Press Release

Financial Supervisory Service
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Results of 1st Round of Credit Risk Evaluations on SMEs

Overview

Korea's 18 domestic banks have completed the first round of credit risk evaluations on 861 SMEs that have between KRW5.0 billion and KRW50.0 billion in borrowings and are subject to external audits. As a result of the evaluations, a total of 113 companies or 13.1% of the evaluated SMEs were chosen for corporate restructuring as 77 and 36 companies were rated C and D respectively.

Through prompt debt rescheduling, creditor banks plan to turn around companies rated C in accordance with the revised Creditor Bank Agreement that was signed among creditor banks on July 3, 2009.

Under the revised agreement, the main creditor bank of a workout company can go ahead with the restructuring proceedings without the consultation of other creditor banks to ensure a prompt and efficient support and confidentiality of the proceedings. In the past, protracted talks among creditor banks that often consumed up to 2 -3 months stalled prompt support, while leaks of possible workout procedures raised a host of management issues for the companies concerned. The revised agreement is expected to add tailwind to SME restructuring in the future by helping to reduce creditor banks' related risks in the process of selecting workout companies and secure their cooperation.

With total outstanding debt of KRW1.6 trillion owed by the companies rated C or D, creditor banks are expected to set aside KRW280 billion in additional provisions.

Future Plans

The 2nd round of credit risk evaluations will be conducted on SMEs with more than KRW3.0 billion in borrowings and are subject to external audits. Companies will be selected for the evaluations by the end of this month, and the evaluation will be completed by the end of September.

Along with the 5,300 companies that have between KRW3.0 billion and KRW5.0 billion in borrowings and are subject to external audits, the 2nd round of credit risk evaluations will include the 4,300 companies that have between KRW5.0 billion and KRW50.0 billion in borrowing, but were not included in the 1st round of evaluations. As financial conditions were only considered in the 1st round of credit risk evaluations, companies will be re-evaluated in the 2nd round for quality conditions. Quality conditions to be taken into consideration will include whether the companies reported delinquencies more than three times and extended the maturities of discounted bills more than twice since the turn of this year.

In August and September, the FSS will encourage creditor banks to put more commitment to SME restructuring through reviews of the 1st round of evaluation results and the 2nd round selection process. Support for preemptive restructuring of SMEs is pre-requisite for banks to maintain their financial health and minimize their loan losses. For those SMEs close to losing their eligibility for financial support and facing structural difficulties, this latest restructuring effort will be an important part of supporting SMEs financially to build the basis for sustainability through debt rescheduling.

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