

STANDARD CRITERIA FOR BOOK-BUILDING OF NON-GUARANTEED BONDS

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These guidelines are provided by the Korea Financial Investment Association (KOFIA) for reference only in the book-building process for the issuance of non-guaranteed bonds through public offering.

These guidelines seek to promote transparency in underwriting activities for corporate bonds and advance the bond issuance market by determining the procedures and details that are needed for the book-building of publicly-offered non-guaranteed bonds by a financial investment company.

These guidelines are applicable when a financial investment company underwrites publicly-offered non-guaranteed bonds or engages in the invitation of offers and public sale of non-guaranteed bonds.

These guidelines are not applicable when there is an exemption from the obligation of book-building pursuant to §12(1) of the 「Regulations on Securities Underwriting Business」.

I. Book-Building Process

1. Provision of Desired Interest Rate and Desired Issue Amount for Public Offering

A. Determination of Desired Interest Rate

- A financial investment company shall first execute a lead management agreement with the issuer, estimate the most appropriate interest rate on the non-guaranteed bonds, and then determine the desired interest rate on the publicly offered bonds.

B. Provision of Desired Interest Rate and Desired Issue Amount

- Before conducting a book-building, a financial investment company shall present to the book-building participants the desired interest rate and the expected issue amount set forth in the securities registration statement.

C. Range of Desired Interest Rate

- The desired interest rate shall be presented in a range that has more than a 20bps difference between the highest and lowest interest rates.

D. Maximum Desired Interest Rate

- In order to ensure a high level of participation in the book-building process, the maximum interest rate shall be offered at a higher rate than what is considered as the market value (private bond rating agency rate) of the pertaining non-guaranteed bonds . In the event that the maximum interest rate is not offered as such, reasonable grounds shall be provided.
- The private bond rating agency rate shall be the average of the interest rates evaluated by more than two bond rating companies pursuant to [§263] of the Financial Investment Services and Capital Market Act (hereinafter “FSCMA”). (In order to boost credibility of the average rate, interest rates provided by as many bond rating companies as possible shall be used.)
- Specific names of the bond rating companies shall be disclosed when providing the private bond rating agency rate.

E. Basis for the Estimation of the Desired Interest Rate

- A financial investment company shall disclose specific reasons to support its estimation of the desired interest rate on publicly offered bonds so that investors may refer to such information when making investment decisions.
- Specific reasons refer to the interest rates provided by two or more private bond rating agencies regarding the company concerned, the latest bond issuance rate or distribution rate of corporate bonds with the same rating in the same field of industry, etc.

2. Implementation of Book-Building

A. Lead Manager and Participants for Book-Building

- When determining the interest rate on publicly offered non-guaranteed bonds in accordance with [§12] of the Regulations on Securities Underwriting Business (hereinafter referred to as the “Regulations”), a financial investment company that executed a lead management agreement with the issuer (hereinafter referred to as the “Lead Manager”) shall conduct book-building.
- The Lead Manager shall conduct book-building with the following entities;
 - (1) Institutional investors that fall under Subparagraph 8 of [§2] of the Regulations (including trust companies that fall under §8(7) of the FSCMA) as participants; and
 - (2) A special purpose vehicle (SPV) established after the adoption of “Plans to Create a special purpose vehicle that will purchase corporate bond including low rated bonds and CPs” at the 4th Meeting of Central Economic Response Headquarters presided by Deputy Prime Minister on May 20, 2020.

- The Lead Manager shall have discretionary investment business entities and trust business entities that meet the following qualifications to participate in the book-building and obtain a confirmation letter for such participation:

(1) The investors for discretionary investment or trust shall be institutional investors. Provided, That, in cases that fall under high-risk high-return investment trust pursuant to Subparagraph 18 of [§2] of the Regulations and unspecified money trusts pursuant to Subparagraph 2 of [§103] of the Enforcement Decree of the FSCMA, the investors do not have to be institutional investors; and

(2) The investors for discretionary investment or trust shall be those that have not been designated as unfaithful book-building participants pursuant to Subparagraph 2 of [§17-2(4)] of the Regulations.

B. Confirmation of Unfaithful Book-Building Participant

- The Lead Manager shall confirm whether or not a book-building participant has been designated as an unfaithful book-building participant.
- The Lead Manager shall not allow an unfaithful book-building participant to participate in the book-building or allocate the publicly offered non-guaranteed bonds to such person pursuant to Subparagraph 2 of [§17-2(4)] of the Regulations.

C. Developing Measures to Prevent Error in Input of Information

- The Lead Manager shall devise appropriate measures to prevent book-building participants from inputting an incorrect amount or interest rate by mistake.

D. Multiple Offerings of Participating Amounts Possible

- The Lead Manager shall, at the request of book-building participants, allow them to make multiple offerings of participating amounts at different interest rates.

E. Separation of Proprietary Properties and Other Properties

- The Lead Manager shall have book-building participants participate in the book-building by separating assets for actual subscription and payment from proprietary properties and other properties (collective investment assets, discretionary investment assets, trust assets, etc.), pursuant to [§12(3)] of the Regulations.

F. Additional Book-Building, etc.

- Except in inevitable circumstances in which the sum of the amounts offered by book-building participants falls short of the expected issuance amount, etc., the Lead Manager shall not conduct additional analysis on investor demand after completion of the book-building.
- The Lead Manager shall, in the case there was a delay in issuance after the book-building, specify in written form whether or not additional book-building will be

conducted when concluding the lead management agreement with the issuer and notify the book-building participants beforehand.

3. Reasonable Determination of Effective Demand

A. Definition of Effective Demand

- Effective demand refers to the amount that the Lead Manager deems as normal market demand by excluding the amounts with excessively high or low interest rates from the total amount submitted by book-building participants.

B. Establishment and Implementation of the Standards for Determination of Effective Demand

- The Lead Manager shall establish in advance and implement reasonable standards for determination of effective demand including all of the following methods:

- (1) Calculation method for effective demand by using reasonable statistical techniques, etc., based on the results of the book-building.
- (2) Calculation method for effective demand in the event of inevitable circumstances where reasonable statistical techniques, etc., cannot be used based on the results of the book-building, with reasons specified.

- The Lead Manager shall apply the pre-determined standards for determination of effective demand after the book-building is completed to determine the reasonable effective demand from the total demand.

C. Principles for Exclusion from Effective Demand

- The Lead Manager shall not exclude demand that falls in between the maximum and minimum interest rates (the maximum and minimum interest rates are included) for the desired interest rate from effective demand.
- Provided, That this shall not apply when there are reasonable grounds for such exclusion based on reasonable statistical methods such as techniques using statistical quartile, etc., and when such reasons are disclosed.

4. Reasonable Determination of Interest Rates for Public Offering and Application of Effective Demand

A. Reasonable Determination of Interest Rates for Public Offering

- The Lead Manager shall make efforts to ensure that the interest rate on publicly offered bonds is determined reasonably reflecting the results of the book-building to the greatest extent.

- The Lead Manager may not take into account non-effective demand when determining the interest rate on publicly offered bonds.

B. Principles for Application of Effective Demand

- In the event the effective demand is below the expected issuance amount and thus the underwriter acquires the non-guaranteed bonds on its own account, the underwriter shall not acquire the bonds at an interest rate lower than the highest interest rate of the effective demand.
- In the event the effective demand equals or exceeds the expected issuance amount, the underwriter shall not acquire the non-guaranteed bonds on its own account. Provided, That this shall not apply when non-subscription and non-payment occurs after the terms of issuance have been determined.

5. Allocation

A. Implementation of Standard for Allocation

- The Lead Manager shall prepare and implement a reasonable standard for the allocation of non-guaranteed bonds.

B. Requirements for Allocation

- The Lead Manager shall conform to each of the following requirements when allocating the expected subscription amount to each book-building participant after completion of the book-building:

1. The Lead Manager shall not give unfair preference to participants who participated with excessively low interest rates in the allocation process.
2. The Lead Manager shall apply a low weighted value to the book-building participants who did not provide interest rates.

C. Application of Weighted Value in Allocation

- The Lead Manager may apply different weighted value to each book-building participant in consideration of each of the following:
 - (1) Quantitative factors such as the duration of participation and participating amount, etc. ; and
 - (2) Qualitative factors such as the propensity, past records of participation in book-building, and the ability to evaluate prices, etc. of the book-building participant.

D. Principles for Allocation of Expected Payment Amount

- In allocating the expected payment amount to each subscriber after completion of the subscription for non-guaranteed bonds, the Lead Manager shall give preference to those

who participated in the book-building.

II. Requirements of Financial Investment Companies for Book-Building

1. Management of Unfaithful Book-Building Participants

A. Notification to Book-Building Participant

- In the event a book-building participant falls under Subparagraph 1, 3, or 6 of [§17-2(1)] of the Regulations, the Lead Manager shall notify in advance that such participant is designated as an unfaithful book-building participant and thus, restricted from participating in book-building for a certain period of time prescribed in the same Article.

- As such, the Lead Manager shall ensure that the book-building participant does not participate in the book-building with an acquisition amount and interest rate that is different from the true intended acquisition amount and interest rate.

B. Reporting on Unfaithful Book-Building Participant

- In the event that an action of unfaithful book-building participation has occurred, the Lead Manager shall report to the Korea Financial Investment Association (KOFIA) without delay in accordance with Article 17-2(2) of the Regulations.

2. Requirements for Promoting Fairness in the Process of Interest Rate Determination

- A financial investment company shall comply with each of the following to ensure maximum fairness in the process of interest rate determination through book-building.

A. Regulation on Prior Provision of Desired Interest Rate

- A financial investment company shall not consult with the issuer regarding the desired interest rate on publicly offered bonds before executing a lead management agreement, or present an interest rate on the proposal for executing the agreement (including non-single number values such as the range of the interest rate or the spread).

- The proposal, regardless of its title, refers to physical documents or e-documents provided by a financial investment company to the issuer for the purpose of being selected as a Lead Manager.

B. Clarification of the Interest Rate Determination Process

- A financial investment company shall clearly indicate in the proposal that consultations on the desired interest rate on publicly offered bonds will take place after a lead management agreement is executed and that the final interest rate will be determined in reflection of the book-building results.

C. Regulation on Commitment on Interest Rate

- A financial investment company shall not make any commitment to the issuer regarding the bond interest rate before conducting book-building.

D. Regulation on Information Leakage

- A financial investment company shall ensure that no information about interest rates, amount offered by each book-building participant as well as competition rates, etc., is leaked while a book-building is in progress.

E. Regulation on Back-Door Agreements

- A financial investment company shall not make back-door agreements with certain investors so that they participate in the book-building or subscribe for the bonds with a pre-determined interest rate.

F. Disclosure of Scope of Effective Demand, etc.

- A financial investment company shall disclose the specific methods that were used to reflect the results of book-building in determining the scope of effective demand and the final interest rate of the bond.

3. Record Keeping of Data**A. Duration of Record Keeping**

- A financial investment company shall keep a record of any data related to the book-building for a certain period of time prescribed by [§62] of the Enforcement Decree of the FSCMA.

B. Establishment of Measures to Prevent Manipulation or Falsification

- A financial investment company shall establish and implement appropriate measures to prevent the destruction, manipulation or falsification of data that need to be recorded and kept.