FINACIAL SERVICES COMMISSION

Press Release

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CORPORATE RESTRUCTURING:
STRATEGIC DIRECTIONS AND ACTION PLANS

Amid the global financial crisis, with acute awareness of the importance to revamp the overall economic structures in an effort to prevent spread of financial defaults in the markets, the Korean government has decided to pursue quick and effective restructuring measures.

The market environment of current crisis, however, is different from that of the 1997 Asian crisis in that there are no major defaults realized in the market, and this makes it more difficult for the government to push forward with one time, full-fledged corporate restructuring as back then.

Also, as the global economy has uniformly entered a drastic downturn, the expected efficacy of corporate restructuring programs especially in eliminating market uncertainty appears rather limited.

With such understanding, the Korean government has built the consensus for the importance of taking clear stances and establishing firm principles in pursuing corporate restructuring in order to maximize the chance of its successful outcome.

Accordingly, the officials from relevant ministries worked jointly to draft restructuring strategic directions and key action plans, and they were finalized on February 19, 2009 through the discussions at the Presidential Economic Crisis Management Committee meeting.

I. Strategic Directions

1. In the escalating global financial crisis, the need for expedient and intense restructuring efforts is apparent in the market as a way to prevent defaults in the financial industry.

2. In pursuing corporate restructuring, the government perceives the importance of clear understanding of the market conditions today and that it is quite different from that during the 1997 Asian crisis in many significant ways.

   - Back then, under high-interest rates and tight monitory policy, multiple corporate failures and financial companies' defaults surfaced which made it possible for the government to carry out intensive restructuring in a sweeping manner.

   - Now that no real defaults have yet to become real in the market, the principle strategic directions in pursuing corporate restructuring should be also different from those in the previous crisis in that the current situation requires preemptive and preventive measures.

   - As for now, the financial conditions of corporate and financial sectors are relatively sound compared to the 1997 crisis.

     Corporate Debt Ratio: 424.6% in 1997, 104.3% in Sept. 2008

     Banks' BIS Ratio: 7.06% in 1997, 12%level in 2008

Since the entire global economy is taking major downturns, the expected outcome of intensive corporate restructuring seems rather limited.

3. Taking into consideration these key differences between the crisis of now and then, the government will pursue corporate restructuring by taking following strategic directions.

   a. On-going restructuring programs will be implemented on the overall corporate sector while those non-viable companies in construction and shipbuilding industries that are already placed in restructuring programs will be restructured quickly in a decisive manner.

b. To prepare for further deterioration in the market conditions and contingent corporate defaults, all the necessary regulatory infrastructures and resources will be put into places for immediate actions when a need for them arises.

c. For viable companies with strong growth potentials, the government will render its full policy supports in both macro and industrial levels by shoring up the competitiveness and capital basis of the industries to which those companies belong. In this way, the companies can fully benefit from smooth liquidity flow which will be pivotal for them especially in playing leading roles in the process of making fast economic recovery and promoting economic growth into the future.

II Principles of Corporate Restructuring

On-going restructuring spear headed by creditor financial institutions

1. Creditor financial institutions will lead the restructuring programs for each company under such relevant legal basis as the Corporate Restructuring Promotion Act.

   -For consistent and expedient implementation of corporate restructuring, the mandates of the Creditor Financial Institutions Committee, comprised of private financial institutions, will be strengthened.

2. In parallel with the creditor-led restructuring, "market-led corporate restructuring model" will be also introduced to encourage companies to make voluntary efforts to revamp their businesses.

   -Considering the tightening corporate loan market situation, the government will guide companies to take full advantage of the capital markets through such means as asset sales and equity take-over.

3. The government's main role in overall restructuring process is to provide assistance to make sure that the programs run smoothly and quickly without legal or administrative impediments.

- The government will grant tax exemptions and other deregulations necessary for effective and market-led corporate restructuring.

- The government will set up legal and systemic provisions to support such restructuring mechanisms as bank recapitalization and purchases of NPLs. Both fiscal and tax supports will be also available if deemed necessary.

- The strategic directions for further corporate restructuring will be jointly devised with other government ministries to fully reflect the industry-related concerns such as the importance of revamping industrial competitiveness and the impact of restructuring on public welfares.

III. Key Action Plans

A. Successful implementation of on-going corporate restructuring programs

1. As for non-viable companies in construction and shipbuilding industries which are already undergoing creditor-led restructuring, a "Management Normalization Plan" will be drafted through due diligences for workout programs (to be completed by **the end of March).**

    - Construction and shipbuilding companies which are excluded from the preliminary screening for workout programs will be subject to secondary credit risk tests by the end of March, and follow-up plans will be determined accordingly.

    - The joint committee with officials from economic ministries, called "the Economic Financial Support Committee," will monitor the growing needs and directions for restructuring programs in each industry and reflect them on devising restructuring support programs.

      ****Currently, the committee is discussing restructuring directions for the marine industry*.**

2. Creditor banks will evaluate financial status of large corporate groups (**by the end of April**)

- Creditors will evaluate overall financial status of 44 large corporate borrowers under top 10 chaebols by reviewing their annual financial reports up to the year end of 2008.

- Companies which fail to meet the standards have to conclude an MoU with the creditor banks in the name of “financial structure improvement plan” which involves sales of assets and subsidiaries, among others.

3. Corporate restructuring support T/F groups will closely monitor and assist creditor banks in overseeing corporate restructuring process of their debtor companies while revamping the mandates of Creditor Financial Institutions Arbitration Committee.

B. Market-friendly corporate restructuring model

1. To accelerate asset and subsidiary sales of companies under restructuring, corporate restructuring funds will be formed:
   Private equity funds(PEFs) will be encouraged to participate in the restructuring scheme by having Korea Development Bank and the like involved. To allow the involvement of PEFs, related regulatory provisions will be prepared.

2. To ensure the successful and smooth operation of corporate restructuring programs:
   - Bank Recapitalization Funds worth of 20 trillion KRW
     The Funds will be actively tapped for the use of corporate restructuring and SMEs’ financial assistance (as agreed on February 15 Workshop).
   - Further specifics as to how to make use of the funds will be determined through discussions with involved banks **by the end of February**.

3. Expansion of NPL purchases led by Korea Asset Management Corporation (KAMCO)

   -KAMCO purchased NPLs from Project Financing of mutual savings banks **by the end of March**: KAMCO will complete the purchase of remaining 0.8

trillion KRW worth of NPLs out of its target amount 1.3 trillion KRW **by the end of March**.

- Banks' NPLs will be purchased and sold off through April and May, and if becomes necessary bad assets from household loans and corporate loans in some specific sectors can be considered for KAMCO acquisitions and sales.

4. Overall supports for successful corporate restructuring will be continuously reinforced while setting up a systemic support lines for the restructuring so as to enable the market to take quick preemptive actions in case the market conditions worsen.

-The government will provide legal and regulatory basis such as Asset Management Corporation Act **by the end of March**.

-Under the new law, Corporate Restructuring Funds will be set up under the KAMCO to concentrate on NPL clearance.

*Funding will be supplied by issuing government guarantee bonds and in a form of tax exemption.

-To promote effective restructuring programs, the government will provide fiscal and tax assistances. For instance, the government will seek ways to increase the base capital of the KAMCO in order to improve its capacity to purchase NPLs. As for taxation, any capital gain taxes charged on profits incurred from the transaction of NPL purchases by financial institutions will be allowed to get paid off in installments while any losses from writing off bad loans by financial institutions will be treated as operational expenses.