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Press Release

July 15, 2009

KEY FINANCIAL POLICY ISSUES

A REPORT TO THE NATIONAL POLICY COMMITTEE

This is a summary of the report submitted to the National Policy Committee at a special session of the National Assembly on the most current and pressing key issues in financial policies.

There are five key topics on the report:

- I. Plans to finance green growth related industries (MOSF/FSC – July 6)
- II. Privatization of Korea Development Bank
- III. Progress on corporate restructuring (FSS – July 15)
- IV. Strengthened risk management on mortgage loans (FSS – July 6)
- V. Amendments to the medical insurance business (FSC – July 1)

Relevant announcements or press releases have recently been released through the FSC, FSS, or the MOSF (Ministry of Strategy and Finance). They are available on our website for your reference.

The second topic which has not been dealt with previously is covered herein;

Privatization of Korea Development Bank (KDB)

1. Current state

The privatization of KDB and the establishment of Korea Public Banking Corporation (KPBC) are well underway. This is to resolve market conflict with private financial companies and conduct policy lending more effectively.

A. Related policies

The National Assembly has agreed to have the KPBC Act established (March 3,



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2009) and the KDB Act amended (April 29, 2009). Consequently, relevant laws and decrees were enforced on June 1, 2009.

B. KDB spin-off plan

A committee of members from the FSC, MOSF, MKE, KDB and professionals from the private sector are discussing ways to break up the current KDB into KDB Holding Company, KPBC, and the remaining KDB.

Due diligence has been conducted by an accounting firm on two accounts, from March 16 to April 30 and May 22 to June 5. The spin-off will be based on the projected financial statement as of end-August 2009. KDB is forecast to have assets of KRW 172.2trn, liabilities of KRW 155.0trn, shareholders' equity of KRW 17.1trn and a BIS ratio of 13.1% as of end-August.

Assets will be allocated in a reasonable manner so that KDB can be privatized smoothly and KPBC can conduct public lending effectively.

C. Exemption of tax resulting from privatization

The government is considering measures to exempt tax incurred through the KDB privatization process. The relevant tax amount would total KRW 180bn and would include Securities Transaction Tax of KRW 100bn from the issuance of KDB shares, and Registration Tax and Special Rural Development Tax of KRW 12.6bn from the creation of KDB Holding Company.

A revision to the Restriction of Tax Reduction and Exemption Act was submitted to the National Assembly on May 29, 2009 and is currently being deliberated by the National Assembly's Strategy & Finance Committee.

2. Future plans

Follow-up measures such as the revision of KDB's article of incorporation will be carried out so that the KDB Holding Company and KPBC can be established in October 2009.

The full-fledged privatization process, such as the sale of KDB Holding Company shares, will be conducted in a flexible manner in consideration of future market conditions.

These plans are subject to change if the passage of the relevant tax law is delayed.



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Lee, J. Ernst
Foreign Press Spokesperson
Foreign Press & Relations Office
Financial Services Commission

Tel: +82-2-2156-9582
Fax: +82-2-3145-5808
E-mail: happyhero@korea.kr