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## Press Release

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### **Results of Credit Risk Assessment for Construction and Shipbuilding Companies**

#### **1. Background and Direction of Corporate Restructuring**

Korea's financial markets have not been immune from the credit freeze and losses accruing to financial institutions stemming from global financial crisis. The crisis has spread to aggravate corporate liquidity and slow down the real economy and swift restructuring is needed to reverse the cycle of financial market uncertainties and shrinking real economy.

To facilitate the corporate restructuring process, the FSC/FSS established the Corporate Credit Support Task Force last November 28 and proposed the Corporate Restructuring Plan and Direction that was to be implemented in detail on December 9, 2008.

While the focus will be on saving companies, the financial regulatory authorities determined to move quickly towards corporate resolution for those with no realistic prospect of turnaround.

Distressed construction and shipbuilding companies—many hit particularly hard by the ongoing economic downturn—have been singled out as the first group in restructuring.

Unlike the currency crisis of 1997 when unequivocal corporate insolvencies allowed for broad restructuring on an industry scale, it has been difficult to be preemptive although main creditor banks have participated aggressively this time in quickly reaching their credit risk assessments in order to overcome the economic crisis as soon as possible.

#### **2. Prompt Action on Credit Risk Assessment Results**

To turn troubled companies around as soon as possible, those found to have warranted joint administration by creditor financial institutions received a workable level of financial support and close management oversight to pursue self-rescue plans.

By working steadfast in concert with their creditors, companies that manage to normalize their operations are expected to get second wind and grow stronger as a sound company in the future.

There is the possibility that the joint administration by creditor financial institutions will adversely affect, among others, the company's employees, subcontractors, and real estate investors, but the financial authorities are planning to coordinate offsetting policies by



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working closely with related government ministries.

In addition, extra effort should be made to help subcontractors avoid insolvency due to shorter-term liquidity difficulties. Banks are strongly encouraged to take advantage of Fast Track programs to facilitate and expedite credit extension to them while efforts will be given to completing projects that are ongoing overseas through deliberations with related parties, including with the projects' principals and creditors.

Companies that undertake workouts are likely to share the burden and show a willingness to comprise at difficult times by maintaining their employment levels, although wage adjustments are expected reflect the current economic conditions.

### **3. FSS Governor's Remarks for Successful Restructuring**

For these current restructuring processes to be successful there may be no more important cooperation and awareness to secure than those from all of us.

It is important to add clarity to the perception of restructuring, which in a truer sense denotes 'help them turnaround' instead of 'not to push them out', which it was seen during the currency crisis of 1997.

It is in this respect that the construction projects that are currently in the works will be seen to its completion, including residential building and overseas projects, just as the vessels on the orderbooks of shipyards will also be built and delivered.

### **4. Future Restructuring Actions**

Taking cue from creditor banks, the financial regulatory authorities will continue moving forward with corporate restructuring to stabilize financial markets and raise corporate competitiveness by staying one step ahead of insolvencies.

In cases where companies that were found as normal or sound but merely face short-term cash flow difficulties in this credit risk assessment either makes a request for new funds or such request is expected, support will be determined by an assessment of a group of outside experts.

Should externalities demand it, such as sudden and drastic changes in economic conditions, additional restructuring measures could proceed on the basis of a reassessment of risk by creditor banks with the latest accounts based on 2008 figures.

Led by the creditors, plans are also in store to perform the second leg of credit risk assessments as quickly as time allows on those construction and shipbuilding companies that were not included in this first round of assessments.



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Other than the respective construction and shipbuilding companies, there are plans to eradicate any signs of insolvency before it becomes full blown by vigilantly monitoring the liquidity positions of other industries and large companies.

It is very important that credit risk assessments are up to the task of rendering exact and impartial findings if the creditor-led restructuring process is to restore soundness to financial institutions and make full use of the limited resources to strengthen the competitiveness of companies.

It is in this respect that accountability will be demanded in no uncertain terms from creditor banks and executives if those companies that were graded A or B in this round of assessments become insolvent barring any externalities.

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