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*This English-language report is an unofficial translation prepared by Korea Development Bank (KDB) for reference only. The original version is in Korean language and was released by the Financial Services Commission (FSC) on June 2, 2008.*

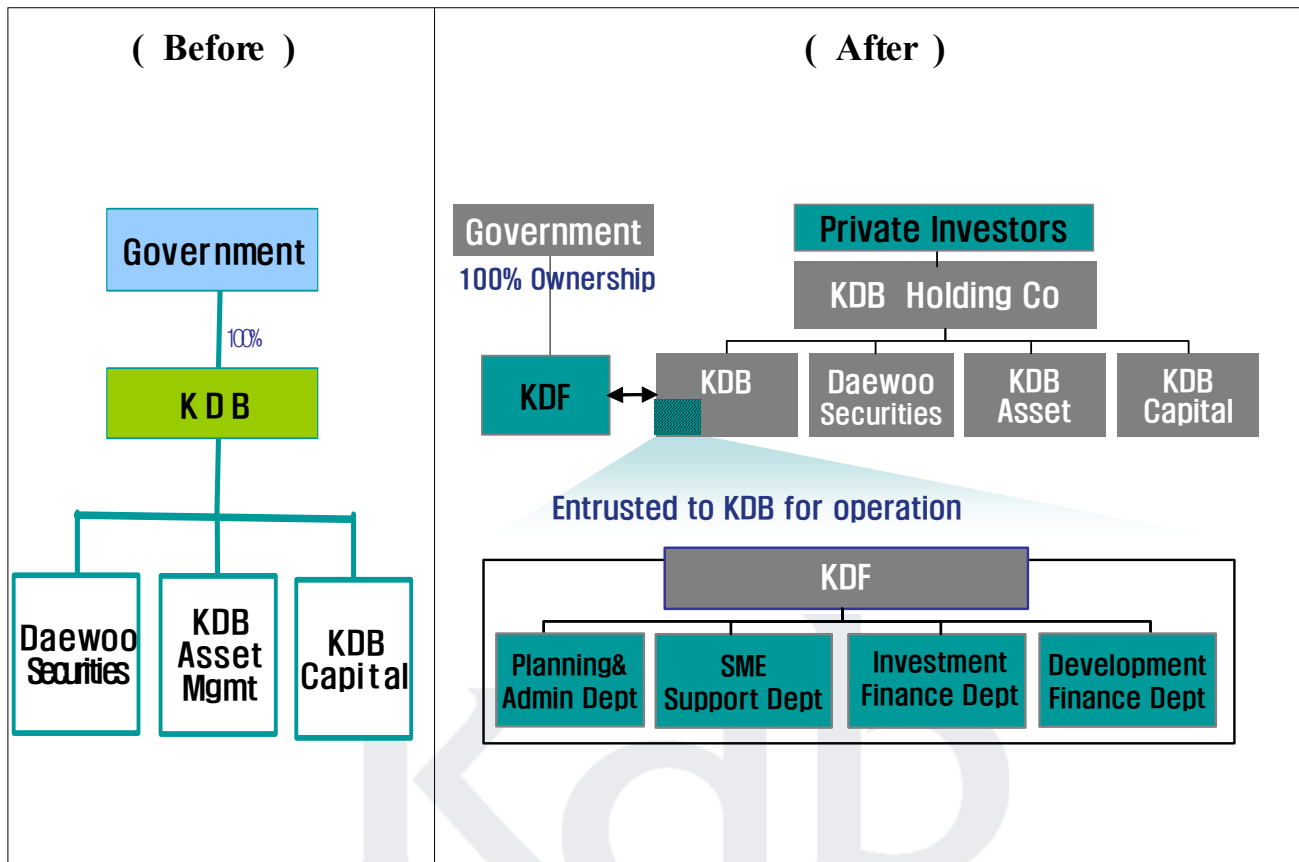
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## **Plan for Privatization of KDB and Establishment of KDF**

### **1. Purpose**

- Nurture a competitive investment bank**
  - By combining KDB, which has strong corporate banking capacity, with Daewoo Securities, Korea's leading securities house, the foundation will be laid to secure a competitive investment bank.
- Trigger reorganization and further advancement of the financial industry**
  - KDB's privatization will drive changes in the financial industry, including M&As between financial institutions, exploration of new business areas, and active overseas expansions.
  - KDB's successful development into a global investment bank will prompt the transformation of the Korean financial industry, leading to the discovery of new sources of export and growth engines for the economy.
- Shift to a market-friendly system of policy financial services**
  - Funds raised through KDB's privatization will be used to establish Korea Development Fund (KDF), a new market-friendly policy financing vehicle that conforms to global standards.
  - KDF will use a more advanced indirect on-lending scheme to leverage the market's ability to select and evaluate the companies better fit for policy financing.

# Structure of KDB post privatization



Coexistence of policy banking and commercial banking

Commercial banking → Investment banking under holding company structure  
 Policy banking → Market-friendly policy financing

Increased market friction and limited advancement of private financial sector

No market friction and further advancement of private financial sector

## 2. Action plan

- ◇ KDB Holdings (KDBH) and KDF will be launched through the spin-off of KDB in 2008 in preparation for the privatization.
- ◇ KDBH will be publicly listed and KDF will begin to support SMEs in 2009.
- ◇ The government will sell its 49% stake in KDBH by 2010, and the remaining 51% share within the term of the current government, thereby completing the privatization process.

### A. Privatization of KDB and Establishment of KDF

#### (1) Spin-off of KDB (Dec. 2008)

- KDBH and KDF will be set up through the spin-off of KDB.
  - KDBH will be established with KDB and its financial subsidiaries, including Daewoo Securities. Part of KDB's equity investment in the previously distressed companies (e.g. Hynix) and public companies (e.g. Kepeco), together with KDB's liabilities, will be transferred to launch KDF.
- As soon as KDF is established, 49% of KDBH shares will be transferred to KDF in the form of capital injection. KDF will then begin to provide market-friendly financing for SMEs.

#### (2) Disposal of the 49% share injected into KDF (2009 - 2010)

- The 49% stake transferred to KDF will be disposed through various means (e.g. Pre-IPO investment, IPO, block sales). The funds raised through the sale will be used to support SMEs and serve other policy financing needs.
- KDBH will enhance its investment banking capability by attracting strategic investors.

#### (3) Disposal of the remaining 51% share (2011 - 2012)

- Selling the majority share to potential domestic and foreign buyers such as private financial companies and a capital consortium of pension funds, PEFs, and etc. will be considered.

## **B. Government Guarantee on KDB's External Debts**

- The government will provide guarantee or other equivalent measures to secure the payment of the existing debts of KDB to prevent possible demand by overseas investors for early redemption.
- The Offset of Losses (KDB Act Article 44) will remain effective for as long as the government stays the controlling shareholder of KDB.
- While the government remains as the controlling shareholder, part of KDB's new external debts will be guaranteed by the government in case there are concerns over possible reduction in KDB's overseas funding activities due to adverse changes in market conditions.

\* New guaranteed debts will be issued, subject to prior approval by the National Assembly, for specific purposes such as refinancing of existing guaranteed debts, within an approved limit.

## **C. Transformation of KDBH into an Investment Banking Group**

- To maximize the sales value of KDBH, its transformation into a global investment bank will be actively supported.
- (Deregulation) FSC's approval on budget & business plans will be abolished. Existing restrictions on the taking of demand deposits and other operations will be lifted as well.
- (Governance) KDBH will attract renowned investment banking experts by utilizing proper incentives linked to successful privatization. For the sake of managing government assets, the privatization process will be monitored by a government-appointed Chairman of BOD.
- (Sizing up) KDBH will seek additional M&A opportunities in the domestic and overseas financial markets to secure global competitiveness.

## D. Plans for the Operation of KDF

- During the early stage, the number of KDF's staff will be kept at a minimum by entrusting the operation to KDB.
  - \* Once privatization has been completed, KDF will be run by its own staff and reorganization of roles with other policy financing institutions will be considered.
- In the process of supporting SMEs, by utilizing private financial institutions' capability to evaluate, implement and review, KDF will provide indirect loans, co-investments, and credit enhancement through an on-lending scheme.
- KDF will carry out other policy financing roles, e.g. a market stabilizer at times of crisis and a window for overseas funding, as far as these roles do not trigger competition with the private sector.
- Funds, raised through the disposal of KDBH shares (49%), and other shares in restructured companies, acquired from the spin-off of KDB, will be main source of operation.

## 3. Future Plans

- Immediately following the official announcement of the privatization plan, KDB will conduct roadshows\* for domestic and overseas investors.
  - \* They include Non-Deal Roadshows in London and New York for overseas investors and meetings with credit rating agencies.
- A revised draft of the KDB Act and the new KDF Act will be prepared in June 2008, officially reviewed by the government, and submitted to the National Assembly for final approval.