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Press Release

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2010 Credit Risk Evaluations on Large Companies[*]

Evaluation Results

Creditor banks announced today a total of 65 companies for restructuring after completing their credit risk evaluations on 1,985 companies with outstanding credit lines of more than KRW50.0 billion.

Of the 65 companies, 16 were constructors with 9 rated C and 7 rated D; 3 shipbuilders with 1 rated C and 2 rated D; 1 shipping company rated C; and the remaining 45 large companies of which 27 were rated C and 18 rated D.

Mainly as a result of the downturn in the construction industry, 16 companies were tapped for restructuring while the number of shipbuilding and shipping companies selected for restructuring fell from 17 last year.

The Korean government is giving full consideration to help the restructuring process move forward as fast and effectively as possible while minimizing the weight of restructuring on the companies' subcontractors.

Impact on Financial Company Soundness

The debt obligations of the 65 companies tapped for restructuring in this latest evaluation was KRW16.7 trillion, including KRW6.8 trillion in constructors PF contingent liabilities. Of the total, KRW11.9 trillion was due to banks, KRW1.5 trillion to savings banks, and KRW700 billion to credit specialized financial companies.

Additional reserves for bad debts that financial institutions are expected to set aside for this round of restructuring is around KRW3.0 trillion, but its impact on financial companies' soundness should be limited given banks' strong financial position to absorb losses. As of end-March 2010, domestic banks' BIS ratio was 14.7%, up from 12.31% as of end-2008 and 14.36% as of end-2009.

Currently banks' had KRW2.2 trillion in reserves set aside for bad debts while savings banks had KRW200 billion and other financial institutions KRW600 billion.

[*] Press Release Note No.5(Corporate Restructuring) *Link*

Banks' average BIS ratio is expected to fall by approximately 0.21 percentage points subsequent to making the above provisions.

Support for Prompt Normalization of Restructuring Companies

Companies that were rated C will receive strong support from creditor-led corporate workout procedures to hasten early normalization while those rated D will retain the option of either moving forward with their respective normalization plans without further assistance from their creditors or applying for court receivership.

Before entering into corporate workout procedures, guidance will be provided to companies that have been tapped for restructuring to prevent steps from being taken that would trigger additional financial constraints, such as banks calling in their loans. Workout companies would also be encouraged to expedite the process by keeping to the prescription by, among others, being faithful to their normalization plans. Further to this, guarantees for promising overseas construction projects will be issued for workout construction companies to support their normal business operations.

Related to this, the sunset date for creditors to exercise their discretion in alleviating the funding issues of B-rated companies having a temporary shortage of liquidity will be extended for 2 years starting from August 2010. This provision could include an otherwise healthy constructor with temporary liquidity shortages to defer up to 2 years the dues owed on its obligations.

Alleviating the Impact of Restructuring on Subcontractors

Creditor banks will be urged to bring about conditions with as much semblance of normal business operations as possible by, among others, conducting weekly reviews of the financial positions of the restructuring companies' subcontractors. Strong support will also be extended to subcontractors when workout companies' bills of exchange are asked to be discounted or when applications are made for secured loans that are backed by trade receivables.

While the fast track program, which has been extended to the end of this year, will be applied first to small and medium enterprises undergoing a temporary shortage of liquidity, other support measures will be extended, such as deferring the principal payment portion outstanding from the SME policy fund and through the extension of up to KRW1.0 billion per company from the emergency business stabilization fund. In addition, the SME Financial Consultation Center that has been set up within the FSS will standby to review and resolve restructuring issues concerning workout companies and their subcontractors.

Future Restructuring Plans

The way in which the credit risks of SME have been assessed will be further refined before evaluations on those having in excess of KRW5.0 billion in outstanding debt commences from July-October later this year. For sole proprietorships and non-audited companies whose financial statements are qualified, such refinements will include strengthening the non-quantitative areas of evaluation, such as the credit standing of its owner(s) and what percentage is taken up by its main counterparty revenues.

The FSS will be vigilant over the restructuring drive and will be onsite throughout the second half of the year to watch for progress at creditor banks.

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