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Press Release

April 30, 2009

ECONOMIC POLICY MEETING TO SPEED-UP CORPORATE RESTRUCTURING

The following is a statement the Financial Services Commission and the Financial Supervisory Service issued at the conclusion of an economic policy meeting the President convened on April 30 for discussions on corporate restructuring. In the meeting, a comprehensive package of measures and steps were discussed and agreed for implementation to increase the speed and effectiveness of the corporate restructuring efforts.

Background

The government has taken a number of steps beginning in the second half of 2008 in order to facilitate and expedite creditor-led restructuring of distressed companies. They range from support measures for restructuring of 36 construction and shipbuilding companies and stepped-up monitoring of large companies facing credit shortage, to the creation of Bank Recapitalization Fund and the Corporate Restructuring Fund to help facilitate the restructuring.

There have been some calls of concern, however, that the restructuring process was held up and the impact of creditor-led restructuring efforts was limited, giving rise to consensus for the employment of decisive measures to increase the speed and effectiveness of the restructuring process. The consensus for expeditious restructuring efforts were backed by the enhanced capacity of the domestic economy to absorb shocks arising from the corporate restructuring and the improved economic conditions, marked by increased liquidity in the foreign exchange market and stability in the financial markets. The establishment of funds and legal foundation also added to pave the way for the full-fledged implementation of restructuring measures. (Relevant legislations are due at the April 30 plenary session of the National Assembly.)

Restructuring of Conglomerates

Major creditor banks will encourage conglomerates running a risk of deteriorating liquidity to take stepped-up measures of improving their financial conditions, which may include sale of their subsidiaries.

The FSS classified corporate groups, via their major creditor banks, as major debtors—all forty five large companies whose credit facilities account for more than 0.1% of total credit provided by the financial sector—to be put under separate monitoring. These companies will be evaluated at the end of April on a yearly basis to assess the health of their financial structures with a focus on such quantitative elements as debt ratio, interest coverage capability, and profitability.

With the companies that fall short of the standards, creditor banks will enter into contractual agreements in the following month to bring them subject to monitoring and supervision of the financial restructuring process. Those that face the risk of liquidity difficulties as a result of having over-acquired assets through M&As or excessive leverage will be encouraged to take self-rescue actions including sale of their subsidiaries. Among the companies that pass the quantitative assessment, some may be obliged to enter into contractual agreements with creditor banks when they fall short of the evaluations based on such non-quantitative factors as deteriorating corporate reputation and management stability, and are regarded to pose a risk of uncertainty to the market. In comparison, some that fail the quantitative examinations may not be subject to contractual agreements given the special nature of their business.

There will be close monitoring to ensure the progress runs in due course with punitive measures applied to credit banks whose level of commitment is lacking.

Restructuring of Large Individual Companies

Restructuring steps for large individual companies with credit facilities in excess of KRW50 billion will commence in full swing after the completion of their evaluations in the end of June.

The assessment of companies will proceed in three steps; basic assessment, which will analyze their latest profitability and cash flow to identify troubled companies; detailed assessment, which will incur a more detailed assessment of the companies selected in the first basic assessment, identified with signs of distress; and final determination in which those categorized as insolvent will undergo workout programs and restructuring procedure.

During the assessments, regular monitoring and supervisory oversight will closely follow in order to guarantee the strict evaluation and the intensive restructuring process. Companies that have good performance but are foreseen to go under rapid deterioration of creditworthiness will be encouraged to be included in detailed assessments. Banks will also be encouraged to increase needed personnel and create dedicated task forces if needed to move the restructuring effort further along. Submission of interim progress reports will be made a requirement as well as field examinations.

Restructuring of Other Companies

Re-evaluations for troubled companies and their workout proceedings will be conducted in a prompt and unambiguous fashion to prevent distress and uncertainty from spreading to creditor banks and the broad economy. Re-evaluations for construction and small-to-medium shipbuilding companies will be completed by the end of May 2009. Workout proceedings, involving an adoption of measures to assist distressed businesses back to normal, will be expedited to be completed by the end of June 2009. For companies that received a B rating or higher in the previous round of credit evaluations based on their financial statements as of September 2008 but subsequently showed signs of distress since then will be subjected to additional risk assessments based on the full year of 2008.

The restructuring of shipping companies will commence upon the completion of evaluations at the end of June. By the end of April 2009, credit risk evaluations were completed on 38 large shipping companies with loans in excess of KRW50 billion. Reorganization and support plans for the shipping companies that were selected for restructuring will be formulated and carried out by the end of July 2009. A joint private-public vessel fund will go towards supporting the restructuring efforts of the shipping companies. Credit risk assessments are also scheduled to be completed by the end of June for approximately 140 small shipping companies with a focus on those giving rise to liquidity concern.

Steps for Efficient Restructuring

Prompt and efficient restructuring efforts will be carried out with the FSS governor-led Corporate Credit Support Task Force providing systemic support to creditor financial companies.

Corporate management teams that are responsible for putting the companies in financial difficulties will be prevented from taking advantage of corporate restructuring efforts. For example, a few companies undergoing corporate workout recently applied for court receivership to keep the previous management by summoning the Consolidated Insolvency Act, which allows the previous management to stay on. In order to prevent reappointment of management responsible for poor management, creditor financial companies will be encouraged to proactively submit their opinions to the courts.

In order to make it possible for workout companies to receive new lines of financial support, creditor banks will be given “incentives” to help ease their added burden. Upon issuing new support, creditor banks will see a reprieve of approximately 50% in the required loan-loss provisioning, while also having their frozen claims period on the borrower removed from the delinquency period.

The FSS governor will preside the meeting of the heads of creditor banks, and bank presidents will be urged to directly oversee restructuring efforts given the gravity of the task at hand. Also, creditor banks will be notified ahead of time with supervisory authorities' plans to conduct separate examinations on the appropriateness of creditor banks-led restructuring efforts to ensure prompt and efficient restructuring.

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