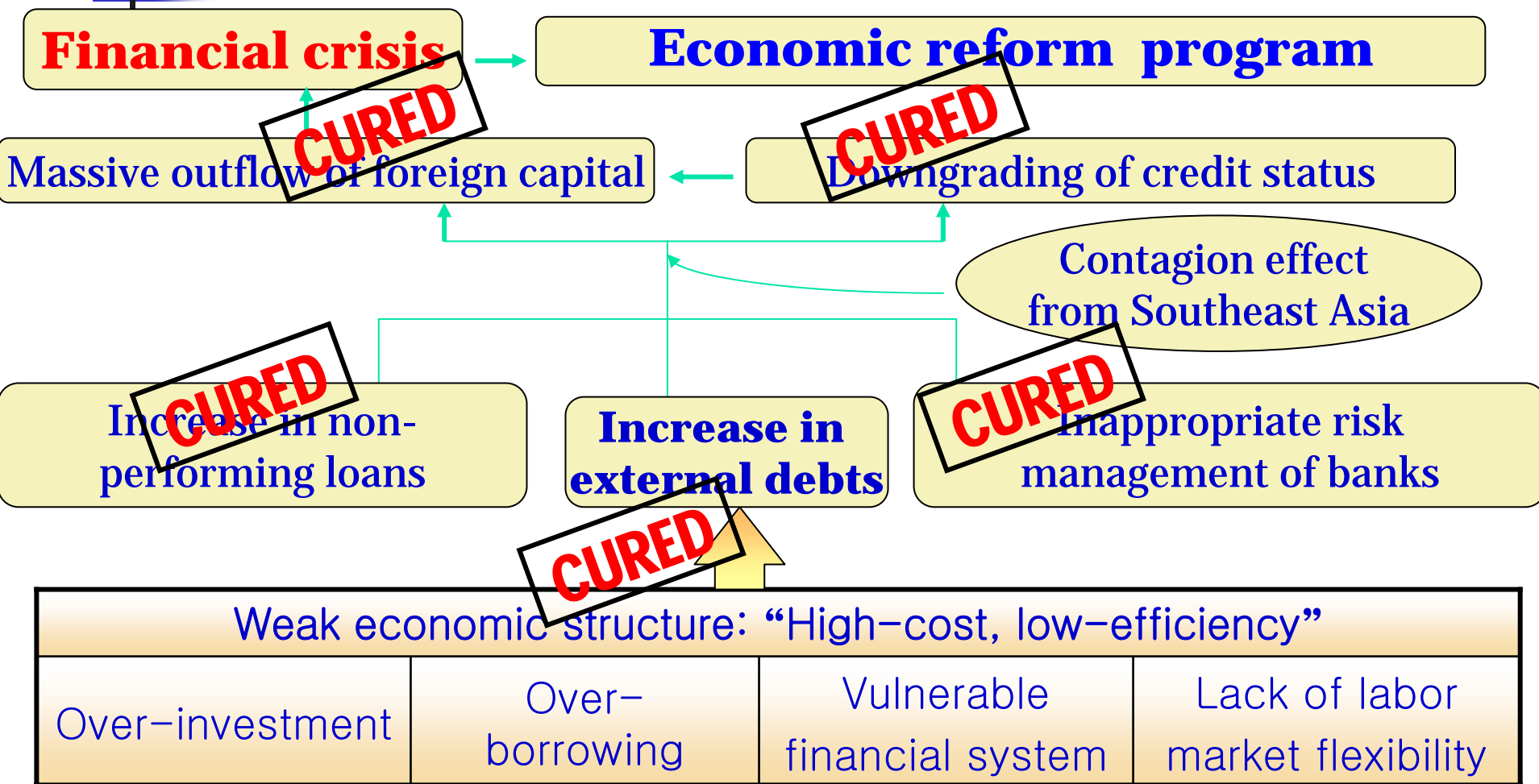
# 3-6. Korean Banks Now Show Good Management Performance

Comparative chart of bank management indexes<sup>1)</sup>  
between major countries



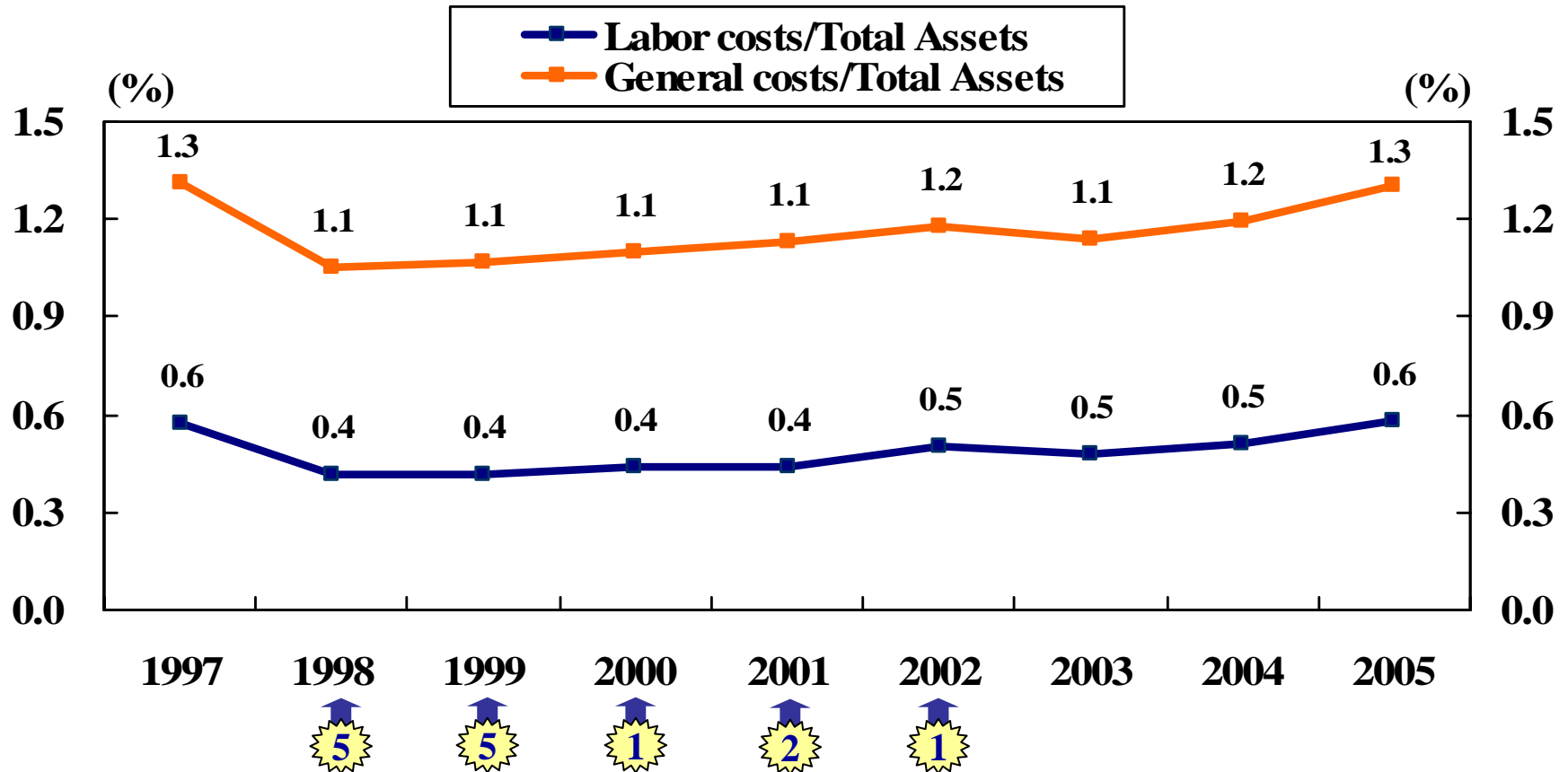
Note : 1) Arithmetic averages of the ten largest banks in each country

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



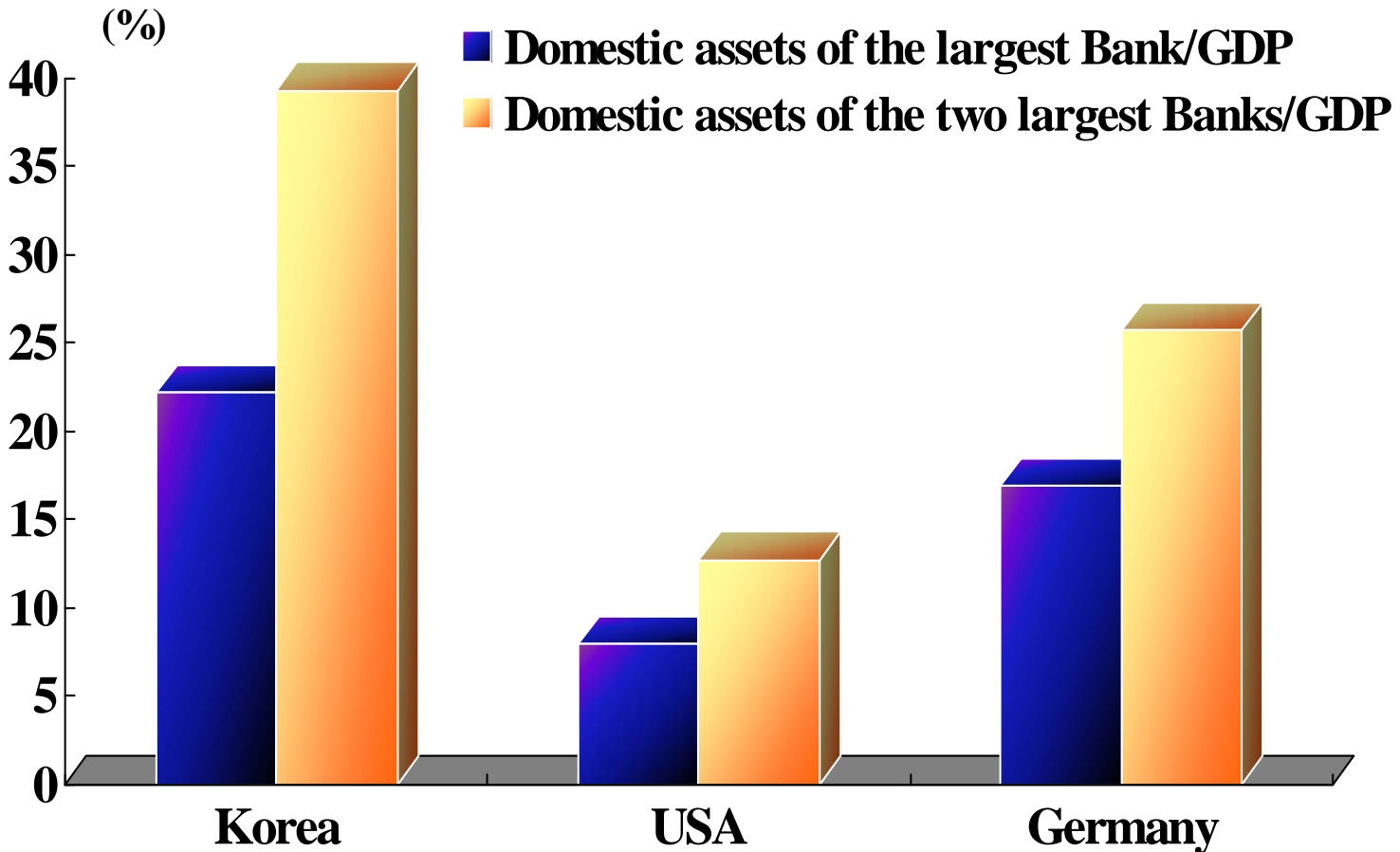
# 3-8. Influence of the M&As on Cost Efficiency of Banks is not Clear

## Trends in cost efficiency indexes of commercial banks



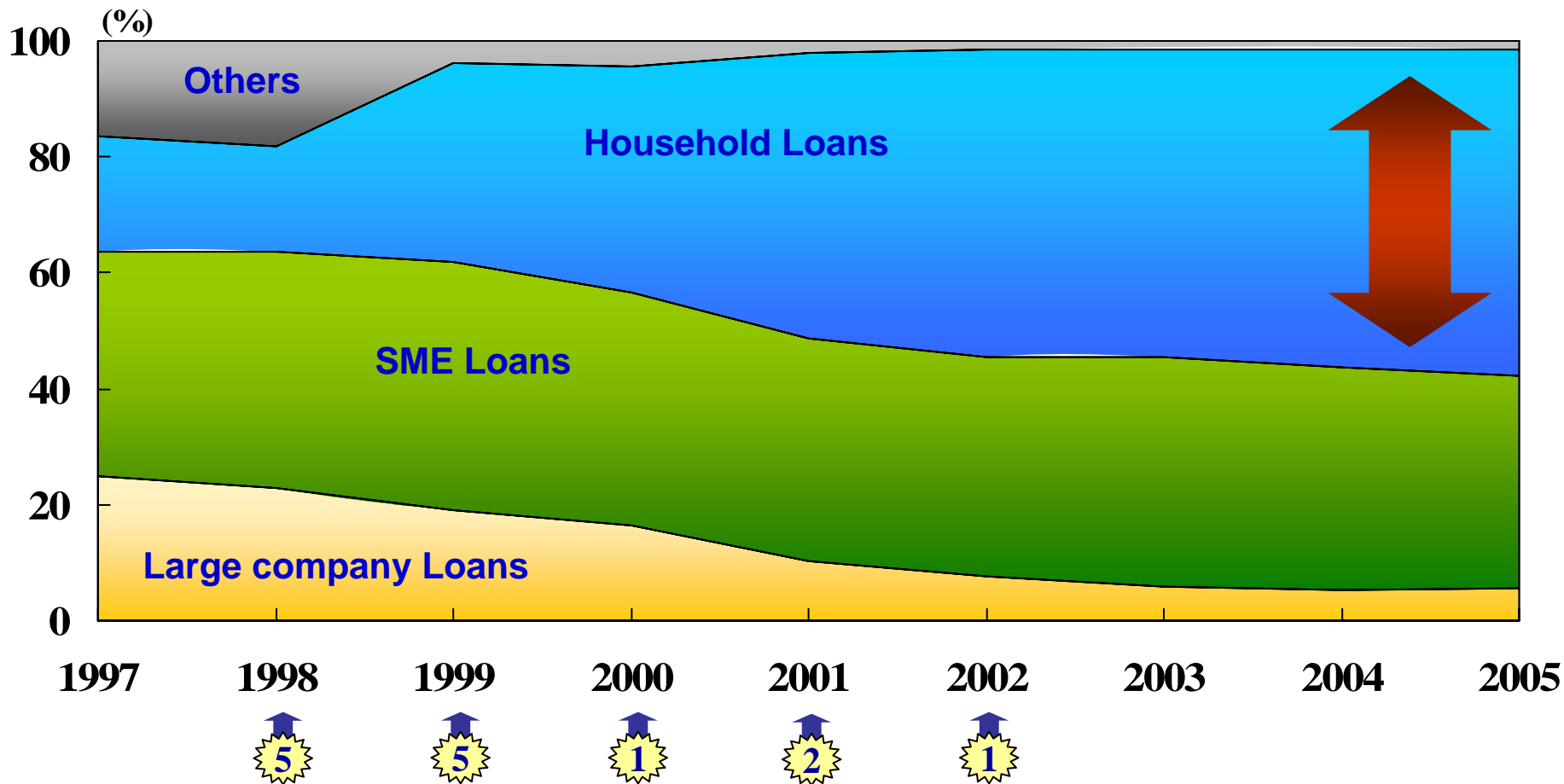
## 3-9. Increased Market Concentration Raises Concerns about TBTF and TBTR Risks

### Ratios of large banks' assets to GDP in major countries



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

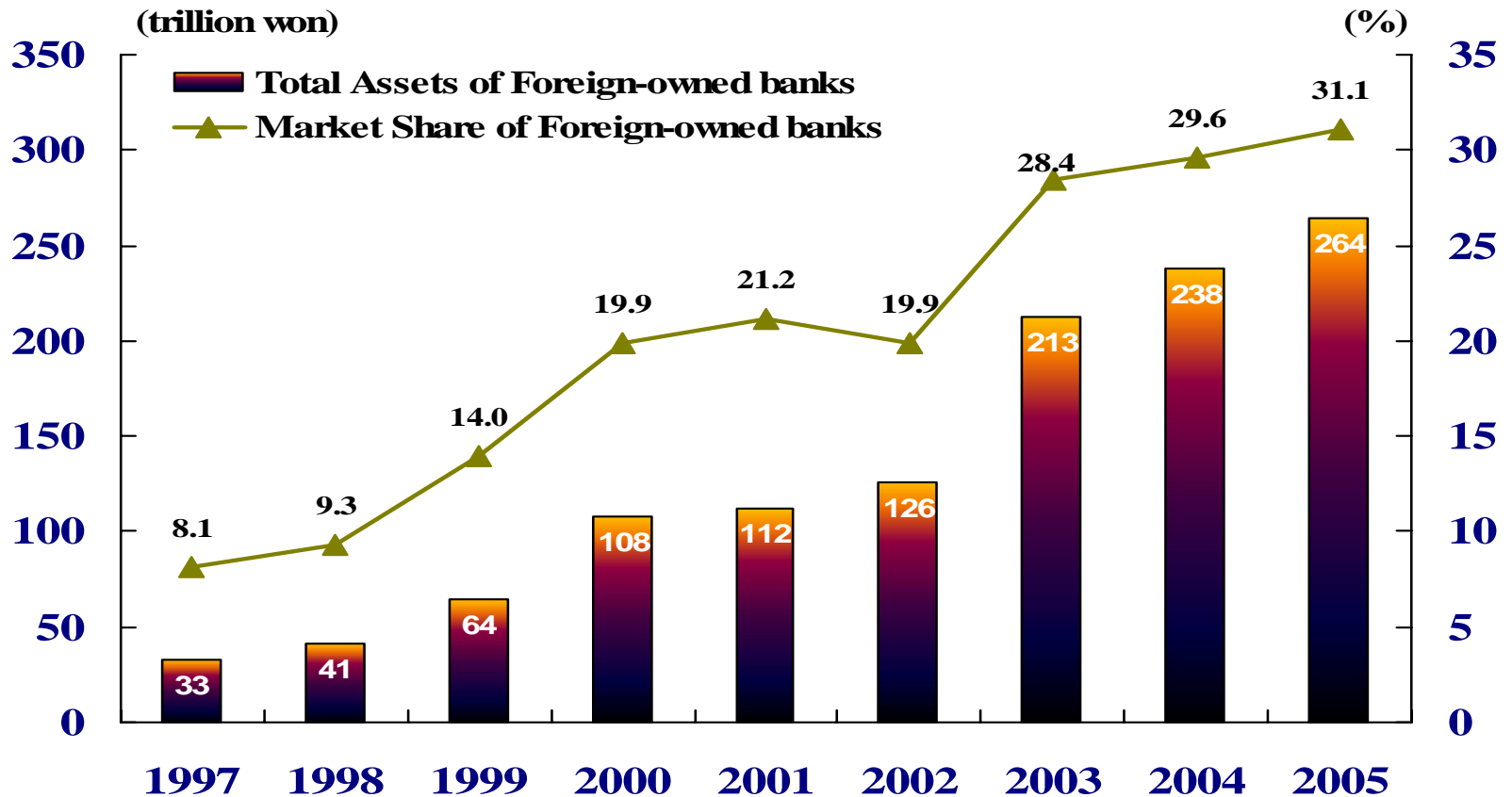
## Trend of shares by sector in bank lending





# 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

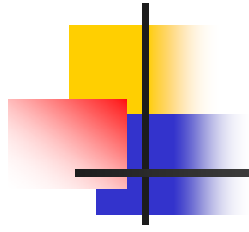




## *4. Closing Remarks*

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- **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**



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***Thank you!***