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## Press Release

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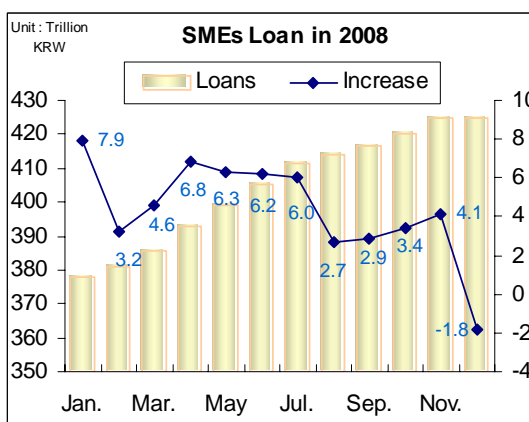
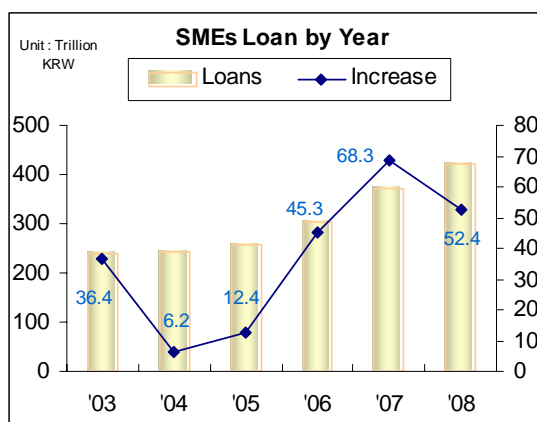
### REVIEW OF FINANCIAL ASSISTANCE TO SMEs IN 2008 & PLANS OF FINANCIAL ASSISTANCE IN 2009

#### I. Review of Financial Assistance to SMEs in 2008

##### 1. Banks Loans to SMEs

- ◆ (2008) Outstanding amount of loans to SMEs by 18 domestic banks increased by KRW 52.4trl. (from KRW 370trl in 2007 to KRW 422.2trl in 2008)

\* When including special set-off between loans and deposits carried out to support SMEs (KRW 0.9trl), amortization and sell-off of bad debts beyond 3 year-average (KRW 1.2trl), the actual total financial assistance amount was KRW 54.7trl.





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### Increase in SME Loans<sup>1)</sup> at Domestic Banks

(Unit: Trillion KRW)

Classification	2004	2005	2006	2007	2008	'08 (By Month)				
						Aug.	Sep.	Oct.	Nov.	Dec.
Net Increase	6.2	12.4	45.3	68.2	52.4 <sup>2)</sup> <54.7>	2.6	2.9	3.4	4.1 <sup>3)</sup>	-1.8 <sup>4)</sup> <-0.1>
Monthly Average	0.5	1.0	3.8	5.7	4.4					

Notes:

- (1) loans in bank accounts and trust accounts; numbers in < > represents the actual increase amount.
- (2) when including special set-off between loans and deposits, amortization and sell-off of bad debts, the increased amount of loans is KRW 54.7trl.
- (3) when including special set-off between loans and deposits (KRW 0.3trl), amortization and sell-off of bad debts, the increased amount of loans is KRW 4.7trl.
- (4) when including special set-off between loans and deposits (KRW 0.7trl), amortization and sell-off of bad debts (KRW 0.9trl), the decreased amount of loans is KRW 0.1trl (estimation).

- ◆ (December 2008) With the year-end effect, the amount of SMEs loans decreased by KRW 1.8trl. However, when including special set-off between loans and deposits carried out to support SMEs (KRW 0.7trl), amortization and sell-off of bad debts (KRW 0.9trl), the actual amount of SME loans was decreased only by KRW 70.9bn.

\* With the year-end effect (settlement of financial statements at the end of the year, settlement of B2B transaction, etc.), SMEs loans tends to decrease usually in December.

- ◆ When comparing the average decrease amount of SME loans in December for the past 5 years (KRW -2.8trl) with the decreased amount in December last year (KRW -3.6trl), it is not so noticeable.

### Increased Amount of SME Loans in December

(Unit: Trillion KRW)

Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008
-4.7	-6.0	-0.8	1.0	-3.6	-1.8*

\* KRW -0.1trl when reflecting special set-off between loans and deposits



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## 2. Fast-Track (Special Assistance Program to Tackle Liquidity Problems of SMEs)

- ◆ KRW 2.8trl was provided to 1,672 companies through the Fast Track Program from October 13 to December 31, 2008.
- ◆ KRW 1.4trl was provided to 413 companies which experienced loss from currency option such as KIKO.

### Liquidity Assistance through Fast Track Program (October 13 - December 31, 2008)

(Unit: Billion KRW)

	Assisted Enterprises			Assisted Amount				
	Applied	Evaluated	Assisted	Loan Conversion	New Loans	Maturity Extension	Others	Total
KIKO Enterprises	642	605	413	706	96	624	1	1,427
Ordinary Enterprises	4,531	3,125	1,259	-	482	905	5	1,392
<b>Total</b>	<b>5,173</b>	<b>3,730</b>	<b>1,672</b>	<b>706</b>	<b>578</b>	<b>1,529</b>	<b>6</b>	<b>2,819</b>

Note: The figures are simple summation of assistance by banks

- ◆ Assistance through the Fast Track Program has been accelerated since last December; the number of assisted enterprises increased by 2.5 times.

	Oct.	Nov.(A)	Dec.(B)	Increase (B-A)
▪No. of Assisted Enterprises	58	457	1,157	700
▪Assisted Amount (bn. KRW)	121	916	1,781	865



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### 3. Issuance of P-CBO

- ◆ KRW 1trl of P-CBO was issued in 2008 to help solve financial difficulties of SMEs which could not issue corporate bond due to their poor credit rating.

	1st(Nov.27)	2nd(Dec.11)	3rd(Dec.23)	Total
No. of Joined Enterprises	109	61	89	259
Amount of Corporate Bonds Issued (bn. KRW)	400	250	350	1,000

- ◆ Corporate Bond Market Stabilization Fund underwrote the 3rd issuance, which benefited joined enterprises with lower issuing rate (from 8.4% to 6.6%) and lower additional rate. (from 50bp to 5bp)

### 4. Consultation on SMEs' Financial Difficulties

- ◆ Since the opening of the 「Consultation Center for Financial Difficulties of SMEs」, the accumulated number of consultation cases reached 1,060. (including the consultation carried in related organization of banks)
- ◆ Banks admitted 526 cases (49.6%) and provided KRW 504.3bn.
  - 534 cases were obtained through persuasion,
  - 176 cases were transferred to relevant institutions
  - 114 cases were rejected
  - 35 cases are under scrutiny.

(Unit: Billion KRW)

New Loans		Maturity Extension		Rate Adjustment		Total	
cases	amount	cases	amount	cases	amount	cases	amount
269	235	200	225	57	44	526	504



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## < Evaluation on Financial Assistance in 2008 >

- ◆ SMEs supports in 2008 was effective in terms of quantity and quality
  - In terms of quantity (KRW 52.4trl), the increase amount of SMEs loans in 2008 was similar to the increased amount in 2006~2007 on the average (KRW 56.7trl), and was higher than the average past 5 years (KRW 33.7trl).
  - Although the net increase amount in the second half of the year was less than that in the first half of the year, increase amount recovered since the government's policy announcement for the assistance.\*
    - Net increase amount of SMEs loans (trillion KRW):  
(Aug. 08) 2.6 → (Sept. 08) 2.9 → (Oct. 08) 3.4 → (Nov. 08) 4.1  
→ (Dec. 08) -0.8  
(the real decrease is 0.1 excluding special set-off between loans and deposits)
- ◆ In terms of quality, financial support to SMEs which had financial difficulties due to global financial crisis was extended.\*
  - In case of bank A, the financial assistance to SMEs below grade 5 was expanded to 40% at the end of 2008 from 38.1% at the end of previous year.
  - Through the Fast Track Program, KRW 2.8trl was provided to enterprises (graded 5~7 out of 10 grades) with liquidity difficulties by KIKO, etc.



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## II. 2009 SME Financial Support Target

- ◆ Plan to provide KRW 50trl of support to SMEs in 2009
    - In particular, financial provision will be focused in the first half of the year when the economic recession is expected. (over 60%)
  - ◆ Because financial support can be difficult to even viable enterprises if restructuring fails, corporate restructuring will be driven alongside with financial assistance.
- 
- ◆ Diversified strategies will be prepared including credit guarantees by credit guarantee institutions, capital injection to banks, exemption of responsibility, and financial support by state banks for effective financial assistance.
    - ① Risks related with SME loans will be shared by credit guarantee expansion.
      - \* new credit guarantee amount will be expanded. (KRW 13.5trl in 2008 → KRW 25.2trl in 2009)
      - \*\* KRW 2trl of P-CBO will be issued in the first half of 2009.
    - ② Capital injection will be carried through KRW 20trl - Banks Capital Expansion Fund.
    - ③ Responsibility of executive officers and staff members of banks related to lending will be exempt unless intentional or grave mistakes are involved. (effective from January 2009)
    - ④ Financial provision to SMEs will be expanded through KDB, IBK.
      - \* KRW 32trl in 2008 (KDB 8 trillion, IBK 24 trillion)
      - KRW 44trl in 2009 (KDB 12 trillion, IBK 32 trillion)
  - ◆ Efficient corporate restructuring will be carried out as well in order for the financial support to be focused on enterprises that are viable despite temporary liquidity problems.
  - ◆ While supporting enterprises with liquidity difficulties through the Fast Track Program, work-out will be swiftly driven for effective corporate restructuring.
    - Related performance figures will be thoroughly examined every month so that those above efforts can result in maintaining growth potential, creating new jobs and accelerating economic recovery.



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### III. Additional Action Plans in 2009

#### 1. Temporary Execution of 『Emergency Measures on Credit Guarantee Operation』 (~09)

- ◆ 『Emergency Measures on Credit Guarantee Operation』 will be executed temporarily in 2009 reflecting changes in corporate business circumstances so that credit guarantee can be provided sufficiently and promptly.

##### A. Improvement in credit guarantee system

- ◆ Credit guarantee criteria will be softened reflecting aggravated business circumstances such as widespread sales drops, increasing provisional attachments.(until June 09)
  - ① Credit guarantee infringement criteria will be softened reflecting corporate trends of sales drops and loan increases. (KODIT)

##### Sales drop:

(current) over 25% than previous year → (to be amended) over 40%

##### Loans to sale increase:

(current) over 70% of 『total loans to sales』 → (to be amended) over 100%

(current) over 50% of 『loans for working capital to sales』 → (to be amended) over 70%

- ② Credit guarantee can be provided by the integrated decision of the branch general managers even in case of provisional attachment. (KODIT). Probation period for credit guarantee due to provisional attachment or so will be shortened (from 1 year to 6 months) (KIBO).
- ③ Criteria on poor credit-worthiness and loan arrear will be softened (KODIT)
  - Credit guarantees can be provided by integrated judgment on credit-worthiness to enterprises which have much debt beyond debt ratio ceiling\* or experience sales drops for two consecutive years. Arrears which are not related to the enterprises directly, such as arrears of discounted notes, can be excluded from the enterprises' arrears.



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\* Wholesales businesses: 600%, manufacturing businesses: 550~600%

\*\* Loans related to the third party's settlement such as discounted notes, network loans

- ④ In case of facility investment, even though the application amount is over KRW 1bn, strict criteria will not be applied. (KODIT)

\* Business prospect, corporate valuation, etc.

- ⑤ For technology start-ups, credit guarantees are decided on technology evaluation only, excluding credit ratings of the enterprise. (KIBO)

- ◆ Early credit guarantees to enterprises which have not finished settlement of financial statements (KODIT)

- Even before the financial statements reports (end of March), when the enterprises settles their financial statements by the decision of the board of executive directors, credit guarantees can be decided on the financial statements in January to February.

- ◆ Method of calculating credit guarantee amount will be revised to expand the credit guarantee amount for the enterprises.

- In case of working capital, credit guarantees up to KRW 300mil can be provided regardless of sales amount. (KODIT)
- For mortgage notes, B2B commerce which is mainly used for SMEs to purchase raw materials, preferential treatment on calculating credit guarantee ceiling will be applied. (KODIT)

\* Currently exporting enterprises and start-ups are preferentially treated in calculating credit guarantee ceiling: normally 1/6 ~ 1/4. Revised to: 1/2 on sales

- When calculating credit guarantee ceiling by sales amount, "sales revenue of the year" or "sales revenue for the recent 1 year" can be preferentially selected. (KODIT)

- Credit guarantee ceiling will be expanded to 100% of required capital regardless of their credit rating.

\*currently 80~100% according to credit rating (KIBO)





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## B. Improvement in guarantee procedures

### ◆ Facilitate prompt support by lowering decision level

#### ➤ Lower decision level (KODIT)

General manager of credit guarantee office  
: KRW 300 million → (Maximum) KRW 1 billion  
Team manager  
: KRW 100 million → (Maximum) KRW 300 million

#### ➤ Lower decision level on guarantees for low graded technology-based start-ups (technology evaluation grade below CCC) (KIBO)

Guarantee evaluation committee → General managers of branches  
(in case below KRW 200 million)

### ◆ Expand the re-evaluation committees to the 9 business headquarters.

\*Currently only one committee in the head office - established on Dec.1, 2008

#### ➤ Provide more opportunities for re-evaluation for the enterprises whose guarantee applications have been disapproved (KODIT)

### ◆ Focus on providing new credit guarantees by making guarantee evaluation procedures more efficient

#### ➤ Make guarantee procedures more efficiently by early introducing the checklist-type "automatic evaluation system for small sum guarantees (below KRW 50mil)" (Jan. 2009)

### ◆ Lessen the burden of SMEs by lowering guarantee fees

#### ➤ Currently, additional guarantee fees (up to 0.3%) are applied to the enterprises using guarantees for over a certain period of time or a certain amount.

#### ➤ Lessen the financial burden of guarantee fees by approximately KRW 30bn reflecting the economic downturn

\* Lower additional guarantee fee rates for long-term guarantees and large sum guarantees by 0.1% point and 0.2% point respectively



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### C. Improvement in business practices such as performance evaluation

- ◆ Evaluation items of "Early Provision of Credit Guarantees" will be newly introduced in the performance evaluation in order to strengthen motives for SME support.
  - (KODIT) evaluation on policy accomplishment will be reinforced by introducing the above evaluation item and strengthening qualitative evaluation.
  - (KIBO) "Early Assistance of New Credit Guarantees" will be introduced in the branch evaluation system.
- ◆ Feedback on credit guarantee products and systems will be reinforced by frequent performance examination meetings presided over by CEOs, on-time questionnaire to customer enterprises.

## 2. Prevention of Banks' Rejection on Credit Guaranteed Loans

- ◆ (Current Situation) After Korea Federation of Small & Medium Businesses suggested the problem that banks rejected credit guaranteed loans, related investigation revealed banks' rejection on credit guaranteed loans was trivial.

\* 5 rejection cases has been accepted to the 「Consultation Center for Financial Difficulties of SMEs」 since Sept. 2009 (Total of 1.060 cases)

  - However, banks tend not to provide large support to a specific line of industry for risk management. (Example: guarantee for bridge loan for construction sectors)
- ◆ (Improvement Plan) Notify SMEs that they report to the 「Consultation Center for Financial Difficulties of SMEs」 in case banks reject the loans guaranteed by KODIT or KIBO.
  - Take relevant measures by conducting immediate on-site investigations when the case is confirmed
  - Expand support to construction enterprises by improving the bridge loan credit guarantee systems



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◆ **Improvement of bridge loan guarantee system regarding following suggestions from the Construction Association (completed)**

- ① Standardize the contract for rights transfer (Dec. 24)
- ② Enterprises can apply for credit guarantees in spite of provisional attachment to their main business premises if it is not directly related to the business of the enterprises. (Dec.24)
- ③ Extend the ceiling amount for each enterprise (KRW 30 billion →KRW 200 billion) and even to the enterprises in the 30 largest business conglomerates (Dec.30)
- ④ Revise accounting regulations to facilitate bridge loan (Dec.29)

**3. Improvement of Guarantee Procedures in the Fast Track program**

- ◆ (Current Situation) Even low graded enterprises apply for credit guarantees, to which banks may not extend loans, and evaluation procedures by guarantee institutions are also regarded as strict.

\* Only 66.3% (343 cases) of Fast Track guarantee application was approved (as of Dec. 15)

- ◆ (Improvement Plan) Apply emergency guarantee measures to Fast Track program and strengthen internal evaluations on performances

- However, provide banks with guidelines\* on guarantee applications for the Fast Track Program in advance to prevent unreasonable guarantee applications

\* Reasons for rejection: deficit for more than 2 consecutive years, complete capital encroachment, etc.

**4. Monthly Supervision on Performance of Financial Support for SMEs**

- ◆ Encourage support to the enterprises, upon which the evaluation has been finished (3,125 enterprises as of the end of 2008) so that financial support to them can be completed in Jan. 2009.

- Accelerate financial support for SMEs by checking monthly performances of each bank during the first quarter of 2009.

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