

Press Release

Clarification of Concerns Regarding the Announcement of the List of Non-Viable Companies

- 1. There are views that the credit risk assessment results for Hyundai Engineering & Construction and Ssangyong Cement Industrial Co. translate into the de facto survival of two companies.**

The results of the credit risk assessments by creditor banks of Hyundai Engineering & Construction and Ssangyong Cement do not mean de facto survival of the two companies, as both companies are still facing the prospect of bankruptcy or court receivership should their self-rescue efforts fail. In this sense, the assessment and the decision not to provide additional financial aid to the companies should be seen as a strong message from creditor banks that they will treat the two companies like other ailing companies that fail to produce and meet the stipulations of adequate self-rescue plans.

During their evaluations, creditor banks prudently considered the potential impact that the simultaneous bankruptcies of Hyundai Engineering & Construction and Ssangyong Cement, immediately following the bankruptcy of another large company, Dong-ah Construction, would have on domestic financial markets. Moreover, the creditor banks noted the legal problems that could arise if the two companies applied for court receivership or liquidation when, in fact, they were not currently bankrupt. Thus, based upon their comprehensive evaluations of the two companies' status, the creditor banks to the two companies deemed it prudent and responsible to allow the companies to proceed with self-rescue efforts, albeit without additional financial support.

The decision to suspend the extension of new credits to the two companies was made by creditor banks to ensure swift execution of self-rehabilitation plans, and was reinforced by their announcement that the companies will face court receivership should they experience new liquidity problems. Creditor banks will closely monitor the self-rehabilitation process, and will start the collection of loans if the plans are no longer

considered valid or feasible. If either company faces a renewed liquidity crisis, it will immediately face bankruptcy and will be forced to apply for court receivership.

Therefore, the integrity of market-based restructuring has not been compromised by the decision of creditor banks to allow Hyundai Engineering & Construction and Ssangyong Cement to continue their self-rescue programs, but has been strengthened by their decision to treat the companies in the same manner as other potentially non-viable firms.

2. It has been pointed out that the number of companies named on the list is exaggerated, as plans for most of them were already decided and few companies were newly included on the list.

While it is true that several companies named on the list were already considered as being non-viable in 1998, the purpose of including the companies in the new list is to accelerate the process of resolving these companies. However, it should also be noted that even companies that are newly included on the list are not “new” at all, since the market already considered them as being non-viable. The fact of the matter is that, unless the economy collapses entirely, it is not possible for creditor banks to add a significant number of new non-viable companies to the list every year.

3. Views on criticism that more companies should have been included on the list if the criteria of interest coverage ratio had been strictly applied.

In assessing companies based on interest coverage ratio standard, creditor banks also have to consider the depreciation costs, investment recovery period, and industrial cycles facing each company. Without factoring in these aspects, if the interest coverage ratio were the only norm used by creditor banks, this would severely hinder the ability of companies to make new investments.

4. If the resolution of companies that received deferred arrangement coincides with year-end liquidity demands, it will pose a threat to financial market stability.

Companies have prepared their own funding plans for the year-end and companies under deferred arrangements will set up special funding plans as their survival depends upon the feasibility of these plans. More importantly, government will closely monitor financial markets and will implement stabilizing measures if and when they are needed.

5. The list includes only companies that do not incur direct losses to creditor banks or those from which banks are reasonably certain of their ability to collect loans. In addition, given the relatively small size of the companies, the “too big to fail” mentality seems to remain in effect.

Creditor banks based their credit risk assessments of potentially non-viable companies on the Forward Looking Criteria (since December 31, 1999) and reserved ample provisions accordingly. Therefore, they will be able to limit the potential damage to be incurred from additional losses stemming from the resolution of non-viable companies.

Given the nature of linkages and interdependencies in the Korean economy, the collapse of several large companies has the potential to cause significant damage both to the economy and to domestic financial markets. However, as long as such a case does not pose undue harm to the economy, financial markets or the processes of corporate and financial sector reforms, there will be no case in which a large non-viable company will be allowed to survive based solely upon their size or market influence.

6. There is a predominance of construction companies named on the list. This suggests that the assessment focused on industries, as opposed to individual companies.

Although the entire domestic construction market has shrunk by 30% from prior to the financial crisis, the number of construction companies has actually increased. As a result, the business and competitive prospects facing construction companies have been worsened significantly. The credit risk assessment, which was strictly based on viability regardless of size or industry, aimed to eliminate uncertainties from the market by arranging non-viable companies. And by exiting non-viable companies from the market, it is expected that the competitiveness and profitability of the construction sector will be greatly improved.

7. Have there been differing opinions from the court regarding the arrangement of non-viable companies?

Of course, the decisions on continuance of court receivership and mediation processes are the purview of the court. The assessment of credit risk by creditor banks of

potentially non-viable companies served to expedite the resolution process. When the liquidation value is deemed to be greater than the current value, creditor banks will apply for early liquidation of companies under court receivership.

If you have any questions, suggestions, and/or comments, please contact the Supervision Information Team at (82-2) 3786-8173 or the International Cooperation Office at (82-2) 3771-5975, fax (82-2) 3771-5985, or e-mail us at giovanni@fss.or.kr