Unofficial Translation

Please refer to the original report in Korean for more accurate content.

Overall Assessment: Financial system remains broadly stable, supported by resilient financial institutions and a sound external payment capacity

Domestic and External Conditions	(External) Modest easing of uncertainty in the global trade environment (Domestic) Improvements in real economic activity

FSI	Declined significantly Warning stage	FVI	Rose slightly Close to its long-term average

Financial System Situation

Household and Corporate Credit	Decline in loan delinquency rates	Modest increase in household debt growth
Financial and Asset Markets	Narrowing of credit spreads	Large fluctuations in stock prices, Increases in housing prices in the Seoul metropolitan area
Financial Institutions	Slight improvement in soundness, favorable resilience	Increased transactions among non-banks
External Sectors	Favorable external payment capacity	Continued relative weakness of the Korean won

Risk Factors

Household and Corporate Credit	• Potential delays in household debt deleveraging • Concerns over rising credit risk among vulnerable sectors
Financial and Asset Markets	• Elevated volatility in key financial market price variables • Concerns over further increases and spillovers in housing prices
Financial Institutions	• Risk-taking and search-for-yield behavior among financial institutions • Persistent credit and liquidity risks in the non-bank financial sector
External Sector	• Continued uncertainty in external conditions • Expanded outflows of overseas securities investment

Policy Responses

Maintaining Efforts to Ensure Market Stability	• Strengthen monitoring of developments in domestic and global risk factors • Implement timely market stabilization measures in case of unexpected market turmoil
Continuing Monetary-Macroprudential Policy Coordination	• Implement macroprudential regulations in a preemptive and consistent manner • Strengthen cooperation among policy authorities to ensure alignment of policy objectives
Mitigating Housing Market Imbalances	• Implement tailored policies to ease regional housing market divergence • Develop effective housing supply measures and complementary policies for genuine end-users
Enhancing Resilience of Financial Institutions	• Strengthen financial institutions' resilience to prevent the spread of systemic risks • Monitor inter-sectoral fund flows and establish sound regulatory frameworks that account for interconnectedness

Overall Assessment of Financial Stability

Korea's financial system has remained broadly stable, supported by resilient financial institutions and a sound external payment capacity, amid a modest easing of uncertainty in the global trade environment and improvements in real economic activity. However, heightened market volatility, as reflected in large fluctuations in stock prices, interest rates, and exchage rates, and continued increases in housing prices in the Seoul metropolitan area, which has sustained concerns over the buildup of financial imbalances, remain potential risk factors.

Taking into account financial stability conditions, such as household debt, the housing market, and the exchange rate, amid persistent domestic and external uncertainties, the Bank of Korea has maintained the Base Rate at 2.50% since May. As housing prices in the Seoul metropolitan area increased sharply and household debt expanded mainly through mortgage loans, the government significantly strengthened its macroprudential policies, announcing and implementing a series of measures, such as the "Measures To Strengthen Household Debt Management" on June 27, the"Housing Supply Expansion Measures" on September 7, and the "Housing Market Stabilization Measures" on October 15. Meanwhile, while credit risks in vulnerable sectors remained elevated, and while key price variables, such as stock prices and exchange rates, fluctuated substantially in the financial and foreign exchange markets, the resilience of financial institutions and Korea's external sector remained robust.

The Financial Stress Index (FSI),[1] which provides a comprehensive assessment of short-term financial stability conditions, stood at 15.0 (warning stage) in November 2025, declining markedly from 18.6 in June 2025. Meanwhile, the Financial Vulnerability Index (FVI),[2] which implies financial system vulnerability from a medium- to long-term perspective, recorded 45.4 in the third quarter of 2025, rising slightly from 43.9 in the first quarter. This increase was largely attributable to the continued rise in housing prices, particularly in Seoul, bringing the index close to its long-term average of 45.7 since 2008.

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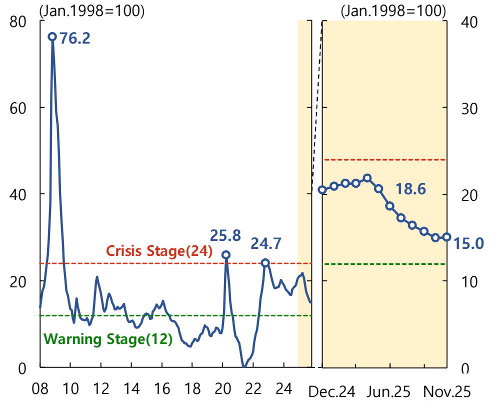
1) The FSI is a composite index calculated by standardizing 20 indicators related to financial stress across the financial market, real economy, external sector, banking sector, and non-banking sector. The thresholds for the warning and crisis stages are set at 12 and 24, respectively, based on the noise-to-signal ratio approach. For further details, refer to the Financial Stability Report, December 2023, Box 7,"Results of Financial Stress Index (FSI) Reform."

2) The FVI is a composite index constructed by standardizing 64 indicators related to three assessment components—credit, asset prices, and financial institution resilience. For further details on the newly revised FVI, refer to Box 1, "Results of Financial Vulnerability Index (FVI) Reform."

Financial Stress Index (FSI)1)2)

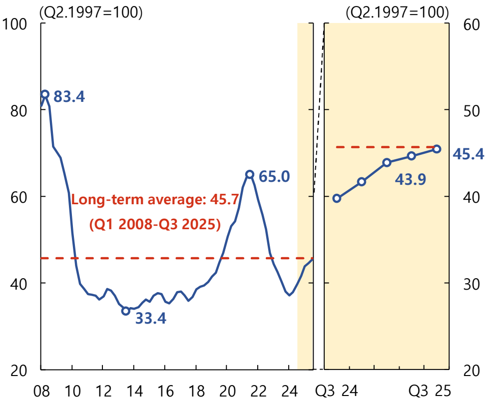


Notes: 1) The FSI is a composite index derived by standardizing 20 indicators related to short-term financial stress across the financial market, real economy, external sector, banking sector, and non-banking sector. The thresholds for the warning and crisis stages are set at 12 and 24, respectively.

2) As additional basic indicators are incorporated and the model is thus re-estimated, the relationships among indicators may be reassessed, potentially leading to future revisions of the index values.

Source: Bank of Korea.

Financial Vulnerability Index (FVI)1)2)



Notes: 1) The FVI is a composite index derived by standardizing 64 indicators related to the three assessment components, credit, asset prices, and financial institution resilience, to assess medium- to long-term financial vulnerabilities (based on the new series after the revision).

2) As additional basic indicators are incorporated and the FVI is re-estimated, the relationships among indicators may be reassessed, potentially leading to future revisions of the index values.

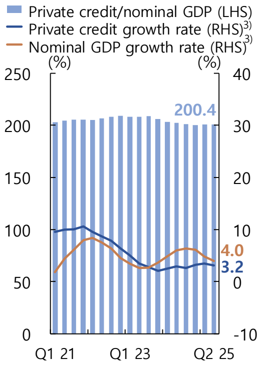
Source: Bank of Korea.

Financial Stability by Sector

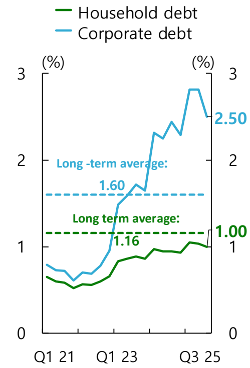
A sectoral assessment of Korea's financial stability conditions indicates that household credit growth generally moderated in the third quarter of this year, reflecting the strengthening of macroprudential policies, such as the June 27 measures. However, since October, the increase in household lending has widened again, mainly driven by other loans, due to rising demand for stock investment and housing-related financing. The pace of increase in household loan delinquency rate has eased somewhat particularly among non-bank financial institutions, at levels below their long-term averages. Meanwhile, corporate credit growth continued to decelerate as financial institutions tightened their lending attitudes. Although the delinquency rate declined, it still remained well above its long-term average. Loans to self-employed business owners (SEBOs) recorded modest growth, but their delinquency rates stayed elevated,[3] especially among vulnerable borrowers. Private credit leverage, measured as the ratio of private credit to nominal GDP, stood at 200.4 percent as of the end of the second quarter of 2025, with both household and corporate leverage exceeding the averages of advanced and emerging economies.

3) For further details, please refer to Box 2, "Recent Developments in Loans to the Self-Employed and Their Characteristics by Age Group."

Private Credit[1] Leverage[2]



Delinquency Rates[4] on Household and Corporate Debt

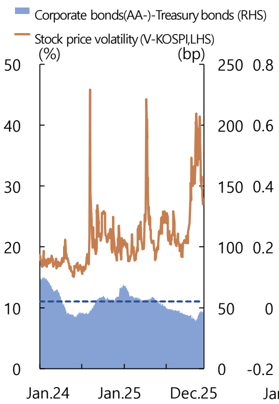


Notes: 1) Based on flow of funds statistics.
2) Sum of nominal GDP for the given and three preceding quarters.
3) Year-on-year.
4) Long-term average is the average between Q1 2010 and Q3 2025.
Sources: Bank of Korea, Financial Institution Business Reports.

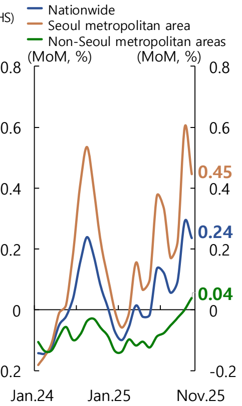
In financial and asset markets, long-term market interest rates rose sharply in the bond market, while corporate bond credit spreads remained at their long-term average levels. Equity prices exhibited high volatility, surging on expectations of the government's stock market revitalization measures and progress in trade negotiations, before undergoing a subsequent correction.

Housing sale prices continued to increase, particularly in Seoul and the surrounding metropolitan area, but transaction volumes remained below their long-term averages, affected by a wait-and-see stance following government measures. The increase in jeonse and monthly rents accelerated, and the share of monthly rental contracts continued its steady rise. In commercial real estate, rental prices showed a mixed pattern, with office rents rising while retail property rents declined.

Stock Price Volatility, and Credit Spread[1]



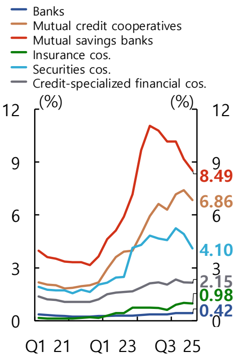
Rates of Increase in Housing Prices

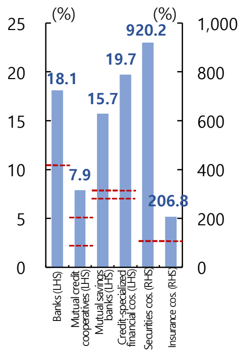


Note: 1) The dotted line represents the long-term average since 2010.
Sources: Bloomberg, Financial Investment Association, Korea Real Estate Board.

The soundness of financial institutions generally improved. In the banking sector, the substandard-or-below loan ratio for SMEs rose slightly, but profitability remained solid. In the non-banking sector, the substandard or below loan ratio showed an overall decline, but remained elevated in some segments, while profitability showed mixed trends across segments. Meanwhile, financial institution resilience, their capacity to absorb shocks, was assessed to have remained favorable for both the banking and non-banking sectors, as capital adequacy and liquidity ratios continued to exceed regulatory standards by a considerable margin. Regarding interconnectedness within the financial system, transactions among non-banking financial institutions increased as fund flows expanded mainly through investment funds. In terms of financial-real sector linkages, it was notable that the non-banking sector (excluding foreign bank branches and non-bank deposit-taking institutions) raised funds from households and operated them in the corporate and non-resident sectors.

Substandard-or-Below Loan Ratio	Capital Adequacy Ratio[1)2)]

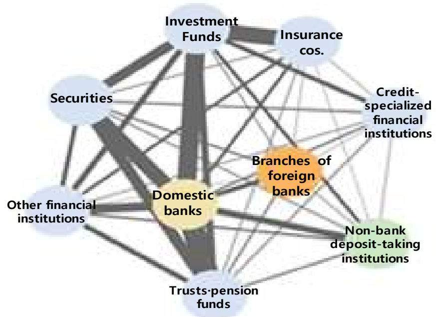




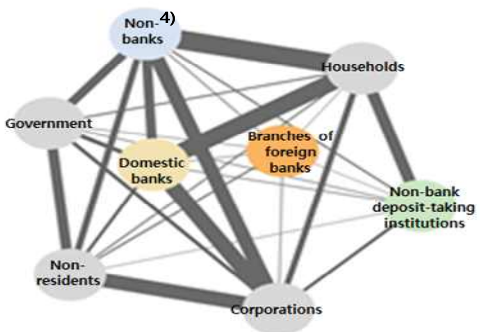
Note: 1) Red dotted lines represent regulatory standards for each segment.
2) As of the end of Q3 2025 (For insurance cos., the end of Q2 2025)
Source: Financial institution business reports.

Structure of Financial System Interconnectedness[1)2)3)]

(Among Financial Sectors)



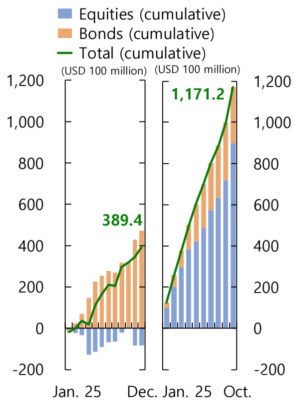
(Between Real Sector and Financial System)

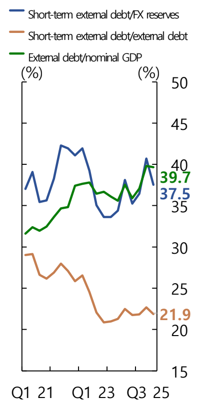


Notes: 1) Based on the flow of funds statistics as of the end of Q2 2025.
2) The network visualization method is used; line thickness is proportional to the size of inter-sector transactions.
3) Non-bank deposit-taking institutions include savings banks and mutual banks. Government includes the central and local governments, social security funds (e.g., the National Pension Service), and public corporations. Other financial institutions include financial holding companies, special purpose vehicles, and lending companies. Pension funds include retirement pension funds (excluding the National Pension Service).
4) Non-banks refer to the non-banking sector excluding foreign bank branches and non-bank deposit-taking institutions.
Source: Bank of Korea.

In the external sector, although the USD/KRW exchange rate rose sharply, conditions for foreign currency funding remained generally favorable, as shown in stable arbitrage incentives and bank foreign currency borrowing spreads. This year, domestic portfolio investments by foreigners recorded a net inflow, led by the bond market, while overseas portfolio investment by Korean residents expanded significantly. Korea's external payment capacity remained sound, supported by a substantial increase in net external assets and favorable external soundness indicators, including the external debt ratio and the share of short-term external debt.

Capital Flows[1)2)]	External Soundess Indicators





Notes: 1) (LHS) Changes in foreign investors' domestic portfolio investment, (RHS) Changes in residents' overseas portfolio investment.
2) Based on year-to-date changes. (As of December 9 and end-October, respectively)
Source: Bank of Korea.

In terms of the operation of financial regulations and policies aimed at maintaining domestic financial system stability, the government announced additional "Housing Market Stabilization Measures" on October 15 that focus on managing housing demand and strengthening real estate-related financial regulations. This followed continued instability in the Seoul metropolitan housing market, even after the implementation of the demand-side (June 27) and supply-side (September 7) measures. In addition, policies, such as the institutionalization of trading platforms for unlisted shares and fractional investments (September 23), and the launch of central clearing of KOFR-based interest rate swaps (October) as part of the transition to a KOFR-based benchmark rate system are expected to contribute to financial stability going forward. Meanwhile, risk indicators related to key payment and settlement systems, such as the BOK-Wire+, continue to serve as core financial market infrastructure.

Major Financial Stability Risk Assessment

As discussed above, despite uncertainties in domestic and external conditions, Korea's financial system has remained broadly stable. However, it should be noted that, amid recently elevated volatility in financial and foreign exchange markets, as well as credit risks in vulnerable sectors, concerns over the buildup of financial imbalances remain latent. From this perspective, in addition to reviewing conditions across sectors, we examined the potential implications for the stability of the domestic financial system of a deterioration in corporate financial soundness stemming from U.S. tariff policies,[4] the possibility of strengthened linkages between the virtual-asset sector and traditional financial markets resulting from the institutionalization of virtual assets,[5] changes in the operating and regulatory environment of financial institutions,[6] and shifts in overseas securities investment behavior among domestic retail investors.[7] In this Financial Stability Report, these sector-specific risk factors are examined in detail. In the section Analysis of Financial Stability Issues, the report examines how recent developments in the housing market affect financial stability and reviews the financial sector's risk-taking behavior along with the associated potential risks. In the section Progress in Household Debt Deleveraging and Future Policy Tasks, the report also provides an in-depth review of a structural issue closely linked to Korea's financial system stability from a medium- to long-term perspective.

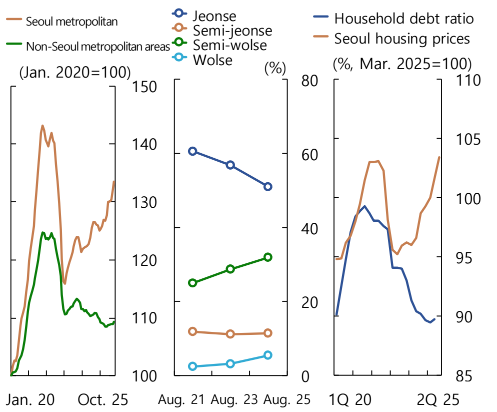
Recent domestic housing market trends include: 1) widening price divergence between the Seoul metropolitan area and non-metropolitan regions; 2) a rising share of monthly-rent transactions in the rental market; and 3) a weakening correlation between housing prices and household borrowing.[8] First, the deepening price divergence between the Seoul metropolitan area and non-metropolitan areas may exacerbate financial imbalances and weaken the soundness of regional financial institutions. Second, the rise in monthly-rent households could amplify housing

4) For details, refer to Box 3,"Impacts of US Tariff Policy on Corporate Financial Soundness."
5) For details, refer to Box 4,"Impacts and Implications of Institutionalization of Virtual Asset Market."
6) For details, refer to Box 5,"Changes in Operating Environment for Banks' Capital Ratio Management and Assessment" and Box 6, "Review of Funding and Investment Conditions at Non-Bank Depository Institutions."
7) For details, refer to Box 7,"Analysis of Relationship Between Retail Investors' Domestic and Overseas Equity Investments."
8) For details, refer to "Analysis of Financial Stability Issues 1. Recent Developments in Housing Market and Their Impacts on Financial System."

cost burdens, especially for low-income groups, reducing these vulnerable households' debt-servicing capacity. Third, while the correlation between housing prices and household lending has weakened in areas that have recently seen sharp price increases, largely because transactions have been financed with buyers' own funds, it is important to note that risks could intensify if expectations for higher housing prices spill over into other regions where debt-financed transactions remain feasible, as this could lead to renewed increases in both housing prices and household debt.

Key Recent Features of Domestic Housing Market

Regional Housing Price[1] Trends	Transaction Shares[2] by Lease Contract Type	Household Debt Ratio[3] and Seoul Housing Prices[4]

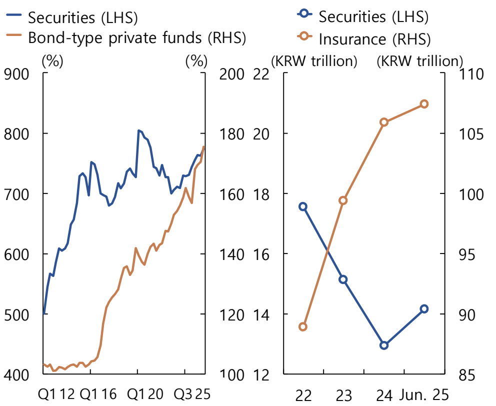


Notes: 1) Based on the Overall Housing Real Transaction Price Index.
2) Among apartment lease contracts, monthly-rent contracts are classified into semi-*jeonse* (deposit exceeding the equivalent of 240 months of rent), semi-*wolse* (deposit equivalent to 12-240 months of rent), and *wolse* (deposit equivalent to 12 months of rent or less) (Based on contract date; data retrieved as of December 2, 2025).
3) Household-debt-to-nominal-GDP ratio, where nominal GDP is the sum of the previous four quarters and household debt is from the Flow of Funds statistics.
4) Based on the Overall Housing Price Index at each quarter-end.
Sources: Bank of Korea, Korea Real Estate Board, Ministry of Land, Infrastructure and Transport.

Risk-taking and search-for-yield behavior in Korea's financial sector has increased,[9] as reflected in increased leveraging through RP transactions, duration extension and concentration in bond investments, and expanded allocations to risk assets including alternative investments. These developments raise concerns that systemic risks may accumulate through various channels, such as valuation losses and heightened liquidity risk amid increased interest rate volatility, and larger losses in alternative investments during economic downturns. In particular, as the non-bank sector expands and interconnectedness across financial sectors deepens, the likelihood that risks originating in NBFIs spread to the entire financial system has increased relative to the past.

Financial Institutions' Risk-Taking Trends

Leverage Ratios[1] of Securities Companies and Bond-Type Private Funds	Overseas Alternative Investment Exposure[2] of Securities Firms and Insurance Companies



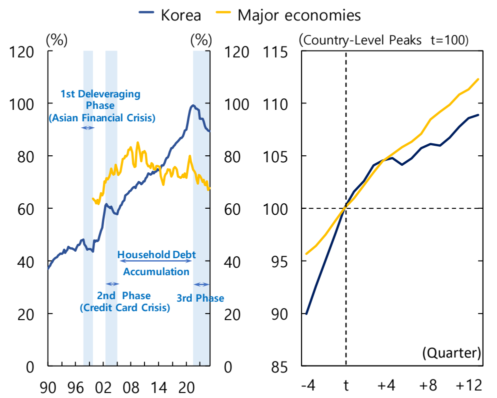
Note: 1) For securities companies, leverage is measured as total assets to total equity; for private funds, as assets under management to net asset value.
2) For securities companies: the total of overseas real estate and SOC; for insurance companies.:the total of overseas real estate, SOC and corporate finance
Sources: Financial institution business reports, Korea Securities Depository.

9) For details, refer to "Analysis of Financial Stability Issues 2. Search-for-Yield Trends in the Financial Sector and Associated Risk Assessment."

Since the second half of 2021, Korea's household-debt-to-nominal GDP ratio has continued to decline, indicating meaningful progress in household debt deleveraging.[10] It is viewed positively that Korea's household debt deleveraging has proceeded through a gradual slowdown in credit growth and, despite uncertain economic conditions, has taken place without significant adverse effects on the economy or the financial system. However, as the household debt ratio continues to exceed the average of major economies and the loan-to-income (LTI) ratio of indebted borrowers remains elevated, it is necessary to continue efforts to place the ratio on a downward path through macroprudential measures and stronger economic growth. At the same time, it is important to recognize medium- to long-term factors that may constrain deleveraging. On the demand side, these include accelerating debt growth among young people, delayed repayment among older borrowers, and the continued accumulation of debt by small business owners. On the supply side, incentives for financial institutions to expand household lending remain. From a macroprudential perspective, potential limitations in policy effectiveness and consequent challenges in policy implementation may also slow the pace of deleveraging.

International Comparison[1] of Korea's Household Debt Deleveraging

Household Debt Ratios[2]	Pace[3] of Household Debt[4] Growth



Notes: 1) Coverage of major economies: (Left) 11 BIS-classified advanced economies, (Right) top 10 countries with the highest household debt ratios since COVID-19 (including EMEs).
2) Nominal GDP calculated as the sum of the previous four quarters and household debt based on Flow of Funds statistics
3) Household-debt-to-GDP ratios for Korea and major economies are indexed to 100 at the point (t) when each country reached its post-COVID-19 peak.
4) Household debt for each country is based on Flow of Funds statistics and measured in domestic currency.
Sources: Bank of Korea, BIS.

Policy Recommendations

The Bank of Korea will continuously monitor the impact of domestic and external uncertainties on the real and financial sectors and proactively identify emerging risks within the financial system to maintain financial stability. If necessary, the bank will actively pursue policy responses to safeguard financial stability, including market stabilization measures, in close cooperation with the government. In particular, as not only risks in vulnerable sectors but also the likelihood of market turmoil are increasing amid rising market

10) For details, refer to Section Ⅲ. Progress in Household Debt Deleveraging and Future Policy Tasks.

interest rates, heightened volatility in stock prices, and the continued relative weakness of the domestic currency, close vigilance will be maintained and related monitoring will be further strengthened. Moreover, while conducting monetary policy in comprehensive consideration of both the upside and downside risks to the real economy as well as financial stability risks, the Bank of Korea will closely monitor potential buildups in financial imbalances due to increased risk-taking and rising asset prices, and also continue to promote coordination between monetary policy and macroprudential policy. Meanwhile, given the prolonged rise in housing prices in the Seoul metropolitan area as well as heightened domestic and external uncertainties, it is also important to guard against the possibility that liquidity flows into unproductive areas rather than into sectors that support the real economy.

The recent changes observed in the housing market carry the potential to magnify various financial stability risks, including widening financial imbalances, deterioration in financial institutions' soundness, and renewed expansion in household debt. Accordingly, financial authorities should maintain a consistent macroprudential policy stance to address financial imbalances related to the Seoul metropolitan area, while applying targeted micro-level supplementary measures for non-metropolitan regions as needed. The government should also ease expectations of higher housing prices through effective housing-supply policies and strengthen protections for vulnerable groups who are facing increased housing-cost burdens due to the rising share of monthly-rent contracts, such as low-income and elderly households. In the medium to long term, enhancing settlement conditions in non-metropolitan regions through industrial and infrastructure development will be key to easing regional housing-market imbalances and guiding housing-price recovery in these areas so that it is supported by steadily growing demand.

Although the strengthening of risk-taking and search-for-yield behavior in the domestic financial sector may provide short-term support for economic activity, it may negatively affect financial stability when domestic or external shocks occur, by contributing to the buildup of financial imbalances. Policy authorities should therefore continuously monitor risks accumulated during periods of accommodative financial conditions to prevent them from developing into systemic risks. Given current concerns about potential asset market bubbles globally, it is essential to reinforce investor-protection mechanisms and to enhance crisis-response frameworks to ensure that domestic and external shocks do not spread to the entire financial system. With the size and influence of the non-bank financial intermediation sector expanding and interlinkages between financial institutions becoming more complex, it is necessary to closely monitor changes in exposure structures and flow of funds between sectors. Meanwhile, financial institutions should refrain from excessive search for yield and instead prioritize risk management, maintaining and strengthening their loss-absorption capacity.

From a medium-to long-term perspective, policy authorities should continue gradual household debt deleveraging efforts by alleviating structural constraints in order to ensure stable and sustainable economic growth. While managing household debt consistently in line with the principle of lending based on borrowers' repayment capacity, authorities should also preemptively address the buildup of financial imbalances through coordinated policy efforts. It is also necessary to develop incentive structures that encourage financial institutions to scale back mortgage loan expansion. Efforts should be made to reduce the debt burdens of older borrowers whose repayment capacity has weakened due to retirement, while also actively managing the debt of older small business owners and improving the labor market structure, for example, by creating conditions that support continued employment.