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Press Release

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Progress on Corporate Restructuring

Overview

A preemptive corporate restructuring initiative has been carried out thus far in the interests of financial market stability and recovery from the economic crisis.

Although partial signs of an economic recovery have recently been apparent, staying committed to a sustained restructuring effort remains paramount to strengthening Korea's economic competitiveness going forward.

Recognizing that an unwavering commitment to corporate restructuring is necessary, the government reviewed the progress during the President-led economic policy meeting earlier today and determined the future direction of corporate restructuring.

Progress in Corporate Restructuring

Restructuring of Conglomerates

A full-fledged corporate restructuring has been underway, which included contractual agreements with the nine conglomerates whose liquidity positions had earlier raised concerns. For the groups that signed contractual agreements, intensive self-rescue plans, such as sales of subsidiaries, asset dispositions, and capital expansions, are being actively pursued.

Through the main creditor banks, the progress of the conglomerates' self-rescue plans is being interminably reviewed, and by encouraging their prompt execution proactive restructuring is being given added impetus.

Industry-Specific Restructuring

To lay to rest market uncertainties surrounding the possible distress in construction, shipbuilding, and shipping industries, 46 of the 277 companies that were rated C and D were selected for restructuring.

Most of the creditors and the respective workout companies have entered into MOUs and are moving quickly through restructuring, such as debt rescheduling and self-rescue plans. As a result, six of the companies have since graduated from workout. Among the 14 D-rated companies, seven companies were called to repay their loans, three companies were



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put to court receivership, and four were brought subject to the process of liquidation and dissolution.

Restructuring of Large Individual Companies

In keeping with the *Corporate Restructuring Promotion Act*, creditor banks conducted annual credit risk evaluations on large companies with credit obligations of KRW50.0 billion or more, of which there were 1,422 in 2009. The credit risk evaluations, which had been conducted annually between April and June, were wrapped up this year on June 10, and restructuring was actively pursued by applying high standards.

With the evaluation results serving as the basis, restructuring procedures are now well on track for the benefit of having workout move quickly along, including reaching settlements with creditors, conducting external due diligence, among others. Out of 22 workout companies, two graduated from workout, five finalized the plans to normalize their management and the remainders are now in due diligence.

Restructuring of Small & Medium-sized Companies

Along with continued support to the most viable small and medium-sized companies, restructuring aimed to strengthen risk management and add efficiency to the extended support has been moving forward. By the end of November this year at the conclusion of the third round of credit risk evaluations, restructuring is expected to commence top down according to the credit amount a company holds.

After the first round of evaluations, which ended last July 15 on companies having KRW5.0 billion or less debt and which are subject to external audits, 113 of the companies rated C and D among 861 were selected and are currently undertaking restructuring, such as workout.

Since August, the second round of evaluations has been taking place on 1,461 of the 15,618 companies having KRW3.0 billion or more debt and which are subject to external audits. The second round is expected to be completed by the end of September. The third round of evaluations which will be focused on those having KRW1.0 billion or more in debts is slated to be finished by the end of November.

Issues & Proposed Countermeasures

Creditor-led restructuring is expected to gain greater stride and momentum by actively addressing the issues that have arisen during the respective stages of restructuring.



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Selection Process Stage

Issue: Credit risk evaluations, which are led by creditor banks, could be lenient due to the deterioration in the performance results of banks and expectations of an economic recovery.

Measures: Creditor banks have been encouraged to expand their capacity of absorbing losses and conduct rigorous credit risk evaluations.

Restructuring Stage

Issue: Concerns over possible delays in restructuring with the workout process held up as a result of different views among creditors and withholdings in the issuance of guarantees.

Measures: Multiple measures have been devised to support workout companies to the extent that they would not bring about moral hazard. Furthermore, support was extended for the issuance of guarantees, such as those for overseas construction contracts, while a Vessel Fund was started using the Restructuring Fund to support the reorganization of the shipping industry. Upon extending any new capital to workout companies, creditor banks were encouraged to promptly give support by reducing their required loan-loss provisions to around 50%.

Future Direction of Restructuring

There has been solid commitment to restructuring in order to strengthen Korea's future economic competitiveness, not dashing fledgling signs of an economic recovery.

Prompt Conclusion of Current Restructuring

Creditors will be urged to conduct thorough quarterly reviews on the groups of conglomerates that have signed MOUs and to move promptly through them.

Creditors will also be encouraged to promptly normalize the operations of construction, shipbuilding, and shipping companies by executing MOUs.

The restructuring plans of large individual companies, such as their management normalization plans, will be finalized by the end of September while restructuring procedures for SMEs selected after the first round of evaluations will also proceed on schedule.



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Interim Conglomerate Evaluations & SME Credit Risk Evaluations

Based on the operating results of the first half, an interim evaluation will be conducted during September on conglomerates whose financial structure poses risks of deteriorating. Based on the results of the evaluation, restructuring will move forward by executing agreements with conglomerates needing financial structure improvements.

Without abating, strict credit risk evaluation standards will be applied on SMEs during the second and third rounds, which are respectively scheduled to wrap up by the end September and November.

Resolution of NPLs During the Course of Restructuring

With corporate restructuring, banks are encouraged to actively identify and quickly resolve non-performing loans. Creditor banks are to prepare for any future economic contingencies by striving to lower their NPL ratios to below 1.0% by year-end.

Regulatory Changes in Support of Corporate Restructuring

A regulatory framework had been adopted ahead of time thus far in support of restructuring, including the raising of the Bank Capital Expansion Fund, Restructuring Fund, and Financial Stability Fund. Going forward, a regulatory framework that fully utilizes the capital markets, such as M&As, will continue to be strengthened to support successful restructuring.

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