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## Press Release

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July 30, 2009

### CORPORATE RESTRUCTURING PROGRESS & FINANCIAL SECTOR'S NON-PERFORMING LOANS

An economic policy meeting was convened by the President on July 30 discussing the current progress of corporate restructuring and plans to resolve non-performing loans in the financial sector. The following is a conclusion of those discussions in efforts to promote a smooth and preemptive restructuring for the corporate sector and improvements to facilitate its effectiveness.

#### **Corporate Restructuring Progress**

##### A. Industry-Specific Restructuring

Creditor bank-led credit assessments were completed on 277 construction and shipbuilding companies (1<sup>st</sup> round in January and 2<sup>nd</sup> round in March) and shipping companies (1<sup>st</sup> round in April and 2<sup>nd</sup> round in June).

46 companies in total were selected for restructuring; 29 construction companies; 7 shipbuilding companies; and 10 shipping companies.

Subsequently, progress has been made on the following fronts. 5 companies have completed their workout programs, 18 companies are presently under workout programs, and corporate restoration processes are underway on 23 remaining companies.

##### B. Restructuring of Conglomerates

45 conglomerates whose credit facilities account for more than 0.1% of total credit provided by the financial sector were put under separate assessment. 9 of those companies entered into contractual agreements with creditor banks on June.

Based on the agreements, subject companies will make every effort to restore market confidence and take stepped-up measures of improving their financial conditions, which include recapitalization and sale of non-core subsidiaries and assets.



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### C. Restructuring of Large Individual Corporations

Creditor banks have carried out credit assessments of large individual companies with credit facilities in excess of KRW 50 billion.

In the second round of credit assessment, 433 companies were analyzed, and as a result, 33 companies were targeted for restructuring on June 10. Of the 33 companies, 22 companies were C-rated and 11 companies were D-rated. Workout programs are well underway on subject companies.

### D. Restructuring of Small and Medium Enterprises

On July 15, the first round of credit assessment was completed on SMEs which have more than KRW 5.0 billion in borrowing and are subject to external audit.

861 companies were selected for detailed assessments. Subsequently, 113 companies were targeted for restructuring. Of the 113 companies, 77 companies were C-rated and 36 companies were D-rated. Workout programs were initiated for subject companies.

### **Future Restructuring Plans**

The second round of credit assessment, which will be completed by the end of September, will center on SMEs that have between KRW 3.0 billion and KRW 5.0 billion in borrowing and are subject to external audit.

The third round of credit assessment is due to be completed by the end of November this year. The assessment will include companies that are not subject to external audit or sole proprietorships with more than KRW 3.0 billion in debt, and those that have between KRW 1.0~3.0 billion in debt and are subject to external audit.

Subject companies that will be selected in future assessments will quickly undergo workout programs and sign MOUs with creditor banks to revamp their financial structure and will be under constant monitoring to expedite the restructuring process.

### **Financial Sector's Non-Performing Loans**

#### A. Banking Sector

The NPL ratios continued to increase in the second quarter of 2009 to 1.5% (KRW 19.6 trillion) from 1.47% (KRW 19.3 trillion) in the first quarter. But the speed of increase has significantly been reduced.



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### NPL Ratios in Banks

(in KRW, trillion)

	2000	2003	2005	2006	2007	2008	'09 Mar.	'09 Jun.
Amount	42.1	18.7	9.7	7.8	7.7	14.7	19.3	19.6
%	8.0	2.63	1.22	0.84	0.72	1.14	<b>1.47</b>	<b>1.50</b>

The declining speed of increase in NPL ratio is attributed to domestic banks' self-efforts in resolving NPLs coupled with the declining number of new NPLs (KRW 9.3 trillion in 1Q09 and KRW 7.6 trillion in 2Q09) due to improved business environment.

Especially in the banking sector alone, they have either written off or sold a considerable amount of their NPLs in the second quarter, about KRW 3.4 trillion (2.5 times the 2 year quarterly average of KRW 1.3 trillion).

### Amount of NPLs Resolved by Banks

(in KRW, trillion)

	2007	2008					2009	
		1/4	2/4	3/4	4/4	Total	1/4	2/4
New NPLs	12.0	3.5	3.4	4.5	9.5	<b>20.9</b>	<b>9.3</b>	<b>7.6</b>
NPL Resolutions	12.2	2.3	4.0	2.5	5.2	<b>14.0</b>	<b>4.7</b>	<b>7.3</b>
write offs / sales	3.9	0.9	1.3	1.0	2.8	6.0	1.9	<b>3.4</b>
sale of collateral	3.8	0.8	1.1	0.7	1.2	3.8	1.1	1.4
etc.*	4.5	0.6	1.6	0.7	1.3	4.2	1.7	2.5
Balance Remaining	7.7	8.9	8.3	10.3	14.7	14.7	<b>19.3</b>	<b>19.6</b>

\*Through issuing ABS, and credit normalization

The delinquency ratios in both the corporate sector and households are showing rapid improvements, causing less pressure towards the rise in NPLs.

### Delinquency Ratios in Domestic Banks

(in %)

	2008			2009			
	end-May	end-June	end-Dec	end-Mar.	end-April	end-May	end-June
KRW denominated loans in TOTAL	1.04	0.78	1.08	1.45	1.58	1.60	<b>1.19</b>
Corporate loans	1.33	1.01	1.47	2.05	2.26	2.28	1.69
SMEs	1.51	1.14	1.72	2.33	2.59	2.57	1.86
Households	0.70	0.52	0.60	0.73	0.75	0.78	0.59



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## B. Non-Banking Sector

Despite the non-banking sector not having been hit too hard by the financial crisis, compared to the banking sector, there has been a steady rise in NPLs in the non-banking sector.

### Amount of NPLs in Non-Banking Sector

(in KRW, trillion)

	2007	2008	2009 end-March
Mutual Savings Banks	4.1 (8.77%)	5.0 (9.08%)	5.4 (10.01%)
Specialized Credit Businesses	1.8 (2.55%)	2.1 (2.81%)	2.4 (3.19%)
Insurance Companies	1.5(2.07%)	1.5 (1.85)	1.5 (1.86%)
Securities Companies	0.9 (4.98%)	1.3 (9.10%)	1.7 (11.35%)
etc.	0.7 (3.60%)	0.7 (3.46%)	0.9 (4.02%)
<b>TOTAL</b>	<b>9.0 (3.98%)</b>	<b>10.7 (4.33%)</b>	<b>11.9 (4.84%)</b>

Although the speed of increase in NPLs is steadily declining, the outlook will depend on several factors such as the progress in restructuring, the speed of recovery in the overall economy, and the global financial climate.

## Plans to Resolve NPLs in the Financial Sector

### A. Utilizing the Restructuring Fund

In a preemptive response to the financial crisis, the government revised the KAMCO Act to establish the Restructuring Fund. The revised Act went into effect on May 13.

The 2009 management plan for the Restructuring Fund of KRW 20 trillion was submitted to the National Assembly on May 22. Since then, the Fund has purchased project financing NPLs worth KRW 816.4 billion from banks for KRW 462.2 billion.

Negotiations with shipping companies are underway to purchase ships in an effort to restructure the shipping industry. In an initial step, 17 of the 62 ships for sale were purchased on July 22 for KRW 191.5 billion.

The Public Fund Management Committee will be established in August and it will decide on the criteria for purchasing troubled assets. The committee will push for expedient and effective resolution of NPLs.

### B. Utilizing the Capital Markets

A revision to the Financial Investments Services and Capital Markets Act was tabled at the



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National Assembly on April 7, 2009 to make improvements to the private equity fund (PEF) system. This is to utilize the private sector's capital resources and know-how in regards to corporate restructuring and the disposal of NPLs.

Under the current system, the purpose of investment for PEFs is limited to participation in management, which restricts PEFs from investing in troubled assets such as NPLs of financial institutions and unsold apartments.

#### C. Utilizing the Private Bad-Bank

Financial institutions are resolving their troubled assets by either write-offs or selling them in the market. On average, around KRW 3.7 trillion of troubled assets were written off or sold quarterly throughout 2008 and in the first quarter of 2009.

Six banks including Kookmin Bank plan to invest a total of KRW 1.5 trillion to establish a bad bank in September.

#### E. Utilizing the Bank Recapitalization Fund

The BIS ratios of financial institutions risk decline when banks start aggressively resolving their NPLs. If such problem emerges, the government will support their recapitalization efforts utilizing the KRW 20 trillion Bank Recapitalization Fund.

### **Further Measures**

For banks, a target NPL ratio will be set at 1% to be achieved until the end of this year, and their progress will be closely monitored and managed by the FSS.

The NPLs arising from the non-banking sector's project financings will be resolved through the Restructuring Fund, and when their financial soundness starts to deteriorate, majority shareholders will be advised to recapitalize their institutions.

Quarterly inspections will be conducted by the FSS in specifically higher-risk credit businesses to ensure their asset soundness by enhancing transparency and properly recognizing potentially troubled assets.

When dealing with NPL purchases through the Restructuring Fund, the post-settlement method from the IFRS, which is set for a full adoption in 2011, will be applied.



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Contact persons:

Lee, J. Ernst  
Foreign Press Spokesperson  
Foreign Press & Relations Office  
Financial Services Commission

Tel: +82-2-2156-9582  
Fax: +82-2-2156-9589  
E-mail: [happyhero@korea.kr](mailto:happyhero@korea.kr)

Soomi Kim  
Foreign Press Spokesperson  
Public Affairs Office  
Financial Supervisory Service

Tel: +82-2-3145-5800  
Fax: +82-2-3145-5808  
E-mail: [soomi.kim@fss.or.kr](mailto:soomi.kim@fss.or.kr)