

No. 638

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INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT  
and  
REPUBLIC OF KOREA

**Guarantee Agreement — *Development Finance Corporation Project* (with annexed Loan Regulations No. 4, as amended, and Loan Agreement between the Bank and the Korea Development Finance Corporation). Signed at Washington, on 31 January 1968**

*Official text: English.*

*Filed and recorded at the request of the International Bank for Reconstruction and Development on 5 July 1968.*

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BANQUE INTERNATIONALE POUR  
LA RECONSTRUCTION ET LE DÉVELOPPEMENT  
et  
RÉPUBLIQUE DE CORÉE

**Contrat de garantie — *Projet relatif à la société financière de développement* (avec, en annexe, le Règlement n° 4 sur les emprunts, tel qu'il a été modifié, et le Contrat d'emprunt entre la Banque et la Société financière de développement de Corée). Signé à Washington, le 31 janvier 1968**

*Texte officiel anglais.*

*Classé et inscrit au répertoire à la demande de la Banque internationale pour la reconstruction et le développement le 5 juillet 1968.*

No. 638. GUARANTEE AGREEMENT<sup>1</sup> (*DEVELOPMENT FINANCE CORPORATION PROJECT*) BETWEEN THE REPUBLIC OF KOREA AND THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT. SIGNED AT WASHINGTON, ON 31 JANUARY 1968

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AGREEMENT, dated January 31, 1968 between the REPUBLIC OF KOREA (hereinafter called the Guarantor) and the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank).

WHEREAS by an agreement of even date herewith between the Bank and the Korea Development Finance Corporation (hereinafter called the Borrower), which agreement and the schedules therein referred to are hereinafter called the Loan Agreement,<sup>2</sup> the Bank has agreed to make to the Borrower a loan in various currencies equivalent to five million United States dollars (U.S. \$ 5,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that the Guarantor agree to guarantee the payment of the principal of and interest and other charges on such loan ;

WHEREAS the Guarantor, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed so to guarantee such obligations of the Borrower ;

NOW THEREFORE the parties hereto hereby agree as follows :

*Article I*

*Section 1.01.* The parties to this Guarantee Agreement accept all the provisions of Loan Regulations No. 4 of the Bank dated February 15, 1961 as amended February 9, 1967,<sup>3</sup> with the same force and effect as if they were fully set forth herein, subject, however, to the modifications thereof set forth in Schedule 2 to the Loan Agreement (said Loan Regulations No. 4 as so modified being hereinafter called the Loan Regulations).

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<sup>1</sup> Came into force on 28 February 1968, upon notification by the Bank to the Government of the Republic of Korea.

<sup>2</sup> See p. 272 of this volume.

<sup>3</sup> See p. 270 of this volume.

## Article II

*Section 2.01.* Without limitation or restriction upon any of the other covenants on its part in this Agreement contained, the Guarantor hereby unconditionally guarantees, as primary obligor and not as surety merely, the due and punctual payment of the principal of, and the interest and other charges on, the Loan, the principal of and interest on the Bonds, and the premium, if any, on the prepayment of the Loan or the redemption of the Bonds, all as set forth in the Loan Agreement and the Bonds.

## Article III

*Section 3.01.* It is the mutual intention of the Guarantor and the Bank that no other external debt shall enjoy any priority over the Loan by way of a lien on governmental assets. To that end, the Guarantor undertakes that, except as the Bank shall otherwise agree, if any lien shall be created on any assets of the Guarantor as security for any external debt, such lien will *ipso facto* equally and ratably secure the payment of the principal of, and interest and other charges on, the Loan and the Bonds, and that in the creation of any such lien express provision will be made to that effect; provided, however, that the foregoing provisions of this Section shall not apply to: (i) any lien created on property, at the time of purchase thereof, solely as security for the payment of the purchase price of such property; or (ii) any lien arising in the ordinary course of banking transactions and securing a debt maturing not more than one year after its date.

The term "assets of the Guarantor" as used in this Section includes assets of the Guarantor or of any of its political subdivisions or of any agency of the Guarantor or of any such political subdivision, including the Korea Exchange Bank, the Bank of Korea and any other institution performing the functions of a central bank.

*Section 3.02.* (a) The Guarantor and the Bank shall cooperate fully to assure that the purposes of the Loan will be accomplished. To that end, each of them shall furnish to the other all such information as it shall reasonably request with regard to the general status of the Loan. On the part of the Guarantor, such information shall include information with respect to financial and economic conditions in the territories of the Guarantor and the international balance of payments position of the Guarantor.

(b) The Guarantor and the Bank shall from time to time exchange views through their representatives with regard to matters relating to the purposes of the Loan and the maintenance of the service thereof. The Guarantor shall promptly inform the Bank of any condition which interferes with, or threatens to interfere with, the accomplishment of the purposes of the Loan or the maintenance of the service thereof.

(c) The Guarantor shall afford all reasonable opportunity for accredited representatives of the Bank to visit any part of the territories of the Guarantor for purposes related to the Loan.

*Section 3.03.* The principal of, and interest and other charges on, the Loan and the Bonds shall be paid without deduction for, and free from, any taxes, and free from all restrictions, imposed under the laws of the Guarantor or laws in effect in its territories; provided, however, that the provisions of this Section shall not apply to taxation of payments under any Bond to a holder thereof other than the Bank when such Bond is beneficially owned by an individual or corporate resident of the Guarantor.

*Section 3.04.* This Guarantee Agreement, the Loan Agreement and the Bonds shall be free from any taxes that shall be imposed under the laws of the Guarantor or laws in effect in its territories on or in connection with the execution, issue, delivery or registration thereof.

*Section 3.05.* The Guarantor covenants that it will not take or permit any of its political subdivisions or any of its agencies or any agency of any political subdivision to take any action which would prevent or interfere with the performance by the Borrower of any of the covenants, agreements and obligations of the Borrower in the Loan Agreement contained, and will take or cause to be taken all reasonable action which shall be required on its part in order to enable the Borrower to perform such covenants, agreements and obligations.

#### *Article IV*

*Section 4.01.* The Guarantor shall endorse, in accordance with the provisions of the Loan Regulations, its guarantee on the Bonds to be executed and delivered by the Borrower. The Minister of Finance of the Guarantor and such other person or persons as he shall designate in writing are designated as the authorized representatives of the Guarantor for the purposes of Section 6.12 (b) of the Loan Regulations.

*Section 4.02.* The provisions of Article 470 of the Commercial Code of the Guarantor, or any similar provisions of the laws of the Guarantor, shall not apply to the Bonds executed and delivered by the Borrower.

#### *Article V*

*Section 5.01.* The following addresses are specified for the purposes of Section 8.01 of the Loan Regulations:

For the Guarantor :

Minister, Economic Planning Board  
Republic of Korea  
Seoul  
Korea

Cable address :

EPB  
Seoul

For the Bank :

International Bank for Reconstruction and Development  
1818 H Street, N.W.  
Washington, D.C. 20433  
United States of America

Cable address :

Intbafrad  
Washington, D.C.

*Section 5.02.* The Minister, Economic Planning Board, of the Guarantor is designated for the purposes of Section 8.03 of the Loan Regulations.

IN WITNESS WHEREOF, the parties hereto, acting through their representatives thereunto duly authorized, have caused this Guarantee Agreement to be signed in their respective names and delivered in the District of Columbia, United States of America, as of the day and year first above written.

Republic of Korea :

By DONG JO KIM  
Authorized Representative

International Bank for Reconstruction and Development :

By George D. WOODS  
President

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

LOAN REGULATIONS No. 4, DATED 15 FEBRUARY 1961,  
AS AMENDED 9 FEBRUARY 1967

REGULATIONS APPLICABLE TO LOANS MADE BY THE BANK TO BORROWERS  
OTHER THAN MEMBER GOVERNMENTS

[Not published herein. See *United Nations, Treaty Series, Vol. 598, p. 270.*]

## LOAN AGREEMENT

*(DEVELOPMENT FINANCE CORPORATION PROJECT)*

AGREEMENT, dated January 31, 1968 between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank) and KOREA DEVELOPMENT FINANCE CORPORATION (hereinafter called the Borrower), a company incorporated and existing under the laws of the Republic of Korea (hereinafter called the Guarantor).

WHEREAS the Borrower has been established to assist the development of private enterprise in Korea and thereby support the development of the Korean national economy ;

WHEREAS the Guarantor has agreed to assist the Borrower by means of a loan to the Borrower of Won 2,025,000,000 pursuant to the Government Loan Agreement hereinafter described ;

WHEREAS the Agency for International Development of the United States of America has agreed to assist the Borrower by means of a loan to the Guarantor in the amount of U.S. \$ 5,000,000 to be relented to the Borrower pursuant to the AID Loan Agreement hereinafter described ;

WHEREAS the International Finance Corporation has undertaken, subject to certain conditions, to subscribe or cause to be subscribed 106,000 shares of common stock of the Borrower ;

WHEREAS the Bank has been requested to grant a loan to the Borrower ;

NOW THEREFORE the parties hereto hereby agree as follows :

*Article I*

## LOAN REGULATIONS ; SPECIAL DEFINITIONS

*Section 1.01.* The parties to this Loan Agreement accept all the provisions of Loan Regulations No. 4 of the Bank dated February 15, 1961 as amended February 9, 1967, <sup>1</sup> with the same force and effect as if they were fully set forth herein, subject, however, to the modifications thereof set forth in Schedule 2 to this Agreement (said Loan Regulations No. 4 as so modified being hereinafter called the Loan Regulations).

*Section 1.02.* Unless the context otherwise requires, the following terms wherever used in this Loan Agreement have the following meanings :

<sup>1</sup> See p. 270 of this volume.

- (a) the term “ sub-loan ” means a loan made or proposed to be made by the Borrower out of the proceeds of the Loan to an Investment Enterprise for an Investment Project ;
- (b) the term “ investment ” means an investment, other than a sub-loan, made or proposed to be made by the Borrower out of the proceeds of the Loan in an Investment Enterprise for an Investment Project ;
- (c) the term “ Investment Enterprise ” means an enterprise to which the Borrower shall propose to make or shall have made a sub-loan, or in which it shall propose to make or shall have made an investment, in accordance with and as provided in Section 3.01 of this Agreement ;
- (d) the term “ Investment Project ” means a specific investment project to be carried out by an Investment Enterprise, as approved by the Bank pursuant to Section 2.02 (b) of this Agreement, or in respect of which amounts shall have been credited to the Loan Account pursuant to Section 2.02 (c) of this Agreement ;
- (e) the term “ Government Loan Agreement ” means the agreement dated January 19, 1968 between the Guarantor, the Korean Reconstruction Bank and the Borrower providing for a loan to the Borrower in the amount of two billion twenty-five million won (Won 2,025,000,000) ;
- (f) the term “ Government Loan ” means the loan provided to the Borrower under the Government Loan Agreement ;
- (g) the term “ AID Loan Agreement ” means the loan agreement dated January 31, 1968, between the Agency for International Development of the United States of America, the Guarantor and the Borrower providing for a loan to the Guarantor in the amount of five million dollars (\$ 5,000,000) to be lent to the Borrower ;
- (h) the term “ AID Loan ” means the loan provided to the Guarantor under the AID Loan Agreement ;
- (i) the term “ Government-KDFC AID Loan ” means the loan provided to the Borrower under the AID loan agreement ;
- (j) the term “ subsidiary ” means any company of which a majority of the outstanding voting stock or other proprietary interest shall be owned, or which shall be effectively controlled, by the Borrower or by any one or more subsidiaries of the Borrower or by the Borrower and one or more of its subsidiaries ;
- (k) the term “ foreign currency ” means any currency other than the currency of the Guarantor.

Words importing the singular number include the plural number and *vice versa*.

## Article II

## THE LOAN

*Section 2.01.* The Bank agrees to lend to the Borrower, on the terms and conditions in this Loan Agreement set forth or referred to, an amount in various currencies equivalent to five million dollars (\$ 5,000,000).

*Section 2.02.* (a) The Bank shall open a Loan Account on its books in the name of the Borrower. The amount of the Loan shall be credited to the Loan Account in installments as provided in paragraphs (b) and (c) of this Section.

(b) Except as the Bank and the Borrower shall otherwise agree, upon approval by the Bank of any Investment Project submitted to it for approval as in Section 3.03 (a) of this Agreement provided, there shall be credited, as of the date of dispatch of notice by the Bank to the Borrower relating thereto, in respect of the estimated foreign currency cost of such Investment Project, such amount of the Loan as the Bank shall have approved.

(c) (i) Upon request by the Borrower from time to time as provided in Section 3.03 (b) of this Agreement, there shall be credited, as of the date of dispatch of notice by the Bank to the Borrower relating thereto, in respect of that amount of a sub-loan representing the estimated foreign currency cost of any Investment Project in respect of which no application has been made pursuant to Section 3.03 (a) of this Agreement and for which no credit has been made to the Loan Account pursuant to paragraph (b) of this Section, an amount of the Loan not exceeding, for each such Investment Project, such limit as shall from time to time be determined by the Bank with respect to amounts to be credited pursuant to this paragraph (c).

(ii) The amount to be credited to the Loan Account for each Investment Project pursuant to this paragraph (c), together with any amount or amounts previously so credited for such Investment Project and not repaid, shall not exceed such limit as shall from time to time be determined by the Bank.

(iii) The aggregate amount of the Loan credited to the Loan Account pursuant to this paragraph (c) shall not exceed such limit as shall from time to time be determined by the Bank.

(d) The Loan Account may, by agreement between the Bank and the Borrower, be reduced, as of the date of dispatch of notice by the Bank to the Borrower relating thereto, by any amount credited thereto pursuant to paragraphs (b) or (c) of this Section. No such reduction shall be deemed *ipso facto* to be a cancellation of any amount of the Loan.

*Section 2.03.* Each amount credited to the Loan Account in respect of an Investment Project may be withdrawn from the Loan Account as provided in, and subject to the rights of cancellation and suspension set forth in, the Loan Agree-



ment and shall be applied exclusively for the sub-loan for, or the investment in, the Investment Project in respect of which such amount was credited to the Loan Account.

*Section 2.04.* The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one per cent ( $\frac{3}{4}$  of 1 %) per annum on the amount of each part of the Loan standing to the credit of the Borrower from time to time in the Loan Account. Such commitment charge shall accrue from the several dates on which amounts shall be credited to the Loan Account to the respective dates on which (a) they are withdrawn from the Loan Account or are cancelled pursuant to Article V of the Loan Regulations or (b) the Loan Account is reduced in respect of such amounts pursuant to Section 2.02 (d) of this Agreement.

*Section 2.05.* The Borrower shall pay interest on the principal amount of each part of the Loan withdrawn from the Loan Account and outstanding from time to time at such rate as shall have been notified by the Bank to the Borrower at the time when such part of the Loan was credited to the Loan Account, or at such other time or times as shall have been agreed upon between the Bank and the Borrower, as being the rate then generally applicable to new Bank loans of the same maturity to similar borrowers. Interest shall accrue from the respective dates on which amounts shall be so withdrawn.

*Section 2.06.* Except as the Bank and the Borrower shall otherwise agree, the charge payable for special commitments entered into by the Bank at the request of the Borrower pursuant to Section 4.02 of the Loan Regulations shall be at the rate of one-half of one per cent ( $\frac{1}{2}$  of 1 %) per annum on the principal amount of any such special commitments outstanding from time to time.

*Section 2.07.* Interest and other charges shall be payable semi-annually on May 15 and November 15 in each year.

*Section 2.08.* The Borrower shall repay the principal amount of the Loan withdrawn from the Loan Account in accordance with the amortization schedule set forth in Schedule 1 to this Agreement as such Schedule shall be amended from time to time as determined by the Bank and as reasonably required (i) to conform in relevant part substantially to the aggregate of the amortization schedules applicable to the sub-loans and investments in respect of which amounts have been credited to the Loan Account pursuant to Section 2.02 of this Agreement, and (ii) to take into account any cancellation pursuant to Article V of the Loan Regulations, any reductions under Section 2.02 (d) of this Agreement and any payments made by the Borrower under Section 2.09, except that payments due hereunder shall be made on May 15 and November 15 in each year. Such amendments of said Schedule 1 shall include amendments of the premiums on prepayments and redemption if required. The amortization schedules applicable to the Investment Projects shall provide for appropriate periods of grace, and, unless the Bank and the Borrower shall otherwise agree, (i) shall not extend beyond fifteen years from the date when the corresponding amounts are credited to the Loan Account and (ii) shall provide for approximately equal aggregate semi-annual, or more frequent, payments of

principal plus interest or approximately equal semi-annual, or more frequent, payments of principal.

*Section 2.09.* Unless the Bank and the Borrower shall otherwise agree :

(a) If a sub-loan or any part thereof shall be repaid to the Borrower in advance of maturity or if a sub-loan or an investment or any part thereof shall be sold, transferred, assigned or otherwise disposed of, the Borrower shall promptly notify the Bank and shall pay to the Bank on the next following interest payment date, together with the premiums specified in Schedule 1 to this Agreement, an amount of the Loan equal to : (i) in the case of a sub-loan, the amount withdrawn from the Loan Account in respect of such sub-loan, or the said part thereof ; or (ii) in the case of an investment, the excess, if any, of the amount withdrawn from the Loan Account in respect of such investment, or the said part thereof, over the amount of the Loan theretofore repaid to the Bank in respect of such investment. The policy stated in Section 2.05 (c) of the Loan Regulations with respect to premiums shall apply.

(b) Any amount repaid by the Borrower under this Section shall be applied by the Bank as follows : (i) in the case of a sub-loan, to payment of the maturity or maturities of the principal amount of the Loan in amounts corresponding to the amounts of the maturity or maturities of the sub-loan so repaid or disposed of, and (ii) in the case of the disposition of an investment, to the *pro rata* payment of the unpaid amounts of the maturity or maturities of the Loan reflecting the amount of such investment.

(c) The first sentence of Section 2.05 (b) of the Loan Regulations shall not apply to any repayment by the Borrower in accordance with paragraph (a) of this Section.

*Section 2.10.* The amount of the Loan not credited to the Loan Account by the date specified in, or agreed upon pursuant to, paragraph (c) of Section 3.03 of this Agreement may at any time thereafter be cancelled by the Bank by notice to the Borrower.

### Article III

#### DESCRIPTION OF THE PROJECT ; USE OF PROCEEDS OF THE LOAN

*Section 3.01.* The Project for which the Loan is granted is the financing by the Borrower of development in Korea through loans for productive purposes to enterprises in Korea which are or will be controlled by private investors, and through other productive investments in such enterprises, all for specific development projects, in accordance with the Articles of Incorporation of the Borrower, as amended from time to time, and in furtherance of the corporate purposes of the Borrower as therein set forth.

*Section 3.02.* The proceeds of the Loan shall be applied exclusively to the foreign currency cost of goods required to carry out Investment Projects in respect of which amounts shall have been credited to the Loan Account pursuant to the provisions of Section 2.02 of this Agreement. Except as the Bank and the Borrower shall otherwise agree, no withdrawals shall be made on account of expenditures made for any such Investment Project more than ninety days prior to the date on which the Bank shall have received in respect of such Investment Project: (i) the application in accordance with Section 3.03 (a) of this Agreement or, (ii) in the case of credits to the Loan Account under Section 2.02 (c) of this Agreement, the request for credit to the Loan Account in accordance with Section 3.03 (b) of this Agreement.

*Section 3.03. (a)* When submitting an Investment Project to the Bank for approval pursuant to Section 2.02 (b) of this Agreement, the Borrower shall furnish to the Bank an application, in form satisfactory to the Bank, containing a description of such Investment Project, the terms and conditions of the proposed sub-loan or investment, including the amortization schedule proposed therefor, and such other information as the Bank shall reasonably request.

*(b)* When submitting a request to the Bank for credit to the Loan Account pursuant to Section 2.02 (c) of this Agreement, the Borrower shall furnish to the Bank a brief description, in form satisfactory to the Bank, of the Investment Project in respect of which such request is made and of the terms and conditions of the proposed sub-loan, including the amortization schedule proposed therefor.

*(c)* Except as the Bank and the Borrower shall otherwise agree, applications for approval of Investment Projects and requests for credits to the Loan Account pursuant to the provisions of this Article shall be acceptable only if received on or before June 30, 1970.

#### *Article IV*

##### BONDS

*Section 4.01.* If and as the Bank shall from time to time request, the Borrower shall execute and deliver Bonds representing the principal amount of the Loan as provided in Article VI of the Loan Regulations.

*Section 4.02.* The President of the Borrower is designated as authorized representative of the Borrower for the purposes of Section 6.12 (a) of the Loan Regulations. The President of the Borrower may designate additional authorized representatives by appointment in writing.

*Article V*

## PARTICULAR COVENANTS

*Section 5.01.* The Borrower shall carry out the Project and conduct its operations and affairs in accordance with sound financial and investment standards and practices, under the supervision of qualified and experienced management and in accordance with its Articles of Incorporation and the statement of investment and operational policies adopted by its Board of Directors on April 25, 1967, as the same shall be amended from time to time.

*Section 5.02. (a)* The Borrower shall exercise its rights in relation to each Investment Project financed in whole or in part out of the proceeds of the Loan in such manner as to protect the interests of the Bank and the Borrower.

*(b)* The Borrower undertakes that any sub-loan will be made on terms whereby the Borrower shall obtain, by the written agreement of such Investment Enterprise or by other appropriate legal means, rights adequate to protect the interests of the Bank and the Borrower, including the right to require such Investment Enterprise to carry out and operate the Investment Project with due diligence and efficiency and in accordance with sound engineering, financial and management standards, including the maintenance of adequate records; the right to require that the goods to be financed out of the proceeds of the Loan shall be used exclusively in the carrying out of such Investment Project; the right of the Bank and the Borrower to inspect such goods and the sites, works and construction included in such Investment Project, the operation thereof and any relevant records and documents; the right to require that such Investment Enterprise shall take out and maintain such insurance, against such risks and in such amount, as shall be consistent with sound practice, that without any limitation upon the foregoing, such insurance shall cover marine, transit and other hazards incident to acquisition, transportation and delivery of the goods financed out of the proceeds of the Loan to the place of use or installation, and that any indemnity thereunder shall be payable in a currency freely usable by such Investment Enterprise to replace or repair such goods; the right to obtain all such information as the Bank and the Borrower shall reasonably request relating to the foregoing and to the operations, administration and financial condition of such Investment Enterprise; and the right of the Borrower to suspend and terminate access by the Investment Enterprise to the proceeds of the Loan upon failure by such Investment Enterprise to carry out the terms of such sub-loan.

*(c)* The Borrower shall at all times make adequate provision to protect itself against any loss resulting from changes in the rate of exchange between the currency of the Guarantor and the currency or currencies in which the Borrower shall be obligated to make repayment of the principal of the Loan and the Bonds and payment of interest and other charges thereon.

*Section 5.03. (a)* The Borrower shall furnish to the Bank all such information as the Bank shall reasonably request concerning the expenditure of the proceeds

of the Loan, the Project, the Investment Enterprises, the Investment Projects and the administration, operations and financial condition of the Borrower.

(b) The Borrower shall maintain records adequate to record the progress of the Project and of each Investment Project (including the cost thereof) and to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition of the Borrower. The Borrower shall enable the Bank's representatives to examine such records.

(c) The Borrower shall have its financial statements (balance sheet, statement of earnings and expenses and other related statements) certified annually by an independent accounting firm acceptable to the Bank, in accordance with generally accepted international accounting principles consistently applied, and shall promptly after their preparation and not later than four months after the close of the fiscal year to which they apply transmit to the Bank certified copies of such statements and a signed copy of the accounting firm's report.

*Section 5.04.* (a) The Bank and the Borrower shall cooperate fully to assure that the purposes of the Loan will be accomplished. To that end the Bank and the Borrower shall from time to time, at the request of either party, exchange views through their representatives with regard to the progress of the Project, the performance by the Borrower of its obligations under the Loan Agreement, the administration, operations and financial condition of the Borrower (including the adequacy of amounts appropriated to its reserves) and any other matters relating to the purposes of the Loan.

(b) The Borrower shall promptly inform the Bank of any condition which interferes with, or threatens to interfere with, the accomplishment of the purposes of the Loan, the maintenance of the service thereof or the performance by the Borrower of its obligations under the Loan Agreement.

*Section 5.05.* The Borrower undertakes that, except as the Bank shall otherwise agree, if any lien shall be created on any assets of the Borrower as security for any debt, such lien will equally and ratably secure the payment of the principal of, and interest and other charges on, the Loan and the Bonds, and that in the creation of any such lien express provision will be made to that effect; provided, however, that the foregoing provisions of this Section shall not apply to: (i) any lien created on property, at the time of purchase thereof, solely as security for the payment of the purchase price of such property; and (ii) any lien arising in the ordinary course of banking transactions and securing a debt maturing not more than one year after its date.

*Section 5.06.* Except as shall be otherwise agreed between the Bank and the Borrower, the Borrower shall not incur or permit any subsidiary to incur any indebtedness if, after the incurring of any such indebtedness, the consolidated, indebtedness of the Borrower and all its subsidiaries then incurred and outstanding would be greater than three times the consolidated capital and surplus of the Borrower and all its subsidiaries.

For the purposes of this Section :

- (a) The term “ indebtedness ” means any indebtedness incurred by the Borrower or any subsidiary and maturing more than one year after the date on which it is originally incurred.
- (b) Wherever reference is made to the incurring of indebtedness, such reference shall include any modification of the terms of payment of such indebtedness. Indebtedness shall be deemed to be incurred (i) under a contract or loan agreement on the date it is drawn down pursuant to such contract or loan agreement and (ii) under a guarantee agreement, on the date the agreement providing for such guarantee shall have been entered into but shall be only counted to the extent that the underlying debt is outstanding.
- (c) Whenever in connection with this Section it shall be necessary to value in terms of the currency of the Guarantor debt payable in another currency, such valuation shall be made at the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt.
- (d) The term “ consolidated indebtedness of the Borrower and all its subsidiaries ” means the total amount of indebtedness of the Borrower and all its subsidiaries, excluding (i) any indebtedness owed by the Borrower to any subsidiary or by any subsidiary to the Borrower or any other subsidiary and (ii) the amount of the Government Loan referred to in paragraph (e) (ii) of this Section.
- (e) The term “ consolidated capital and surplus of the Borrower and all its subsidiaries ” means the aggregate of (i) the total unimpaired paid-up capital, surplus and reserves of the Borrower and all its subsidiaries not allocated to cover specific liabilities after excluding such items of capital, surplus and reserves as shall represent equity interest of the Borrower in any subsidiary or of any subsidiary in the Borrower or any other subsidiary, and (ii) the amount of the Government Loan at the time outstanding and maturing after the date of the last outstanding maturity of any sub-loan made by the Borrower and the last date in the amortization schedule applicable to any investment made and held by the Borrower.

*Section 5.07.* Subject to such exemptions as shall be conferred by the provisions of Section 3.03 and Section 3.04 of the Guarantee Agreement or otherwise, the Borrower shall pay or cause to be paid all taxes, if any, imposed under the laws of the Guarantor or laws in effect in its territories on or in connection with the execution, issue, delivery or registration of this Loan Agreement, the Guarantee Agreement, or the Bonds, or the payment of principal, interest or other charges thereunder ; provided, however, that the provisions of this Section shall not apply to taxation of payments under any Bond to a holder thereof other than the Bank when such Bond is beneficially owned by an individual or corporate resident of the Guarantor.

*Section 5.08.* The Borrower shall pay or cause to be paid all taxes, if any, imposed under the laws of the country or countries in whose currency the Loan and the Bonds are payable or laws in effect in the territories of such country or countries on or in connection with the execution, issue, delivery or registration of the Loan Agreement, the Guarantee Agreement<sup>1</sup> of the Bonds.

*Section 5.09.* The Borrower shall not, without the approval of the Bank (i) amend its Articles of Incorporation; (ii) amend its statement of investment and operational policies adopted by its Board of Directors on April 25, 1967; (iii) sell, lease, transfer or otherwise dispose of its property and assets, except in the ordinary course of business; or (iv) establish any subsidiary.

*Section 5.10.* Except as the Bank shall otherwise agree, the Borrower shall employ an advisor acceptable to the Bank to assist the Borrower in the management of its business.

*Section 5.11.* The Borrower shall not repay any portion of the Government Loan or the Government-KDFC AID Loan in advance of maturity without the prior approval of the Bank, except for repayments of portions of the Government-KDFC AID Loan made in order to avoid the risk for the Borrower of losses resulting from changes in the rate of exchange between dollars and the currency of the Guarantor in respect of amounts repaid to the Borrower.

*Section 5.12.* The Borrower shall cause each of its subsidiaries (if any) to observe and perform the obligations of the Borrower hereunder to the extent to which the same may be applicable thereto as though such obligations were binding upon each of such subsidiaries.

## Article VI

### REMEDIES OF THE BANK

*Section 6.01.* (i) If any event specified in paragraph (a), paragraph (e) or paragraph (f) of Section 5.02 of the Loan Regulations shall occur and shall continue for a period of thirty days, or (ii) if a default shall occur in the payment of principal or interest or any other payment required under any other loan agreement between the Bank and the Borrower or under any bond delivered pursuant thereto or under any credit agreement between the Association and the Borrower and such default shall continue for a period of thirty days, or (iii) if a default shall occur in the payment of principal or interest or any other payment required under any loan agreement or under any guarantee agreement between the Guarantor and the Bank or under any bond delivered pursuant to any such agreement or under any credit agreement between the Association and the Guarantor under circumstances which would make it unlikely that the Guarantor would meet its obligations under

<sup>1</sup> See p. 264 of this volume.

the Guarantee Agreement and such default shall continue for a period of thirty days, or (iv) if any event specified in paragraphs (b), (c), (d), (e) or (f) of Section 6.02 of this Agreement shall occur, or (v) if any event specified in paragraph (c) of Section 5.02 of the Loan Regulations shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower, then at any subsequent time during the continuance thereof, the Bank, at its option, may declare the principal of the Loan and of all the Bonds then outstanding to be due and payable immediately, and upon any such declaration such principal shall become due and payable immediately, anything in this Agreement or in the Bonds to the contrary notwithstanding.

*Section 6.02.* Pursuant to paragraph (l) of Section 5.02 of the Loan Regulations, the following are specified as additional events for the purposes of said Section :

- (a) the right of the Borrower to withdraw the proceeds of the Government-KDFC AID Loan shall have been suspended or terminated before the full amount of such Loan shall have been disbursed ;
- (b) any part of the principal amount of any loan made to the Borrower and having an original maturity of one year or more, shall, in accordance with the terms thereof, have become due and payable prior to the agreed maturity thereof by reason of any default specified in the agreement providing for any such loan or in any security representing such loan ;
- (c) an order is made or a resolution passed for the dissolution or liquidation of the Borrower ;
- (d) any part of the principal amount of the AID Loan shall, in accordance with the terms of the AID Loan Agreement, have become due and payable prior to the agreed maturity thereof ;
- (e) the terms or conditions of the Government Loan Agreement shall have been materially amended, abrogated or waived without the prior approval of the Bank ;
- (f) any part of the principal amount of the Government Loan shall have become due and payable prior to the agreed maturity thereof.

#### *Article VII*

##### EFFECTIVE DATE ; TERMINATION

*Section 7.01.* The following events are specified as additional conditions to the effectiveness of this Agreement within the meaning of Section 9.01 (d) of the Loan Regulations :

- (a) the AID Loan Agreement shall have become effective and all conditions precedent to disbursement of the AID Loan and the Government-KDFC Loan shall have been fulfilled ;



(b) the International Finance Corporation shall have subscribed, or cause to be subscribed, 106,000 additional shares of common stock of the Borrower in cash at not less than par ;

(c) the Borrower shall have employed, in accordance with Section 5.10, an advisor acceptable to the Bank on terms and conditions approved by the Bank.

*Section 7.02.* The following is specified as an additional matter, within the meaning of Section 9.02 (c) of the Loan Regulations, to be included in the opinion or opinions to be provided to the Bank, namely : that the Government Loan Agreement has been duly and validly executed and constitutes a valid and binding obligation of the parties thereto in accordance with its terms.

*Section 7.03.* The date of March 29, 1968 is hereby specified for the purpose of Section 9.04 of the Loan Regulations.

### *Article VIII*

#### MISCELLANEOUS

*Section 8.01.* The Closing Date shall be June 30, 1972, or such other date as shall be agreed between the Bank and the Borrower.

*Section 8.02.* The following addresses are specified for the purposes of Section 8.01 of the Loan Regulations

For the Bank :

International Bank for Reconstruction and Development  
1818 H Street, N.W.  
Washington, D.C. 20433  
United States of America  
Cable address :  
Intbafrad  
Washington, D.C.

For the Borrower :

Korea Development Finance Corporation  
The Cho Heung Bank Building  
14, Namdaemoon-Ro 1-Ka, Chung-Ku  
Seoul  
Korea  
Cable address :  
Kodefinco  
Seoul

IN WITNESS WHEREOF, the parties hereto, acting through their representatives thereunto duly authorized, have caused this Loan Agreement to be signed in their

respective names and delivered in the District of Columbia, United States of America, as of the day and year first above written.

International Bank for Reconstruction and Development :

By George D. WOODS  
President

Korea Development Finance Corporation :

By C.H. KIM  
Authorized Representative

### SCHEDULE 1

#### AMORTIZATION SCHEDULE

<i>Date Payment Due</i>	<i>Payment of Principal (expressed in dollars) *</i>	<i>Date Payment Due</i>	<i>Payment of Principal (expressed in dollars) *</i>
November 15, 1970 . . . . .	35,000	May 15, 1978 . . . . .	270,000
May 15, 1971 . . . . .	85,000	November 15, 1978 . . . . .	280,000
November 15, 1971 . . . . .	135,000	May 15, 1979 . . . . .	290,000
May 15, 1972 . . . . .	185,000	November 15, 1979 . . . . .	300,000
November 15, 1972 . . . . .	195,000	May 15, 1980 . . . . .	305,000
May 15, 1973 . . . . .	200,000	November 15, 1980 . . . . .	250,000
November 15, 1973 . . . . .	205,000	May 15, 1981 . . . . .	170,000
May 15, 1974 . . . . .	210,000	November 15, 1981 . . . . .	90,000
November 15, 1974 . . . . .	220,000	May 15, 1982 . . . . .	15,000
May 15, 1975 . . . . .	225,000	November 15, 1982 . . . . .	15,000
November 15, 1975 . . . . .	235,000	May 15, 1983 . . . . .	15,000
May 15, 1976 . . . . .	245,000	November 15, 1983 . . . . .	15,000
November 15, 1976 . . . . .	250,000	May 15, 1984 . . . . .	15,000
May 15, 1977 . . . . .	255,000	November 15, 1984 . . . . .	15,000
November 15, 1977 . . . . .	260,000	May 15, 1985 . . . . .	15,000

\* To the extent that any portion of the Loan is repayable in a currency other than dollars (see Loan Regulations, Section 3.03), the figures in this column represent dollar equivalents determined as for purposes of withdrawal.

#### PREMIUMS ON PREPAYMENT AND REDEMPTION

The following percentages are specified as the premiums payable on repayment in advance of maturity of any part of the principal amount of the Loan pursuant to Section 2.05 (b) of the Loan Regulations or on the redemption of and Bond prior to its maturity pursuant to Section 6.16 of the Loan Regulations :

<i>Time of Prepayment or Redemption</i>	<i>Premium</i>
Not more than three years before maturity . . . . .	1/2 %
More than three years but not more than six years before maturity . . . . .	2 1/4 %
More than six years but not more than eleven years before maturity . . . . .	3 3/4 %
More than eleven years but not more than fifteen years before maturity . . . . .	5 %
More than fifteen years before maturity . . . . .	6 1/4 %

## SCHEDULE 2

## MODIFICATIONS OF LOAN REGULATIONS No. 4

For the purposes of this Agreement, the provisions of Loan Regulations No. 4 of the Bank dated February 15, 1961, as amended February 9, 1967, shall be deemed to be modified as follows :

- (1) By the deletion of Sections 2.01, 2.02 and 2.03.
- (2) By the addition to Section 2.05 of the following new paragraph as paragraph (d):

“(d) The Bank and the Borrower may from time to time agree upon arrangements for prepayment and the application thereof in addition to, or in substitution for, those set forth in the provisions of paragraph (b) of Section 2.05 and Section 6.16 of these Regulations.”
- (3) By the substitution in the second sentence of Section 4.03 of the words “Investment Projects” for the word “Project”.
- (4) By the deletion in sub-paragraph (b) of Section 5.03 of the words “from the Loan Account”.
- (5) By the deletion of Section 5.05 and the substitution therefor of the following Section :

“SECTION 5.05. *Application of Reduction of Loan Account and of Cancellation to Maturities.* Except as otherwise agreed between the Bank and the Borrower : (i) any cancellation pursuant to this Article of amounts credited to the Loan Account and any reduction of the Loan Account pursuant to Section 2.02 (d) of the Loan Agreement, in respect of any part of the Loan credited to the Loan Account, shall be applied *pro rata* to the principal amounts of the several maturities which reflect such part of the Loan as set forth in the amortization schedule to the Loan Agreement, except that the principal amount so cancelled of any such maturity shall not exceed the amount of such maturity remaining after deducting therefrom the principal amount of Bonds of such maturity theretofore delivered or requested pursuant to Article VI and the Bonds or portions of the Loan of such maturity theretofore sold or agreed to be sold by the Bank ; and (ii) any cancellation pursuant to this Article of any amount of the Loan not credited to the Loan Account shall be applied *pro rata* to the principal amounts of the several maturities of the Loan as set forth in the amortization schedule to the Loan Agreement, except that the principal amount so cancelled of any maturity of the Loan shall not exceed the amount of such maturity remaining after deducting the principal amount of any part or parts of the Loan reflected in such maturity.”
- (6) By the deletion of Section 6.04 and the substitution therefor of the following Section :

“SECTION 6.04. *Interest on Bonds ; Service Charge.* The Bonds shall bear interest at such rate as the Bank shall request, not in excess, however,

of the rate of interest on the portion of the Loan represented by such Bonds. If the rate of interest on any Bond shall be less than the rate of interest on the portion of the Loan represented by such Bonds, the Borrower shall, in addition to the interest payable on such Bond, pay to the Bank a service charge on the principal amount of such portion of the Loan at a rate equal to the difference between the interest rate on such portion of the Loan and the interest rate on such Bond. Such service charge shall be payable on the dates on which and in the currency in which such interest is payable. ”

(7) By the deletion of paragraph (a) of Section 6.11 and the substitution thereof of the following :

“ (a) Bonds representing a portion of the Loan and bearing interest at one rate may be exchanged for Bonds bearing interest at any other rate not in excess of the rate of interest on such portion of the Loan. ”

(8) By the deletion of paragraph (b) of Section 6.16 and the substitution thereof of the following paragraph :

“ (b) If any Bond so to be redeemed shall bear interest at a rate less than the rate of interest on the portion of the Loan represented by such Bond, the Borrower shall pay to the Bank on the date fixed for redemption the service charge provided for in Section 6.04 accrued and unpaid at such date on the principal amount of such portion of the Loan represented by such Bond. ”

(9) By the deletion of paragraph 4 of Section 10.01 and the substitution thereof of the following paragraph :

“ The term ‘ Loan ’ means the Loan provided for in the Loan Agreement, and the term ‘ part of the Loan ’ means the amount of the Loan credited to the Loan Account in respect of an Investment Project. ”

(10) By the deletion of paragraph 10 of Section 10.01 and the substitution thereof of the following paragraph :

“ The term ‘ Loan Account ’ means the account on the books of the Bank to which the amount of each part of the Loan is to be credited as provided in the Loan Agreement. ”

(11) By the deletion of paragraph 11 of Section 10.01 and the substitution thereof of the following paragraph :

“ 11. The term ‘ Project ’ means the project for which the Loan is granted, as described in Section 3.01 of the Loan Agreement and as the description thereof shall be amended from time to time by agreement between the Bank and the Borrower. ”

(12) By the deletion of the first sentence of paragraph 12 of Section 10.01 and the substitution thereof of the following sentence :

“ The term ‘ goods ’ means equipment, supplies and services required by Investment Enterprises to carry out Investment Projects financed out of the proceeds of the Loan. ”