

FSC CHAIRMAN MEETS WITH VENTURE STARTUPS AND HOLDS TALKS ON BOOSTING INVESTMENT

FSC Chairman Kim Joo-hyun visited Mapo Front1, the largest startup support center in Korea, on November 24, where he held talks with venture businesses, venture capitalists and financial institutions. Chairman Kim listened to difficulties and complaints from startups and venture businesses and also asked financial institutions to increase investment and support for startups and venture businesses.

SUMMARY OF FSC CHAIRMAN'S REMARKS

Startups and venture businesses are essential for increasing our economy's growth potential and creating jobs. Thus, it is important to establish an ecosystem where they can thrive. Meanwhile, to improve our economy's competitiveness, more startups and small businesses with technological prowess and innovativeness need to be fostered even in times of investment drought.

Therefore, the FSC and policy financial institutions will strengthen their support for innovative and promising venture businesses by providing more funding opportunities and acting as a priming pump to attract more private sector investments. For this, the innovative growth fund worth KRW15 trillion¹ will be created over the next five years to support SMEs and startups in new industries such as semiconductor and artificial intelligence (AI) and to supply venture businesses the funds in need to grow up into unicorn companies.

<Details of Innovative Growth Fund (tentative)>

(Fund Size) Fiscal injection of KRW300 billion a year to make KRW3 trillion funds annually (10% of capital investment comes from the government) → Total KRW15 trillion over five years (2023~2027)

(Investment Target) For innovative industries and support for growth (KRW1.5 trillion a year for each)

- For innovative industry: SMEs and startups in new industries and strategic industrial sectors such as semiconductor, AI, aerospace, etc.

- For growth support: Support startups and venture businesses to grow into unicorn companies

(Fund Management) To the most extent possible, the fund management will be based on the autonomy of the private sector.

Second, policy financial institutions—Korea Development Bank (KDB), Industrial Bank of Korea (IBK) and Korea Credit Guarantee Fund (KODIT)—will introduce a lending program worth KRW6.3 trillion, which will provide funds to startups and venture businesses based on loan examinations focused on their growth potential rather than their financial statements and the value of collaterals. In particular, the IBK will introduce a new lending program for venture businesses, modeled after those

¹ The size of the fund is subject to change during the National Assembly's budget review process.

observed in Silicon Valley, which will offer loans with zero-interest rate bonds with warrants (BW) attached. This program will enable early-stage venture businesses to continue financing their projects by providing loans with an interest rate lower than market rates during the period of insufficient funding between early-stage and next-stage investment.

<Details of Venture Business Lending Program>

(Eligibility) A venture business that is recommended by an outstanding venture capitalist (VC) or accelerator (AC) and needs funds while waiting to receive follow-up investment after securing seed investment.

- This program will benefit venture businesses that can quickly secure necessary funds and wish to lessen their interest burdens, or those wanting to delay acceptance of follow-up investment to boost the value of the company.

(Examination) Loan examination will focus on technological prowess and growth potential, instead of the value of collaterals or credit ratings.

(Maximum loan amount) Within 50% of the total amount of investments received in the past year (within 100% for startups aged 3 years or less)

(Interest rate) Ordinary loan (with normal interest rate) combined with zero-interest rate BWs attached → Interest rates may differ by combination ratio.

[Examples of interest rate for KRW1 billion in venture business loan]

Warrant Ratio	Ordinary loan amount (5%)	BW	Final interest rate
10%	KRW900 mil.	KRW100 mil.	4.5%
30%	KRW700 mil.	KRW300 mil.	3.5%
50%	KRW500 mil.	KRW500 mil.	2.5%

Third, authorities will introduce business development companies (BDCs), which are a new type of venture capital entities, and make reasonable improvements to the current regulations on publicly offered funds. These measures will facilitate fund supply from private sectors through capital markets.

Fourth, to support the listing of innovative firms, authorities will substantialize the specialized assessment of technology, etc. for a technology growth company which applies for listing. Standard assessment models reflecting different aspects of different business types will be used.

Financial institutions are also encouraged to supply funds more actively to startups and venture businesses and to contribute to develop infrastructures to foster and cultivate them.

SUMMARY OF REMARKS BY PARTICIPANTS

(VENTURE BUSINESSES) With the rapid drying out of liquidity in the venture market, venture businesses face difficulties in securing sufficient funding needed for growth. To ensure sufficient inflow of the private sector funds, venture businesses asked financial institutions to make investments in a variety of areas. Venture businesses also requested the government to endeavor to supply funds to innovative sectors and promote growth of venture capital funds.

(FINANCIAL INSTITUTIONS) Financial sectors said that they spare no effort in making investments and providing support for the ecosystem of the startups and venture

businesses. First, policy financial institutions will increase the size of venture investments next year and gradually extend their credit supply based mainly on the assessment of innovativeness and technological prowess. They will also strengthen their venture startup incubating function, such as investment connection, education, consulting, business spaces, investor relations, etc., through their venture business fostering platforms already in operation (KDB NextRound, IBK Startup Factory). Second, the banking sector will make active and continuous efforts to boost investments in not only fintech firms but also in other various sectors. In particular, Busan Bank pledged to bolster its program designed to foster startups and venture businesses, located outside the Seoul metropolitan area, which face the problem of inadequate infrastructures. Third, the financial investment business sector emphasized the important role of capital markets in a private sector-driven market environment, and said that, based on their corporate finance know-how that they have exploited from capital markets, BDCs (business development companies) will be utilized to provide customized support for startups and venture businesses at each growth stage of business lifecycle such as corporate discovery, accelerating, funding, listing and M&A, and they will create a business model that benefits both financial management companies and venture businesses.

FURTHER PLAN

The FSC, policy financial institutions and financial industry groups will continuously extend support for startups and venture businesses to ensure that our economy's innovation continues.

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