
Annual Report 1998

Protecting Depositors and Maintaining
the Stability
of the Financial System



Korea Deposit Insurance Corporation

CHAIRMAN'S STATEMENT

Last year was a year in which the structural weaknesses of our financial system became all too apparent, requiring Korea to pursue a wholesale restructuring of its financial industry. In this process, five insolvent banks were exited and a hundred or so smaller financial institutions were also closed down. This was a break from the long-held belief or myth that financial institutions would not be left to fail. The largely successful structural reform effort has helped strengthen market discipline and heighten the transparency of Korea's financial industry. The stage has now been set, we believe, to raise the competitiveness of Korean financial institutions.

The year 1998 was also an eventful year for the Korea Deposit Insurance Corporation. Protection functions that were previously performed by each individual financial sector (including banks, securities companies, insurance companies, merchant banks, mutual savings and finance companies and credit unions) were integrated in April 1998 to fall under the single and unified operation of the KDIC. Furthermore, in spite of being a

relatively new organization, KDIC has firmly made its mark in providing increased stability to the financial system. Added to its role as the protector of depositors, it has assumed the function of providing public funds to raise the soundness of financial institutions.

The annual report is an account of the KDIC's operations and activities in 1998.

I hope the contents provided herein presents a clear picture of our organization and help readers become more acquainted with the KDIC.

I would like to take this opportunity to extend my gratitude to the related authorities, insured financial institutions as well as the general public for their cooperation and support.

Namkoong, Hoon
Chairman & President
Korea Deposit Insurance Corporation

I. KOREA DEPOSIT INSURANCE CORPORATION : *ORGANIZATIONAL OVERVIEW*

The Korea Deposit Insurance Corporation (“KDIC”) was established on June 1, 1996, under the Depositor Protection Act, as a special juridical entity with no capital. The KDIC was set up to operate the deposit insurance system and its major functions include the following:

- ◆ Collection of insurance premiums
- ◆ Payment of insurance claims
- ◆ Operation of the Deposit Insurance Fund
- ◆ Resolution of failed financial institutions
- ◆ Provision of financial assistance

Mission

The primary aim of the KDIC lies in the protection of depositors. The KDIC acts as the guarantor of deposits in case financial institutions become insolvent and thus unable to pay back depositors. By protecting depositors, it therefore strives to promote savings, enhance the development of financial operations and thereby maintain the stability of the financial system.

Outline of the KDIC’s History

Dec 29, 1995	Enactment of the Depositor Protection Act
Jun 1, 1996	Establishment of the Korea Deposit Insurance Corporation
Jan 1, 1997	Launching of Deposit Insurance Operations
Dec 31, 1997	Revision of the Depositor Protection Act
Apr 1, 1998	Integration of protection functions under the single operation of the KDIC
Sep 16, 1998	Establishment of Hanarum Mutual Savings & Finance Company

Policy Committee

The KDIC's supreme policy-making organ is the Policy Committee and is composed of the following members:

- ◆ President of the KDIC
- ◆ Vice Minister, Ministry of Finance and Economy ("MOFE")
- ◆ Vice Chairman, Financial Supervisory Commission ("FSC")
- ◆ Vice Governor, Bank of Korea ("BOK")
- ◆ Chairman, Korea Federation of Banks
- ◆ Chairman, Korea Securities Dealers' Association
- ◆ Chairman, Korea Life Insurance Association
- ◆ Chairman, Korea Non-life Insurance Association
- ◆ Chairman, Merchant Banks Association of Korea
- ◆ Chairman, Korea Federation of Mutual Savings and Finance Companies
- ◆ Chairman, National Credit Union Federation
- ◆ Two members commissioned by the Minister of Finance and Economy, upon the recommendation of the president of the KDIC.

The President of the KDIC presides over the Committee meetings and also serves as Chairman.

The Committee makes decisions on matters concerning the operation of the KDIC, including amendments to the Articles of Incorporation, payment of insurance claims and advance payments, plans for fund management, financial assistance, and settlement of accounts.

When the decision concerns a specific category of financial institutions, a subcommittee may be formed. This subcommittee is composed of at least seven members, including the President of the KDIC, Vice Minister of Finance Economy, Vice Chairman of the FSC, Vice Governor of the BOK, and two members appointed by the Minister of Finance and Economy on the recommendation of the President of KDIC.

Executive Officers

The KDIC's executive officers consist of a President, not more than five directors (at present 3), and one statutory auditor.

The President represents the KDIC, appointed by the President of the Republic of Korea on the recommendation of the Minister of Finance and Economy, administers and directs the operations of the KDIC, and serves as chief executive officer.

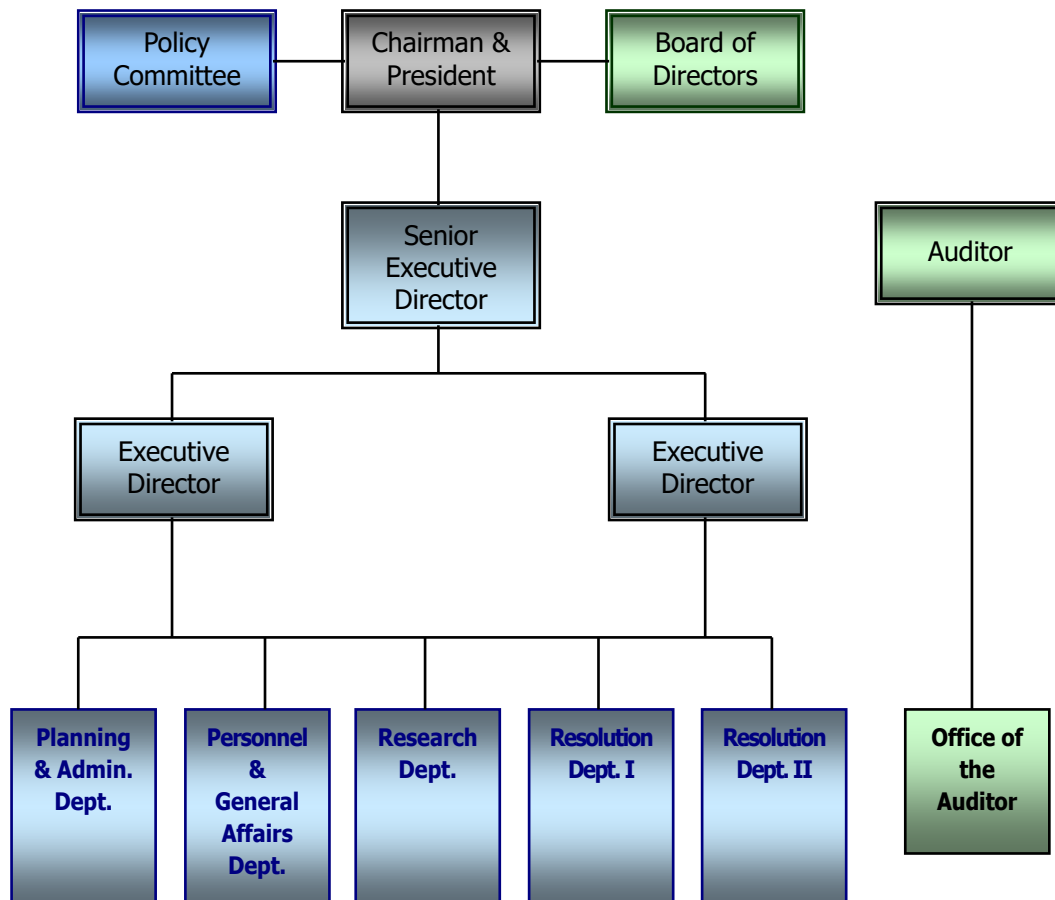
The executive directors assist the president and are appointed by the Minister of Finance

and Economy on the recommendation of the president of the KDIC. The auditor, appointed by the Minister of Finance and Economy, inspects the operations of the KDIC.



Organization Chart

The KDIC consists of 5 departments and 1 office and the total staff comes to 103 as of the end of December 1998.



II. DEPOSIT INSURANCE SYSTEM IN KOREA

INTRODUCTION

Before June 1996, Korea lacked an explicit deposit protection system for banks. Instead, due to the severe repercussions that can follow the bankruptcy of a bank, the government took on the role of implicitly protecting depositors in case of any bank failure. Protection of non-bank institutions existed according to each sector and in the event of a failure or insolvency, the government intervened to resolve the problem and protect depositors. These non-bank financial institutions, e.g. mutual savings and finance companies and merchant banks had their own mechanism of depositor protection, usually in the form of a fund.

Financial liberalization and globalization brought increased competition among financial institutions and a tougher environment in which to do business. To meet this challenge, the government enacted the Depositor Protection Act in December 1995 and established the Korea Deposit Insurance Corporation (KDIC) in the following June with a view to laying down a formal deposit protection system in Korea. The Corporation embarked upon the task of deposit insurance for banks in January 1997, while the separate funds for each respective non-bank institutions remained in place.

The Depositor Protection Act was revised in April 1998 to unify the formerly separate deposit insurance agencies under the KDIC. Thus, deposits to be protected by the KDIC now included not only bank deposits, but also deposits held in securities companies, insurance companies, merchant banks, mutual savings and finance companies, and credit unions.

KDIC was set up in June 1996 to lay down a formal deposit protection system in Korea.

It now protects deposits in banks, securities companies, insurance companies, merchant banks, mutual savings & finance companies, and credit unions.

Insured Financial Institutions

The Depositor Protection Act defines the scope of financial institutions insured to include banks, securities companies, insurance companies, merchant banks, mutual savings and finance companies, and credit unions. In Korea, membership for financial institutions conducting deposit business in these financial business categories is compulsory.

In the case of banks, commercial and regional banks approved under the Banking Act, domestic branches of foreign banks, and all specialized banks with the exception of the Korea Export-Import Bank (Korea Development Bank included) are insured. Regional Fisheries Cooperatives are also included. All securities companies are insured while the same

applies to all insurance companies with the exception of those that deal mainly in reinsurance and guarantee insurance.

Guarantee insurance companies have been included, however up to the end of 2000. All merchant banks, mutual savings and finance companies and credit unions approved by the respective laws are insured.

Meanwhile, post office deposits are protected by the government and investment trust companies by the Investment Trust Security Fund. The Community Credit Union is protected by the Korea Federation of Community Credit Cooperatives' Security Fund. Unit cooperatives of the Agricultural/ Livestock Cooperatives' Federations are protected by funds operated by the National Agricultural/Livestock Cooperatives Federations.

Table II-1. Insured Financial Institutions (as of the end of Dec. 1998)

	Banks	Securities	Insurance		Merchant Banks	MSFC*	Credit Unions	Total
			Life	Non-life				
Domestic Financial Institutions	27	34	23	12	14	211	1,592	1,913
Branches of Foreign Financial Institutions	51	21	6	3	-	-	-	81
Others**	42	-	-	-	-	-	-	42
Total	120	55	29	15	14	211	1,592	2,036

Note: * Mutual Savings & Finance Company

** Regional Fisheries Cooperatives

Insured Deposits

The principal and interest on deposits are covered by the KDIC as set out in article 2 of the Depositor Protection Act and article 3 of the Enforcement Decree. The current scope of deposits covered by the KDIC includes a number of financial products that were added at the end of 1997, to maintain the stability of the financial system.

BANKS

- Deposits, installment savings, money in trust the capital of which has been guaranteed
- CD, RPs issued before July 25, 1998, debentures issued by banks, development trust, deposits in foreign currency are insured from November 19, 1997 to the end of the year 2000
- Excluded from coverage: RPs issued after July 25, 1998

Securities Companies

- Savings deposits, cash and deposits for investment purposes
- RPs issued before July 25, 1998, deposits for subscription and cash collateral for short sales are insured from November 19, 1997 to the end of the year 2000
- Excluded from coverage: RP issued after July 25, 1998; equities like shares and bonds

Insurance Companies

- Premium income from individual & surety contracts, premium income from resignation & surety contracts
- Premium income from fidelity & surety

contracts issued before August 1, 1998 and corporate & surety contracts are insured from November 19, 1997 to the end of the year 2000

- Excluded from coverage: Reinsurance; fidelity & surety contracts signed after August 1, 1998

MERCHANT BANKS

- Deposits from bill issued, deposits from cash management account (CMA), deposits from secured bills sold which were issued before September 30, 1998
- Excluded from coverage: RPs, equities like shares and bonds

Mutual Savings & Finance Companies

- Deposits, installment savings.

Credit Unions

- Deposits, installment savings, shares.

The scope of deposits covered was broadened at the end of 1997 to maintain the stability of the financial system.

Insurance Claim Payments

KDIC makes insurance claim payments under the following types of situations:

CATEGORY I

Claims arising from the suspension of payment for deposits in financial institutions by order of the Financial Supervisory Commission. In such cases, KDIC must decide whether or not to make insurance claim payments within three months of the suspension.

CATEGORY II

Claims arising from the cancellation of license of an insured financial institution by the Ministry of Finance and Economy, resolution to dissolve the financial institution by the general meeting of shareholders, or the declaration of bankruptcy by the court of justice. In such cases, KDIC is required to make insurance claim payments.

Insurance claim payments are made on both the principal and interest, where the amount is determined by adding the deposited amounts owed by the institution and subtracting the total liability amounts owed by the depositor. The amount of the insurance claim payments payable to individual depositors is equivalent to the total balance of insured deposits held by

that depositor in the failed financial institutions,

not exceeding the amount of 20 million won.

However, in the case of insurance claims made before the end of the year 2000, full deposits, even those over 20 million won, will be compensated to maintain the stability of the financial system. For deposits received after August 1, 1998, and exceeding 20 million won per individual depositor, only the principal will be repaid.

In the case of suspended repayment of deposits, advance payments may be made against claims filed by depositors of insolvent insured institutions in order to cover their immediate living expenses when it is deemed that the resolution of insurance claim payments will take time. Any amount paid as an advance payment cannot exceed 20 million won per individual depositor and will be deducted from future insurance claim payments.

Whenever KDIC decides to make insurance payments or advance payments, it must notify depositors through public notices regarding the time and procedure for payment.

Table II-2. Limit on Insurance Claim Payments

Deposits made prior to July 31, 1998		Deposits made after August 1, 1998	
Up to 2000	From 2001	Up to 2000	From 2001

Principal + Interest	Principal up to a ceiling of 20 million won	Below 20 million won ◇ Principal + Interest Above 20 million won ◇ Principal	Principal up to a ceiling of 20 million won
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Resolution of Failed Financial Institutions

The KDIC or Financial Supervisory Commission (FSC) can designate the following as failed financial institutions:

- Insured financial institutions whose liabilities exceed assets as a result of an actual inspection of management conditions or insured financial institutions which are unable to conduct normal operations because their liabilities are in excess of assets due to the occurrence of significant financial losses or non-performing assets.
- Insured financial institutions which are in suspension of deposit payments and other claims or redemption of borrowed money from other financial institutions.
- Insured financial institutions which the KDIC or FSC deem unable to pay deposits and other claims or redeem borrowed money without financial assistance or separate external borrowing (excluding borrowing incurred from ordinary financial transactions).

Failed financial institutions can be resolved by the KDIC making deposit payoffs to depositors. Otherwise, they can be assisted in merging or being taken over by sound financial institutions with the eventual aim of protecting depositors while also minimizing the costs involved in the process of resolution.

The KDIC is entitled to arrange mergers or assignment of business between insured financial institutions and failed financial

institutions or acquisitions of failed financial institutions by a third party.

In a case where a financial institutions falls under a set criteria, the KDIC may request the FSC to take necessary measures against the failed financial institution concerned, such as ordering the transfer of contracts and filing of petition of bankruptcy, etc.

When there is an application for financial assistance or when it is believed necessary to ensure that a merger of a failed institution goes smoothly, the KDIC may provide financial assistance in accordance with a decision by the Policy Committee.

In cases where the KDIC finds it necessary to improve a failing financial institution's financial status for the protection of depositors and to maintain the stability of the financial system, it may provide financial assistance in the form of liquidity support, contributions or equity participation.

Failed financial institutions can be resolved by making deposit payoffs, acquired by or merged with a third party, or given financial assistance.

III. MAJOR OPERATIONS IN 1998

INTEGRATION OF THE DEPOSIT INSURANCE FRAMEWORK

The Depositor Protection Act was amended on December 31, 1997 to broaden the scope for depositor protection and to provide increased stability to the financial industry. On April 1, 1998, protection functions were integrated to fall under the single and unified operation of the KDIC.

To make this possible, a task force was set up within the KDIC at the beginning of 1998 to deal with such an integration. The Deposit Insurance Fund thereby assumed the assets and liabilities of the Insurance Guarantee Fund, Korea Non-Deposit Insurance Fund, and Credit Union's Security Fund.

Table III-1. Assets & Liabilities Transferred to the Deposit Insurance Fund

(as of the end of Mar. 1998)

(million won)

	Insurance Guarantee Fund	Korea Non-Deposit Insurance Fund		Security Fund	Total
		Merchant Bank Account	Mutual Savings & Finance Account		
A. Assets	273,506	14,349,822	310,956	52,965	14,987,249
Deposits	24,991	68	29,395	16,245	70,304
Marketable securities	242,416	82	6,082		248,580
Loans		12,728,596	251,400	36,720	13,017,111
Call loans		31,500			31,500
Account receivables			1,393		1,393
Payment guarantee reserves		1,205,462			1,205,462
Revenue receivables	913	341,994	7,700		350,607
Equity investment in affiliated companies		42,120	10,000		52,120
Advance corporation tax	5,186		4,986		4,986
B. Liabilities	28,722	14,179,055	75,206	33	14,283,016
Loans payable		12,601,096			12,601,096
Payment guarantee		1,205,462			1,205,462
Accounts payable		329,617		33	329,650
Reserve for bad debts		12,760	256		13,016
Reserves for special business activities	28,722	30,082	74,950		133,754
Advance profits received		38			38
C. Fund reserve (A-B)	244,784	170,767	235,750	52,932	704,233

Sources of the Deposit Insurance Fund

Income from Contributions

Through the amendment of the Enforcement Decree of the Depositor Protection Act on July 25, 1998, newly established insured financial institutions are required to make a

contribution to the KDIC, at a certain ratio of their initial paid-in capital/shares. In 1998, income from contributions of this kind amounted to 239 million won.

Table III-2. Income from Contributions during 1998

(million won)

Contribution Amount	Banks	Securities	Insurance		Merchant Banks	MSFC	Credit Unions	Total
			Life	Non-life				
	30	-	-	-	-	200	9	239

Table III-3. Payment of Contributions

Method of Payment and Contribution Ratio	
Government	<ul style="list-style-type: none"> Contributions in cash or in kind
Insured Financial Institutions	<ul style="list-style-type: none"> Within one month of the date on which the insured financial institution received its approval and license to begin operations Ratio: Percentage of initial paid-in capital/shares <ul style="list-style-type: none"> ◇ Banks, securities companies, insurance companies, credit unions: 1/100 (Upper limit as set by law: 1/100) ◇ Merchant banks, mutual savings & finance companies: 5/100 (Upper limit as set by law: 10/100)

Insurance premium income

Financial institutions insured by the KDIC are required to make premium payments. Insured banks must remit premium payments to KDIC within one month following the end of each quarter of the business year. Insured non-bank institutions must remit premium payments to

KDIC within 3 months following the end of every business year. The annual premium rate for a number of financial sectors were raised during 1998 to supplement the Deposit Insurance Fund and the upper limit on premium rates, that were previously different among different financial sectors have been adjusted to an equal level of

50/10,000 of the average balance of deposits.

Table III-4. Trends in Insurance Premium Rates by Financial Sector

	Premium Rates			Upper limit as set by law
	Before Mar. 31, 1998	After Apr. 1, 1998	After Jul. 25, 1998	
Banks	3/10,000	3/10,000	5/10,000	50/10,000
Securities companies	-	10/10,000	10/10,000	50/10,000
Insurance companies	15/10,000	15/10,000	15/10,000	50/10,000
Merchant banks	12/10,000	12/10,000	15/10,000	50/10,000
Mutual savings & finance companies	15/10,000	15/10,000	15/10,000	50/10,000
Credit unions	6/10,000	6/10,000	15/10,000	50/10,000

Note: The premium rate for credit unions dealing only in initial capital is 3/10,000.

In line with the integration of the previously separate funds, the KDIC enacted or revised regulations regarding the payment of insurance premiums by each financial sector, thereby bringing in a total premium income

of 234.3 billion won. In the case of securities companies and credit unions, the specified payment period is still pending and as such no premium income has yet been received.

Table III-5. Insurance Premium Income during 1998

(100 million won)

	Banks	Securities	Insurance		Merchant Banks	MSFC*	Credit Unions	Total
			Life	Non-life				
Premium Payments	1,292	-	386	143	132	390	-	2,343

Issuance of Deposit Insurance Fund Bonds

During 1998, the KDIC was able to supply resources pivotal to the restructuring of the financial industry through the issuance of Deposit Insurance Fund Bonds (DIF bonds). The KDIC was authorized to issue DIF bonds and the National Assembly agreed to

provide a government guarantee up to limit of 31.5 trillion won. Beginning in January 1998, DIF bonds were newly issued on 14 occasions during the course of 1998, the total of which came to slightly over 21 trillion won.

Table III-6. Issuance of DIF bonds during 1998

(100 million won)

	Banks	Securities	Insurance		Merchant Banks	MSFC	Credit Unions	Total
			Life	Non-life				
Issuance Amount	120,650	160	11,534	-	58,272	15,085	4,449	210,150
Repaid Amount	-	-	-	-	-	-	-	-
Balance	120,650	160	11,534	-	58,272	15,085	4,449	210,150

Note: Based on par value

A large portion of the DIF bonds were issued with maturity of over 5 years to provide adequate time to secure resources for repayment. Some bonds were issued based on fixed interest rates while others made use of floating interest rates. The method of interest payment on all bond issuance was fixed, however, to be paid at

the end of every three months.

Although private placements in reliable organizations and sound financial institutions were pursued initially, from the second half of the year, competitive bidding came into frequent use.

Table III-7. Issuance Amount and Conditions during 1998

(100 million won)

Maturity	Amount	Interest Rate	Amount	Method of Sale	Amount
7 Years*	48,811	Fixed Interest Rate	92,015	Private Placement	201,710
3 Years 3 Months	3,295				
5 Years	81,121				
5 Years 3 Months	11,923				
5 Years 6 Months	16,250	Floating ** Interest Rate	118,135	Competitive Bidding	8,440
6 Years	16,250				
6 Years 6 Months	16,250				
7 Years	16,250				
Total	210,150	Total	210,150	Total	210,150

Note: * Grace period of 5 years, repayment in installments over 2 years

** Based on the average yield of National Housing Bonds for the month preceding the due interest payment date

Borrowings

When deemed necessary for the execution of its activities, the KDIC may borrow funds from the government, the Bank of Korea, insured financial institutions, or other institutions, with the approval of the Minister of Finance and Economy. The total amount of funds borrowed by the KDIC in 1998 came to just under 8.3 trillion won. Included here were borrowings from the government as well as from financial institutions. Whereas most of the borrowings from financial institutions were

used for subrogated deposit payoffs in the exit-ordered merchant banks, nearly all of the government borrowing was used to make interest payments on DIF bonds.

In addition, the government subleased US\$200 million to the KDIC from its borrowings from the Asian Development Bank (ADB) at the end of 1998. This will be used in the process of financial sector restructuring.

Table III-8. Borrowings (as of the end of 1998)

(100 million won)

		Amount	Account
Borrowings from Financial Institutions	Banks	65,619	Merchant Bank (transferred from KNDIF*)
	Merchant Banks	562	Merchant Bank (transferred from KNDIF)
	Korea Securities Finance Corporation	2,368	Merchant Bank (transferred from KNDIF)
	Hanarum Merchant Bank	1,420	Merchant Bank
	Sub-total	69,969	
			Bank: 4,362
Borrowings from the Government	Fiscal Loans (special account)	10,582	Life Insurance Company: 273
			Merchant Bank: 5,880
			Mutual Savings & Finance Company: 29
			Credit union: 38
	Restructuring Loan from the ADB	2,415	Bank
Sub-total	12,997		
Total	82,966		

Note: * KNDIF: Korea Non-Deposit Insurance Fund

Establishment and Operation of Resolution Financial Institutions

Establishment of Resolution Financial Institutions

If the deposits of a failed financial institution were paid off and bankruptcy procedure initiated hastily, the immediate calling-in of loans could result in a series of bankruptcies which in turn would likely bring adverse effects to the real economy. Also, disposing the assets of failed financial institutions in a likewise hurried manner could add to the losses incurred by the

Deposit Insurance Fund with the emergence of additional non-performing assets and the fall in value of assets to be sold.

To remedy these types of exposure and to lessen the inimical effects on the financial industry as a whole, the KDIC set up resolution financial institutions to make subrogated deposit payoffs and to administer the assets of failed financial institutions.

Operation of Resolution Financial Institutions

The KDIC has established Hanarum Merchant Bank and Hanarum Mutual Savings & Finance Company to make subrogated deposit payoffs and to manage transferred assets. These companies will operate for a maximum period of three years; their business duration may be extended for another year, provided that prior approval is given by the Minister of Finance and Economy. The KDIC is providing the financial assistance required by these institutions to carry out their objectives and is endeavoring to minimize any losses that may be incurred by the Deposit Insurance Fund through rigorous supervision and examination of these institutions.

Hanarum Merchant Bank was initially established in December 1997, as Hanarum Finance Company (initial capital 30 billion

won provided by the Korea Non-Deposit Insurance Corporation). By the end of December 1997, it changed its name to Hanarum Merchant Bank under the Merchant Banking Act. With the integration of deposit protection functions, it fell under the jurisdiction of the KDIC from April 1, 1998. With the revision of the Depositor Protection Act in September 1998, Hanarum Merchant Bank was established as a formal resolution financial institution.

As of the end of 1998, Hanarum Merchant bank has received approximately 12.7 trillion won from the KDIC in loans. It is being maintained by a staff of 360 and is administering the assets (12.5 trillion won) and liabilities (13.4 trillion won) of the 16 exit-ordered merchant banks while making deposit payoffs.

Table III-9. Financial Assistance to Hanarum Merchant Bank

(as of the end of 1998)

(100 million won)

	Amount	Remarks
Capitalization	300	Transferred from the Korea Non- Deposit Insurance Fund
Loans	126,821	Subrogated deposit payoffs for the 16 exit-ordered merchant banks and the 3 re-opened merchant banks
Total	127,121	

Hanarum Mutual Savings & Finance Company was established in September 1998, with the KDIC providing initial capital of 100 million won, to conduct resolution activities relating to failed MSFCs. By the end of 1998, it had obtained approximately 1.5 trillion won in

loans from the KDIC. It is being maintained by a staff of 170 and is administering the assets of the 18 exit-ordered MSFCs (with the exception of Kyungbuk Mutual Savings & Finance Company) while making deposit payoffs for 17 MSFCs.

Table III-10. Financial Assistance to Hanarum MSFC

(as of the end of 1998)

(100 million won)

	Amount	Remarks
Capitalization	1	
Loans	14,647	Subrogated deposit payoffs for 17 exit-ordered MSFCs
Total	14,648	

Insurance Claim Payoffs and Financial Assistance

In the process of dealing with insured risks and resolving failed financial institutions, the KDIC supplied a total of 29 trillion won, as of the end of 1998, to make deposit

payoffs, and as net loss compensation during mergers/acquisitions and to make equity participation.

Table III-11. Failures and Outcomes of KDIC Member Institutions

	Business Suspension	Category I Insured Risk	Category II Insured Risk	Contract Transfers ¹	Contract Transfers ²	Insurance Claim Payoff	Self-Recovery
Banks	5	5		5			
Securities	6	2	1			2	
Insurance	4	4		4			
Merchant Banks	19	19			16		3
MSFC	29	29		2	18		
Credit Unions	51	50	1			39	1
Total	114	109	2	11	34	41	4

Note: ¹Contract Transfer to Insured Financial Institutions

²Contract Transfer to Resolution Financial Institutions

Banks

On June 29, 1998, the FSC ordered the closure of five banks: Daedong, Donghwa, Dongnam, Kyunggi, and Chungchong banks. Five relatively healthier banks: Kookmin, Shinhan, Housing and Commercial Bank of Korea, KorAm, and Hana Banks, assumed the assets and liabilities of these exit-ordered banks and the KDIC provided financial support.

Following the contract transfer decision, a Steering Committee, comprising members from the KDIC, related banks, accounting

firms, and the Bank Supervisory Board laid down the criteria for the due diligence performed by the accounting firm.

Taking the due diligence into consideration, the KDIC made a contribution amounting to 5.78 trillion won to the five merger banks in September 1998.

There is also a put back option if additional losses on assets were to occur during a certain time frame following the merger.

Furthermore, to account for the lowered BIS capital adequacy ratios arising from the

assumption of the exit-ordered banks' assets, and to bring up the BIS ratio to levels at the end of June prior to the mergers, the KDIC made equity participation totaling 1.19 trillion won in December 1998.

The KDIC also made equity participation in five other banks during the course of 1998. First, a total of 1.5 trillion won (750 billion won to each bank) was extended to Seoul Bank and Korea First Bank to help raise their capital adequacy ratios.

Second, in September 1998, the Commercial Bank of Korea and Hanil Bank, both ordered to reduce their capital stock according to the prompt corrective action

put forward by the FSC, sought rehabilitation through merger and were recognized as failing financial institutions. Thus, the KDIC made a capital investment of 1.63 trillion won to each bank respectively.

In addition, following a revised due diligence by the FSC, Boram Bank's low BIS capital adequacy ratio deemed it a failing financial institution. Therefore, Hana Bank's merger with Boram bank was met with a capital investment of 329 billion won by the KDIC, to be used to prevent the deterioration of the merged bank's capital adequacy level.

Table III-12. Financial Assistance to Banks (as of the end of 1998)

(100 million won)

Bank	Equity Participation	Contributions	Remarks
Korea First Bank	7,500	-	Financial assistance to failed financial institution
Seoul Bank	7,500	-	Financial assistance to failed financial institution
Commercial Bank of Korea	16,321	-	Financial assistance to failing financial institution
Hanil Bank	16,321	-	Financial assistance to failing financial institution
Kookmin Bank	2,000	10,651	Financial assistance as net loss compensation in the contract transfer(P&A) of failed financial institutions
Housing & Commercial Bank of Korea	2,965	6,812	Financial assistance as net loss compensation in the contract transfer(P&A) of failed financial institutions
Shinhan Bank	2,925	15,376	Financial assistance as net loss compensation in the contract transfer(P&A) of failed financial institutions
KorAm Bank	2,600	17,212	Financial assistance as net loss compensation in the contract transfer(P&A) of failed financial institutions
Hana Bank	4,728	7,739	Financial assistance as net loss compensation in the contract transfer(P&A) of failed financial institutions and assistance during its merger with Boram Bank

Total	62,860	57,790
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Securities Companies

As of the end of 1998, resolution procedures are in progress on a total of 6 securities companies that were ordered to close down operations or voluntarily wound-up operations. Of these, money deposited in two securities companies (Koryo and Dongsuh) were repaid through the Securities Investors Protection Fund and payoff procedures on two other securities companies (Long-term Credit Bank

Securities and Dongbang Peregrine Securities) began on December 28, 1998.

Korea Industrial Securities, which voluntarily wound-up its operations, is in the process of repaying depositors through its own funds, while provisions are being made for deposit payoffs in Hannam Investment Securities.

Table III-13. Financial Assistance to Securities Companies

(as of the end of 1998)

(100 million won)

Securities Company	Types of Support	Amount	Remarks
KLTB Securities	Insurance Claim Payoffs	40	Based on payment requirement amount
Dongbang Peregrine Securities	Insurance Claim Payoffs	100	Based on payment requirement amount
Total		140	

Insurance Companies

In line with the Insurance Supervisory Board's assessment of management conditions, the FSC ordered the closure of four life insurance companies (Kookje, BYC, Taeyang and Koryo), thereby transferring their contracts to Samsung, Kyobo, Heungkuk and Cheil Life Insurance Companies, respectively.

The KDIC provided a total of 924.9 billion won (80% of expected financial needs by the merger companies) in September 1998, to enable these merger companies to speed up their rehabilitation efforts. Following a complete due diligence, an additional 228.7 billion won was extended as financial support.

Table III-14. Financial Assistance to Insurance Companies

(as of the end of 1998)

(100 million won)

Insurance Company	Contributions			Remarks
	Initial Amount	Additional Amount	Total Amount	
Samsung Life Insurance	3,641	688	4,329	Net loss compensation for losses incurred by merger (Kookje)
Kyobo Life Insurance	1,970	429	2,399	Net loss compensation for losses incurred by merger (BYC)
Heungkook Life Insurance	1,958	765	2,723	Net loss compensation for losses incurred by merger (Taeyang)
Cheil Life Insurance	1,678	405	2,083	Net loss compensation for losses incurred by merger (Koryo)
Total	9,247	2,287	11,534	

Merchant Banks

Due mainly to liquidity problems, 19 merchant banks were ordered to cease operations following December 1997. Of these, three merchant banks have been reopened while the remaining 16 have had their contracts transferred to Hanarum Merchant Bank, and are now in the bankruptcy estate procedure.

Deposit payoffs are currently being made to depositors of these merchant banks through Hanarum Merchant Bank. To make these payments, the KDIC has provided Hanarum Merchant Bank with a total of 12.68 trillion won.

Table III-15. Financial Assistance to Merchant Banks

(as of the end of 1998)

(100 million won)

Merchant Bank	Types of Support	Amount	Remarks
Chungsol Merchant Bank	Capitalization	121	Transferred from KNDIF
Chungsol Merchant Bank	Loan	1,275	Transferred from KNDIF
Saehan Merchant Bank	Loan	757	Transferred from KNDIF
Hangil Merchant Bank	Loan	440	Transferred from KNDIF
Daegu Merchant Bank	Loan	502	Transferred from KNDIF

Total	3,095
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Note: Excludes Hanarum Merchant Bank

Mutual Savings & Finance Companies

Of the 29 Mutual Savings and Finance Companies (MSFC) that were shut down in the course of 1998, 18 had their contracts transferred to Hanarum MSFC and 5 other MSFCs had their contracts transferred to other sound MSFCs. Deposit payoffs are being made to a total of 17 MSFCs, while the other MSFCs ordered to be closed are in

the process of seeking self-rehabilitation, merger by other MSFCs, or subrogated deposit payoffs through Hanarum MSFC.

The KDIC provided interest-free loans amounting to 1.46 trillion won during 1998 to Hanarum MSFC and 25 billion won to MSFCs that assumed the contracts of failed MSFCs.

Table III-16. Financial Assistance to Mutual Savings & Finance Companies

(as of the end of 1998)

(100 million won)

MSFC	Types of Support	Amount	Remarks
New Chungbuk MSFC	Capitalization	100	Transferred from KNDIF
New Chungbuk MSFC	Loan	161	Support due to the contract transfer of Chungbuk MSFC
Kisan MSFC	Loan	541	Transferred from KNDIF
Donghwa MSFC	Loan	639	Transferred from KNDIF
Ilshin MSFC	Loan	155	Transferred from KNDIF
Dongah MSFC	Loan	104	Transferred from KNDIF
Kyungbuk MSFC	Loan	170	Transferred from KNDIF
Saenuri MSFC	Loan	389	Transferred from KNDIF
Daewon MSFC	Loan	560	Transferred from KNDIF
Choongil Suhsan MSFC	Loan	89	Support due to the contract transfer of Suhsan MSFC
Total		2,908	

Note: Excludes Hanarum Mutual Savings & Finance Company

Credit Unions

A total of 51 Credit Unions failed as of the end of 1998 and with the exception of one (Wonkwang), the remaining 50 are in the resolution phase. The KDIC's decision to make deposit payoffs arose from its judgement that the cost of pursuing mergers with financial support would exceed the costs incurred by making deposit payoffs.

Of the 50 credit unions, a decision has been made to make deposit payoffs on 44 credit unions. In 1998, deposit payoffs

amounting to 430.6 billion won were made to the depositors of 39 credit unions.

Similar procedures are in progress for other failed credit unions. However, for depositors with liabilities of guarantees, directors responsible for illegal loans or deposits that need rechecking, the payoff schedule is expected to take some time yet. Additional payoffs are expected to be made as soon as the reasons for deferral are resolved.

Table III-17. Financial Assistance to Credit Unions

(as of the end of 1998)

(100 million won)

Credit unions	Types of Support	Amount	Remarks
39 Credit unions	Insurance Claim Payoffs	4,306	Based on required payment amount
23 Credit unions	Loan	232	Transferred from Security Fund
Total		4,538	

Collection of Funds Supported

Funds provided by the KDIC can be grouped into three categories:

- **deposit payoffs**
- **contributions or loans to offset losses arising from contract transfers**
- **equity participation provided to improve capital structures**

The first two are collected from the bankruptcy estates of failed financial institutions. As of the end of 1998, a total of 49 bankruptcy estates have been set up to deal with failed financial institutions.

If deemed necessary for the swift progression of bankruptcy estates, the KDIC can request the FSC to file for bankruptcy and if a bankruptcy order is issued by the courts, then the KDIC participates actively in the bankruptcy procedure and work to recover the public funds provided.

At present, bankruptcy procedures are in progress for failed merchant banks, banks, securities companies, insurance companies and credit unions. MSFCs transferred to Hanarum MSFC are being liquidated. Claims are being filed by creditors in the bankruptcy estates of the 5 expelled banks.

If we consider the condition of failed

financial institutions, the recovery from these bankruptcy estates is not likely to be high. Also, as these bankruptcy estates are in the early stages of operation, visible collection is expected to take some time.

The KDIC participates in bankruptcy estates as audit officials to observe and assist the activities of the trustee in bankruptcy and to ensure a swift and accurate collection process. So far, the KDIC has been able to retrieve 590 billion won from funds it has provided as loans.

Meanwhile, equity participation to enhance the capital structures of failed financial institutions are to be recovered through the sale of shares. Equity participation in Seoul Bank and Korea First Bank is expected to be recovered through their sale to a foreign buyer. As for funds provided to Hanil Bank and the Commercial Bank of Korea, the rehabilitation plan will be carefully monitored and the KDIC's shares will be sold at an appropriate juncture to maximize the proceeds from sale. In addition, the contributions to the 5 merger banks, provided in the form of preferential stock, will be collected from the beginning of the year 2000, in line with agreements signed with these banks.

Table III-18. Status of Bankruptcy Estates

(as of the end of 1998)

Banks	Securities	Insurance	Merchant Banks	MSFC	Credit Unions	Total
5	2	2	12	-	28	49

Business Analysis of Insured Financial Institutions

The KDIC is performing risk analysis activities to prevent the failure of financial institutions in advance. It has been accumulating financial data and statistics on banks, securities companies, insurance companies, merchant banks and MSFCs. As of April 1998, it has set down a financial data system and receives a total of 26 types of regular reports from insured financial institutions.

In addition, in-depth studies have been conducted into various business analysis techniques and methods including the FDIC's CAEL, FRB's FIMS, credit rating

methods used by such firms as Moody's and S & P, as well as domestic business evaluation techniques. These studies have formed the basis of preparations to introduce an offsite surveillance system for insured financial institutions.

In the area of inspections and examinations, the KDIC conducted a joint examination with the Bank Supervisory Board in May 1998 concerning Saehan Merchant Bank. In July 1998, it performed an inspection into Hangil Merchant Bank, while it requested the Bank Supervisory Board to conduct an examination of Hanarum Merchant Bank.

Research and Development of the Deposit Insurance System

Ever since its establishment in June 1996, the KDIC has been conducting a vigorous program to continually enhance Korea's deposit insurance system. In line with these efforts, an important aspect of its activities centered on the survey and research of deposit insurance systems around the world.

In particular, the KDIC has exerted a significant effort into setting up the foundations for launching a risk-based insurance premium system by the year 2000. An active study is in progress to compare and contrast the different types of risk-based premium systems currently in operation, which is expected to yield an end product that puts forth a workable proposal,

customized and adjusted to suit the needs of the Korean financial industry.

Furthermore, an in-depth study of resolution procedures and examples from the U.S., Canada and other countries was pursued to help design an effective plan on future resolution activities. Other studies included collection activities of the FDIC and RTC, resolution of failed financial institutions in the U.S. and Japan, as well as financial crises in developing countries and their paths towards recovery.

The KDIC also received a request from the Asian Development Bank to establish a suitable model for Asian economies on how to lay down an effective deposit insurance system. It reviewed the theoretical

arguments before highlighting the requirements for success and examples of

systems already in operation in the Asian region.

IV. APPENDIX

Deposit Insurance Fund in 1998

The KDIC categorizes its financial statements into one for the Corporation itself and the other for the Deposit Insurance Fund (DIF). The financial statements of the DIF are divided into 6 different accounts (banks, securities companies, insurance companies, merchant banks, MSFCs, credit unions) and are run separately. The insurance companies account is further subdivided into the life and non-life accounts. Although transactions and transfers between these different accounts can occur, these must be temporary and limited in nature and

within a scope that is unlikely to inflict any harm to another account.

The DIF draws its resources from sources such as contributions (from insured financial institutions, or from the government), insurance premium revenues, issuance of DIF bonds and borrowings and can operate these resources within the legally set limit to make insurance claim payments, financial assistance to insolvent financial institutions, interest payments on borrowings, etc.

Table IV-1. Sources and Uses of the DIF

Sources of the DIF	Uses of the DIF
<ul style="list-style-type: none"> Contributions from insured financial institutions Contributions from the government Issuance of DIF bonds Gratuitous transfer of state property Borrowings Insurance premiums from insured financial institutions Recovery from deposits purchased Recovery from funds provided for the resolution of failed financial institutions Income from the operation of the DIF 	<ul style="list-style-type: none"> Deposit payoffs Repayment of DIF bond principal Purchase of deposits Financial assistance Capital injection in resolution financial institutions Capital injection in failed financial institutions Capital injection in failing financial institutions Repayment of borrowings and interest Operation of the KDIC

When there is a cash surplus in the DIF, the KDIC uses such a surplus to purchase government bonds, or other securities designated by the Policy Committee.

It can also deposit it in insured financial institutions. In cases where the surplus cash is temporary in character, the KDIC has operated such capital through short-term financial products.

Table IV-2. Operation of Surplus Cash
(as of the end of 1998)

(100 million won)

	Banks	Securities	Insurance		Merchant Banks	MSFC	Credit Unions	Total
			Life	Non-life				
Deposits	2,424	20	146	54	601	539	453	4,237
Government Bonds					1	1		2
Monetary Stabilization Bonds	1,698		1,007	312	93	428		3,538
Finance Debenture			1,611	381				1,992
Total	4,122	20	2,764	747	695	968	453	9,769

Financial Statements (Overall)

Table IV-3. Deposit Insurance Fund Statements of Financial Position

(as of the end of 1998)

(billion won)

Assets		Liabilities	
Account	Amount	Account	Amount
Current assets	6,789	Current liabilities	8,614
Cash and bank deposits	336	Borrowings from financial institutions	6,997
Marketable securities	641	Accrued expenses	1,135
Short-term loans	12,181	Other liabilities	482
(allowance for bad debts)	(7,301)	Long-term liabilities	22,371
Accrued income	913	Deposit Insurance Fund Bonds	21,015
Other assets	19	Premium on debentures	57
Non-current assets	9,739	(discount on debentures)	(0.2)
Equity participation	7,081	Government borrowings	1,299
Long-term loans	2,567		
(allowance for bad debts)	(1,388)	Liabilities	30,985
Off-setting account of liabilities and guarantee	7,795	Fund Balance	△ 14,457
(allowance for bad debts)	(6,317)		
Total Assets	16,528	Total Liabilities & Reserves	16,528

Table IV-3-1. Deposit Insurance Fund Statements of Income and Fund Balance

(as of the end of 1998)

(billion won)

Income		Expenses	
	Amount		Amount
Insurance premium income	234	Operating expenses	6
Interest on deposits & securities	77	Expenses from resolutions	17,610
Revenue from resolutions	2,032	Interest on borrowings	602
Interest on loans	594	Interest on Deposit Insurance Fund Bonds	1,317
Guarantee fees	2	Bad debt expenses	14,992
Gain on valuation of equity participation	1,436	Losses on valuation of equity participation	693
Other revenue	0.03	Other resolution expenses	6
		Other expenses	62

Total Income	2,343	Total Expenses	17,678
		Net loss	△ 15,335

Financial Statements (Bank account)

Table IV-4. Deposit Insurance Fund Statements of Financial Position

(as of the end of 1998)

(billion won)

Assets		Liabilities	
Account	Amount	Account	Amount
Current assets	418	Current liabilities	49
Cash and bank deposits	242	Borrowings from financial institutions	
Marketable securities	170	Accrued expenses	43
Short-term loans (allowance for bad debts)		Other liabilities	6
Accrued income		Long-term liabilities	12,743
Other assets	6	Deposit Insurance Fund Bonds	12,065
Non-current assets	8,081	Premium on debentures (discount on debentures)	
Equity participation	7,041	Government borrowings	678
Long-term loans (allowance for bad debts)			
Off-setting account of liabilities and guarantee	5,779	Liabilities	12,792
(allowance for bad debts)	(4,739)	Fund Balance	△ 4,293
Total Assets	8,499	Total Liabilities & Reserves	8,499

Table IV-4-1. Deposit Insurance Fund Statements of Income and Fund Balance

(as of the end of 1998)

(billion won)

Income		Expenses	
	Amount		Amount

Insurance premium income	129	Operating expenses	2
Interest on deposits & securities	10	Expenses from resolutions	5,900
Revenue from resolutions	1,436	Interest on borrowings	
Interest on loans		Interest on Deposit Insurance Fund Bonds	480
Guarantee fees		Bad debt expenses	4,739
Gain on valuation of equity participation	1,436	Losses on valuation of equity participation	681
Other revenue		Other resolution expenses	
		Other expenses	6
Total Income	1,575	Total Expenses	5,908
		Net loss	△4,333

Financial Statements (Securities company account)

Table IV-5. Deposit Insurance Fund Statements of Financial Position

(as of the end of 1998)

(billion won)

Assets		Liabilities	
Account	Amount	Account	Amount
Current assets	2	Current liabilities	1
Cash and bank deposits	2	Borrowings from financial institutions	
Marketable securities		Accrued expenses	
Short-term loans		Other liabilities	1
(allowance for bad debts)			
Accrued income		Long-term liabilities	16
Other assets		Deposit Insurance Fund Bonds	16
Non-current assets	6	Premium on debentures	
Equity participation		(discount on debentures)	
Long-term loans		Government borrowings	
(allowance for bad debts)			
Off-setting account of liabilities and guarantee	14	Liabilities	17
(allowance for bad debts)	(8)		
		Fund Balance	△9
Total Assets	8	Total Liabilities & Reserves	8

Table IV-5-1. Deposit Insurance Fund Statements of Income and Fund Balance

(as of the end of 1998)

(billion won)

Income		Expenses	
	Amount		Amount
Insurance premium income		Operating expenses	1
Interest on deposits & securities		Expenses from resolutions	8
Revenue from resolutions		Interest on borrowings	
Interest on loans		Interest on Deposit Insurance Fund Bonds	
Guarantee fees		Bad debt expenses	8
Gain on valuation of equity participation		Losses on valuation of equity participation	
Other revenue		Other resolution expenses	
		Other expenses	
Total Income	-	Total Expenses	9
		Net loss	△9

Financial Statements (Insurance company account)

Table IV-6. Deposit Insurance Fund Statements of Financial Position

(as of the end of 1998)

(billion won)

Assets		Liabilities	
Account	Amount	Account	Amount
Current assets	361	Current liabilities	9
Cash and bank deposits	20	Borrowings from financial institutions	
Marketable securities	331	Accrued expenses	3
Short-term loans (allowance for bad debts)		Other liabilities	6
Accrued income	4	Long-term liabilities	1,181
Other assets	6	Deposit Insurance Fund Bonds	1,154
Non-current assets	157	Premium on debentures (discount on debentures)	
Equity participation		Government borrowings	27
Long-term loans (allowance for bad debts)		Liabilities	1,190
Off-setting account of liabilities and guarantee (allowance for bad debts)	1,153 (996)	Fund Balance	△672
Total Assets	518	Total Liabilities & Reserves	518

Table IV-6-1. Deposit Insurance Fund Statements of Income and Fund Balance

(as of the end of 1998)

(billion won)

Income		Expenses	
	Amount		Amount
Insurance premium income	53	Operating expenses	1
Interest on deposits & securities	37	Expenses from resolutions	1,026
Revenue from resolutions		Interest on borrowings	
Interest on loans		Interest on Deposit Insurance Fund Bonds	30
Guarantee fees		Bad debt expenses	996
Gain on valuation of equity participation		Losses on valuation of equity participation	
Other revenue		Other resolution expenses	
		Other expenses	7
Total Income	68	Total Expenses	1,034
		Net loss	△ 945

Financial Statements (Merchant bank account)

Table IV-7. Deposit Insurance Fund Statements of Financial Position

(as of the end of 1998)

(billion won)

Assets		Liabilities	
Account	Amount	Account	Amount
Current assets	5,790	Current liabilities	8,538
Cash and bank deposits	60	Borrowings from financial institutions	6,997
Marketable securities	9	Accrued expenses	1,085
Short-term loans	12,025	Other liabilities	456
(allowance for bad debts)	(7,215)		
Accrued income	907	Long-term liabilities	6,472
Other assets	4	Deposit Insurance Fund Bonds	5,827
		Premium on debentures	57
Non-current assets	579	(discount on debentures)	
Equity participation	30	Government borrowings	588
Long-term loans	955		
(allowance for bad debts)	(573)		
Off-setting account of liabilities and guarantee	418		
(allowance for bad debts)	(251)	Liabilities	15,010
		Fund Balance	△ 8,641
Total Assets	6,369	Total Liabilities & Reserves	6,369

Table IV-7-1. Deposit Insurance Fund Statements of Income and Fund Balance

(as of the end of 1998)

(billion won)

Income		Expenses	
	Amount		Amount
Insurance premium income	13	Operating expenses	
Interest on deposits & securities	20	Expenses from resolutions	9,767
Revenue from resolutions	941	Interest on borrowings	932
Interest on loans	939	Interest on Deposit Insurance Fund Bonds	796
Guarantee fees	2	Bad debt expenses	8,026
Gain on valuation of equity participation		Losses on valuation of equity participation	12
Other revenue	330	Other resolution expenses	1
		Other expenses	379
Total Income	1,304	Total Expenses	10,146
		Net loss	△8,842

Financial Statements (Mutual savings & finance company account)

Table IV-8. Deposit Insurance Fund Statements of Financial Position

(as of the end of 1998)

(billion won)

Assets		Liabilities	
Account	Amount	Account	Amount
Current assets	172	Current liabilities	9
Cash and bank deposits	54	Borrowings from financial institutions	
Marketable securities	43	Accrued expenses	
Short-term loans	156	Other liabilities	9
(allowance for bad debts)	(86)		
Accrued income	2	Long-term liabilities	1,511
Other assets	3	Deposit Insurance Fund Bonds	1,508
Non-current assets	791	Premium on debentures	
Equity participation	10	(discount on debentures)	(0.2)
Long-term loans	1,590	Government borrowings	3
(allowance for bad debts)	(809)		
Off-setting account of liabilities and guarantee		Liabilities	1,520
(allowance for bad debts)		Fund Balance	△557
Total Assets	963	Total Liabilities & Reserves	963

Table IV-8-1. Deposit Insurance Fund Statements of Income and Fund Balance

(as of the end of 1998)

(billion won)

Income		Expenses	
	Amount		Amount
Insurance premium income	39	Operating expenses	1
Interest on deposits & securities	11	Expenses from resolutions	900
Revenue from resolutions		Interest on borrowings	
Interest on loans		Interest on Deposit Insurance Fund Bonds	3
Guarantee fees		Bad debt expenses	894
Gain on valuation of equity participation		Losses on valuation of equity participation	
Other revenue		Other resolution expenses	3
		Other expenses	17
Total Income	50	Total Expenses	918
		Net loss	△ 868

Financial Statements (Credit union account)

Table IV-9. Deposit Insurance Fund Statements of Financial Position

(as of the end of 1998)

(billion won)

Assets		Liabilities	
Account	Amount	Account	Amount
Current assets	46	Current liabilities	7
Cash and bank deposits	45	Borrowings from financial institutions	
Marketable securities		Accrued expenses	4
Short-term loans (allowance for bad debts)		Other liabilities	3
Accrued income		Long-term liabilities	449
Other assets	1	Deposit Insurance Fund Bonds	445
Non-current assets	125	Premium on debentures (discount on debentures)	
Equity participation		Government borrowings	4
Long-term loans (allowance for bad debts)	23 (6)		
Off-setting account of liabilities and guarantee	431	Liabilities	456
(allowance for bad debts)	(323)	Fund Balance	△ 285
Total Assets	171	Total Liabilities & Reserves	171

Table IV-9-1. Deposit Insurance Fund Statements of Income and Fund Balance

(as of the end of 1998)

(billion won)

Income		Expenses	
	Amount		Amount
Insurance premium income		Operating expenses	1
Interest on deposits & securities	3	Expenses from resolutions	338
Revenue from resolutions	1	Interest on borrowings	
Interest on loans	1	Interest on Deposit Insurance Fund Bonds	8
Guarantee fees		Bad debt expenses	329
Gain on valuation of equity participation		Losses on valuation of equity participation	
Other revenue		Other resolution expenses	1
		Other expenses	3
Total Income	4	Total Expenses	342
		Net loss	△ 338

DEPOSITOR PROTECTION ACT

Act No. 5042, Dec. 29, 1995

Amended by Act No. 5257, Jan. 13, 1997

Act No. 5403, Aug. 30, 1997

Act No. 5421, Dec. 13, 1997

Act No. 5492, Dec. 31, 1997

Act No. 5556, Sep. 16, 1998

Act No. 5702, Jan. 29, 1999

CHAPTER I. GENERAL PROVISIONS

Article 1 (Purpose)

The purpose of this Act is to contribute to protecting depositors and maintaining the stability of the financial system by efficiently operating a deposit insurance system in order to cope with a situation in which a financial institution is unable to pay its deposits due to its bankruptcy. <Amended by Act No. 5492, Dec. 31, 1997>

Article 2 (Definitions)

For the purpose of this Act, the definitions of terms shall be as follows: <Amended by Act No. 5403, Aug. 30, 1997; Act No. 5492, Dec. 31, 1997; Act No. 5556, Sep. 16, 1998>

1. The term “*insured financial institutions*” means financial institutions which are the objects of application of deposit insurance under this Act and which fall under any of the following items:

- (a) Financial institutions which have received authorization pursuant to [Article 8 (1)] of the General Banking Act;
- (b) The Korea Development Bank established under the Korea Development Bank Act;
- (c) The Industrial Bank of Korea established under the Industrial Bank of Korea Act;
- (d) Deleted; <by Act No. 5403, Aug. 30, 1997>
- (e) The National Agricultural Cooperatives Federation under the Agricultural Cooperatives Act;
- (f) The National Federation of Fisheries Cooperatives pursuant to the Fisheries Cooperatives Act, and its member fisheries cooperatives which engage in the business falling [Article 65 (1) 4 (d)] of the Fisheries Cooperatives Act;
- (g) The National Livestock Cooperatives Federation under the Livestock Industry Cooperatives Act;
- (h) The Long-term Credit Bank under the Long-term Credit Bank Act;
- (i) Domestic branches and agencies of foreign financial institutions which have received authorization pursuant to [Article 58 (1)] of the General Banking Act (excluding domestic branches and agent of foreign financial institutions as prescribed by the Presidential Decree);
- (j) Securities companies which have obtained a permission of the securities business as prescribed in [Article 2 (8) 2 through 4] of the Securities and Exchange Act (excluding securities dealers and brokers which engage only

- dealing and brokering the trading of securities outside the securities market);
- (k) Insurance companies which have obtained a permission pursuant to [Article 5 (1)] of the Insurance Business Act (excluding insurance companies mainly engaged in the reinsurance business or guarantee insurance business as determined by the Presidential Decree);
 - (l) Merchant banks under the Merchant Banks Act;
 - (m) Mutual savings and finance companies under the Mutual Savings and Finance Companies Act; and
 - (n) Credit unions under the Credit Union Act;
2. The term “**deposits**” means those falling under any of the following items: Provided, That the scope may be restricted by the Presidential Decree:
- (a) Money which insured financial institutions as provided in Subpara.1 (a) through (i) (hereinafter referred to as “**banks**”) have raised by bearing liabilities from unspecified persons in the form of deposits, installment deposits, or installments, and money which they have raised through money trusts whose principals are compensated under [Article 10 (2)] of the Trust Business Act;
 - (b) Money which any customer has deposited in insured financial institutions as provided in Subpara.1(j) (hereinafter referred to as “**securities companies**”) in connection with buying and selling of securities or other transactions;
 - (c) Insurance premiums which insured financial institutions as provided in Subpara.1(k) (hereinafter referred to as “**insurance companies**”) have received according to any insurance contract;
 - (d) Money which insured financial institutions as provided in Subpara.1 (l) (hereinafter referred to as “**merchant banks**”) have raised, pursuant to [Article 7 (1)] of the Merchant Banks Act, through the issuance of bills and by financial goods from which they raised funds from unspecified persons, invest them in securities, and pay profits therefrom;
 - (e) Money which insured financial institutions as provided in Subpara.1 (m) (hereinafter referred to as “**mutual savings and finance companies**”) have raised in the form of fraternity dues, installments, deposits and installment deposits, etc.; and
 - (f) Money which insured financial institutions as provided in Subpara.1 (n) (hereinafter referred to as “**credit unions**”) have raised in the form of investments, deposit money and installment deposits;
3. The term “**depositors**” means those who have deposits and other claims on insured financial institutions;
4. The term “**deposits and other claims**” means the principal, interests, profits, insurance money, various payments or other agreed pecuniary claims which depositors have against insured financial institutions through their financial transactions such as deposits;

5. The term “***failed financial institutions***” means the following insured financial institutions:
- (a) Insured financial institutions the liabilities of which exceed assets as a result of due diligence or insured financial institutions which will become clear that it is difficult to manage normally because their liabilities are in excess of assets due to the occurrence of large scale of financial losses or non-performing assets, which are determined by the Financial Supervisory Commission or the Policy Committee mentioned in [Article 8];
 - (b) Insured financial institutions which are in suspension of payment of deposits and other claims or redemption of borrowed money from other financial institutions; and
 - (c) Insured financial institutions for which the Financial Supervisory Commission or the Policy Committee mentioned in [Article 8] deems it difficult to pay deposits and other claims or redeem borrowed money without financial assistance or separate external borrowing (excluding borrowing incurred from ordinary financial transactions);
- 5-2. The term ***failing financial institutions*** means insured financial institutions whose financial structure are unsound that it is almost certain to become failed financial institutions, to be determined by the Policy Committee mentioned in [Article 8];
6. The term “***financial assistance***” means the following items which the Korea Deposit Insurance Corporation established pursuant to [Article 3] provides from the Deposit Insurance Fund mentioned in [Article 24 (1)]:
- (a) Loan or deposit of funds;
 - (b) Purchasing assets;
 - (c) Guarantee or acceptance of obligations; and
 - (d) Capital contribution or contribution;
7. The term “***insured risk***” means the following items:
- (a) Insured financial institutions’ payment suspension of deposits and other claims (hereinafter referred to as “***category I insured risk***”); and
 - (b) Insured financial institutions’ cancellation of business authorization and permission, decision of dissolution or declaration of bankruptcy (hereinafter referred to as “***category II insured risk***”).

CHAPTER II. DEPOSIT INSURANCE CORPORATION

SECTION 1. General Provisions

Article 3 (Establishment)

The Korea Deposit Insurance Corporation (KDIC) shall be established for the purpose of efficiently operating a deposit insurance system under this Act.

Article 4 (Legal Status)

- (1) The KDIC is a special juridical entity with no capital.
- (2) The KDIC shall be operated in accordance with this Act, the orders issued under this Act, and the Articles of Incorporation (AI).

Article 5 (Registration)

- (1) The KDIC shall be registered as prescribed by the Presidential Decree.
- (2) The KDIC shall be formed by registering its incorporation at the location of its main office.
- (3) Matters which are to be registered pursuant to Para. (1) shall not be proceeded against a third party until after their registration.

Article 6 (Articles of Incorporation)

- (1) In the Articles of Incorporation, the following matters shall be entered:
 1. Purpose;
 2. Denomination;
 3. Location of office;
 4. Matters relating to the Deposit Insurance Fund;
 5. Matters relating to the Policy Committee;

6. Matters relating to the board of directors;
7. Matters relating to the officers and employees;
8. Matters relating to the duties and execution thereof;
9. Matters relating to accounting;
10. Matters relating to changes in the Articles of Incorporation; and
11. Method of public notification.

- (2) When the KDIC desires to change its articles of incorporation, it shall obtain the authorization from the Minister of Finance and Economy, after a resolution has been passed by the Policy Committee established pursuant to [Article 8].
<Amended by Act No. 5556, Sep. 16, 1998>

Article 7 (Prohibition on the Use of Similar Trade Name)

A person who is not the KDIC shall not use “*Korea Deposit Insurance Corporation*” or similar any other trade names.

SECTION 2. Policy Committee

Article 8 (Policy Committee)

- (1) A Policy Committee (hereinafter referred to as the “*committee*”) shall be established in the KDIC.
- (2) The Committee shall establish the basic direction relating to the operation of the KDIC, in accordance with this Act, orders issued thereunder, or the articles of incorporation, and shall deliberate such matters as the operation plan of the Fund.

Article 9 (Composition of Committee)

- (1) The Committee shall be composed of members of the following subparagraphs: <Amended by Act No. 5492, Dec. 31, 1997; Act No. 5556, Sep. 16, 1998>
1. President of the KDIC;
 2. Vice Minister of the Ministry of Finance and Economy (MOFE);
 3. Vice Chairman of the Financial Supervisory Commission (FSC);
 4. The Vice Governor of the Bank of Korea;
 5. Chairman of the Korea Federation of Banks;
 6. Chairman of the Korea Securities Dealers' Association;
 7. Chairman of the Korea Life Insurance Association;
 8. Chairman of the Korea Non-life Insurance Association;
 9. Chairman of the Merchant Banks Association of Korea;
 10. Chairman of the Korea Federation of Mutual Savings and Finance Companies;
 11. Chairman of the National Credit Union Federation; and
 12. Two members commissioned by the Minister of Finance and Economy, upon the recommendation of the president of the KDIC.
- (2) The qualifications for the members of Para. (1)12 shall be prescribed by the Presidential Decree. <Amended by Act No. 5492, Dec. 31, 1997>
- (3) The term of office of the members of Para. (1) 12 shall be three years, and they may be re-appointed. <Amended by Act No. 5492, Dec. 31, 1997>

Article 10 (Operation)

- (1) The President of the KDIC shall be the Chairman of the Committee.
- (2) The Chairman shall represent the Committee and exercise general control over the business of the Committee.
- (3) When the Chairman is unable to perform his duties for compelling reasons, the members mentioned in [Article 9 (1) 2 through 4] in accordance with the order prescribed thereby shall act for the Chairman. <Amended by Act No. 5492, Dec. 31, 1997>
- (4) The Committee shall make resolutions with the attendance of a majority of all the members and with the affirmative vote of a majority of the members present.
- (5) Where matters to be decided by the Committee are those confined to any specific type of insured financial institution, the subcommittee of the Committee (hereinafter referred to as the “*subcommittee*”) may be established and operated for the effective operation of the Committee. <Newly Inserted by Act No. 5492, Dec. 31, 1997>
- (6) The subcommittee shall be composed of not less than seven members, including members listed in [Article 9 (1) 1 through 4 and 12]. <Newly Inserted by Act No. 5492, Dec. 31, 1997>
- (7) The chairman of the subcommittee shall be the member as prescribed in [Article 9 (1) 1]. <Newly Inserted by Act No. 5492, Dec. 31, 1997>
- (8) The provisions of Para. (2) through (4) shall apply mutatis mutandis to the subcommittee. <Newly Inserted by Act No. 5492, Dec. 31, 1997>

- (9) Decisions taken by the subcommittee shall be deemed decisions taken by the Committee. <Newly Inserted by Act No. 5492, Dec. 31, 1997>
- (10) Matters necessary for the operation of the Committee and subcommittee shall be prescribed by the Presidential Decree. <Amended by Act No. 5492, Dec. 31, 1997>

SECTION 3. OFFICERS AND EMPLOYEES

Article 11 (Officers)

- (1) The KDIC shall have one President, not more than five Directors, and one Statutory Auditor. <Amended by Act No. 5492, Dec. 31, 1997>
- (2) The President of the KDIC shall be appointed and dismissed by the President of the Republic of Korea upon the recommendation of the MOFE. <Amended by Act No. 5556, Sep. 16, 1998>
- (3) The directors shall be appointed and dismissed by the MOFE upon the recommendation of the President of the KDIC. <Amended by Act No. 5556, Sep. 16, 1998>
- (4) A Statutory Auditor shall be appointed and dismissed by the MOFE. <Amended by Act No. 5556, Sep. 16, 1998>
- (5) The term of office of the President, the Directors and the Statutory Auditor (hereinafter referred to as *officers*) shall be three years, and they may be re-appointed.
- (6) When there is a vacancy among the officers,

it shall be filled by a new appointment, and the term of office of the successor shall be reckoned from the date on which he was appointed.

Article 12 (Duties of Officers)

- (1) The President shall represent the KDIC, and exercise general control over the business of the KDIC.
- (2) The Directors shall assist the President, and shall take partial charge of the business of the KDIC, under the Articles of Incorporation.
- (3) When the President is unable to perform his duties, an officer shall act for the president, in the order as provided for in the Articles of Incorporation.
- (4) The Statutory Auditor shall inspect and audit the business and accounting of the KDIC.

Article 13 (Status Guarantee of Officers)

Except in cases falling under one of the following subparagraphs, no officer shall be removed against his will before the end of his term of office:

1. When a case falls under any of subparagraphs of [Article 16];
2. When a case is in conflict with this Act, an order issued under this Act or the articles of incorporation; and
3. When, due to mental or physical disability, the execution of one's duties is extremely difficult.

Article 14 (Board of Directors)

- (1) A board of directors shall be established in the KDIC.

- (2) The board of directors shall be composed of the President and Directors.
- (3) The board of directors shall resolve principal matters relating to the business of the KDIC.
- (4) The President shall convene the board of directors, and shall be the chairman.
- (5) The board of directors shall make resolutions with the attendance of a majority of all the members and with the affirmative vote of a majority of the members present.
- (6) The Statutory Auditor may state his views by attending the meetings of the board of directors.

Article 15 (Appointment and Dismissal of Employees)

The President shall appoint and dismiss employees of the KDIC.

Article 16 (Disqualification for Appointment to Office)

A person who falls under any of the following subparagraphs shall not be an officer or employee of the KDIC:

- 1. A person who is not a national of the Republic of Korea; and
- 2. A person falling under any of subparagraphs of [Article 33] of the State Public Officials Act.

Article 17 (Prohibition of Concurrent Holding of Posts)

- (1) Except for his duties, an officer shall not be engaged in a profit-making business without obtaining the permission from the MOFE. <Amended by Act No. 5556, Sep.

16, 1998>

- (2) Except for his duties, an employee shall not be engaged in a profit-making business without obtaining the permission of the President.
- (3) An officer or employee of the KDIC, or a person who held such positions in the KDIC, shall not divulge any secrets learned from his duties.

SECTION 4. Duties

Article 18 (Scope of Duties)

- (1) For the purpose of attaining the objectives of this Act, the KDIC shall carry out duties listed in the following subparagraphs: <Amended by Act No. 5492, Dec. 31, 1997>

- 1. Management and operation of the Deposit Insurance Fund;
- 2. Receipt of insurance premiums pursuant to [Article 30];
- 3. Payments of insurance money pursuant to [Articles 31 and 32];
- 4. Resolution of failed financial institutions pursuant to [Articles 35-2 through 38-2];
- 5. Duties incidental to the duties of Subpara.1 through 4;
- 6. Duties commissioned or designated by the Government for the protection of depositors; and
- 7. Other duties as determined by other Acts and subordinate statutes.

- (2) The KDIC may, upon deliberation by the

Committee, enact provisions necessary for the execution of its duties.

Article 19 Deleted. <by Act No. 5492, Dec. 31, 1997>

Article 20 (Mandate of Business)

- (1) The KDIC may, if necessary, mandate part of its duties to other institutions (hereinafter referred to as *agency*). <Amended by Act No. 5556, Sep. 16, 1998; Act No. 5702, Jan. 29, 1999>
- (2) The scope of the agencies shall be prescribed by the Presidential Decree.

Article 21 (Request to Insured Financial Institutions for Submission of Materials)

- (1) The KDIC may request that an insured financial institution submit materials related to its business and financial status to the extent necessary for the execution of duties such as the establishment and receipt of insurance premiums pursuant to [Article 30], calculation and payment of insurance money pursuant to [Articles 31 and 32], and the resolution of failed financial institutions pursuant to [Articles 35-2 through 38-2]. <Amended by Act No. 5492, Dec. 31, 1997>
- (2) On the basis of the materials submitted pursuant to Para. (1), the KDIC may investigate the business and financial status of an insured financial institution which is deemed to be threatened with insolvency by the Committee. <Amended by Act No. 5492, Dec. 31, 1997>
- (3) The KDIC may ask the Governor of the Financial Supervisory Service (hereinafter

referred to as *the Financial Supervisory Service Governor*), established under the Act on the Establishment of Financial Supervisory Organizations, to conduct an examination of an insured financial institution and deliver the results of the examination or have its subordinates participate jointly in the examination of the insured financial institution by setting the specific scope as deemed necessary to protect depositors and maintain the stability of the financial system. In this case, the Financial Supervisory Service Governor shall, when asked, comply unless any special cause exists. <Amended by Act No. 5492, Dec. 31, 1997>

- (4) Where it is deemed necessary for the protection of depositors, the KDIC may ask the Financial Supervisory Service Governor to present data relating to an insured financial institution by setting the specific scope. In this case, the Financial Supervisory Service Governor shall, when asked, comply unless any special cause exists. <Newly Inserted by Act No. 5556, Sep. 16, 1998>

SECTION 5. Treasury and Accounting

Article 22 (Fiscal Year)

The fiscal year of the KDIC shall be in accordance with the fiscal year of the Government.

Article 23 (Budget and Settlement of Accounts)

The budget and settlement of accounts of the

KDIC shall be subject to approval by the MOFE upon resolution of the Committee. <Amended by Act No. 5556, Sep. 16, 1998>

Article 24 (Establishment Up of Deposit Insurance Fund)

(1) The Deposit Insurance Fund (hereinafter referred to as the *fund*) shall be established in the KDIC for the receipt of insurance premiums pursuant to [Article 30], payment of insurance money pursuant to [Articles 31 and 32], purchase of deposits and other claims pursuant to [Article 35-2], capital contribution pursuant to [Article 36-3 (4)], financial assistance pursuant to [Article 36-5 (3) and 38], and support for failing financial institutions pursuant to [Article 38-2]. <Amended by Act No. 5492, Dec. 31, 1997; Act No. 5556, Sep. 16, 1998>

(2) The following subparagraphs shall be the sources of revenue for the Fund:
<Amended by Act No. 5492, Dec. 31, 1997; Act No. 5556, Sep. 16, 1998>

1. Contributions from insured financial institutions;
2. Contributions from the Government;
- 2-2. Funds raised through issuance of Deposit Insurance Fund Bonds;
- 2-3. State property granted by the Government to the KDIC under [Article 24-2];
3. Borrowings under the provisions of [Article 26];
4. Insurance premiums received under the provisions of [Article 30 (1)];
- 4-2. Funds collected from deposits and other claims purchased under [Article 35-2];

5. Funds recovered from those funds provided for the resolution of failed financial institutions pursuant to [Article 36-5 (3), 38 or 38-2]; and
6. Operating profits of the Fund and other revenues.

(3) The expenditure of the Fund shall consist of insurance money, repayment of the principal and interests of Deposit Insurance Fund Bonds, payments to depositors under [Article 35-2], capital contributions under [Article 36-3 (4)], funds supported for the resolution, etc. of failed financial institutions under [Article 36-5 (3), 38 or 38-2], redemption of borrowed money and interests thereon, and transfer, etc., to the account managing funds necessary for the operation of the KDIC under [Article 24-3 (1)]. <Amended by Act No. 5492, Dec. 31, 1997; Act No. 5556, Sep. 16, 1998>

(4) The contributions under Para. (2)1 shall be determined separately for each insured financial institution by taking into account the deposit balance of each insured financial institution, within one percent (ten percent for merchant banks and mutual saving and finance companies) of its paid-in capital or capital contribution. The amount, time and method of the payment shall be prescribed by the Presidential Decree. <Amended by Act No. 5492, Dec. 31, 1997>

Article 24-2 (Gratuitous Transfer of State Property)

(1) If the Government deems it necessary to protect depositors and assure the stability

of the credit order, it may transfer the miscellaneous property under [Article 4 (4)] of the State Properties Act to the KDIC gratuitously, notwithstanding the provisions of [Article 44] of the same Act.

- (2) The transfer under Para. (1) shall be subject to the prior consent of the National Assembly after the deliberation of the State Council and the approval of the President of the Republic of Korea: Provided, That if it is deemed particularly necessary to protect depositors and assure the stability of the credit order, such transfer shall only be subject to an ex post facto approval of the National Assembly. [This Article Newly Inserted by Act No. 5421, Dec. 31, 1997]

Article 24-3 (Separate Accounting)

- (1) The Fund shall separate its accounting from that of the funds necessary for the operation of the KDIC. <Newly Inserted by Act No. 5556, Sep. 16, 1998>
- (2) The Fund shall establish separate accounts for banks, securities companies, insurance companies, merchant banks, mutual savings and finance companies, and credit unions, and keep their accounting separate from each other. For insurance companies, the account shall be divided further into life insurance account and non-life insurance account.
- (3) The Committee shall determine an overall transfer of assets and liabilities between accounts under Para. (2), transactions such as loans, transactions between accounts under Para. (2) and the KDIC, and the methods, etc. of distributing expenses for the operation of the KDIC. <Amended by

Act No. 5556, Sep. 16, 1998> [This Article Newly Inserted by Act No. 5492, Dec. 31, 1997]

Article 25 (Operation of Surplus Cash)

When there is a cash surplus, the KDIC may use such surplus in accordance with the methods falling under the following subparagraphs: <Amended by Act No. 5492, Dec. 31, 1997; Act No. 5556, Sep. 16, 1998>

1. Purchase of government bonds and public loans, or other securities designated by the Committee;
2. Deposit in insured financial institutions designated by the Committee; and
3. Other methods prescribed by the MOFE.

Article 26 (Borrowings)

- (1) When deemed necessary for the execution of its duties in [Article 18 (1) 3 and 4], the KDIC, notwithstanding the provisions of [Article 79] of the Bank of Korea Act, may borrow funds, which shall be recorded at the account of the Fund and redeemed by the Fund, from the Government, the Bank of Korea, insured financial institutions or other institutions as determined by the Presidential Decree, as prescribed by the Presidential Decree. <Amended by Act No. 5492, Dec. 31, 1997; Act No. 5556, Sep. 16, 1998>
- (2) The Government may guarantee the redemption of the principal of and the interest on borrowings from the Bank of Korea under Para. (1). <Newly Inserted by Act No. 5492, Dec. 31, 1997>

Article 26-2 (Issuance of Deposit Insurance Fund Bonds)

- (1) The KDIC may issue Deposit Insurance Fund Bonds (hereinafter referred to as “*bonds*”) from the Fund accounts through a decision by the Committee to raise funds necessary for the protection of depositors and stability of the credit order.
- (2) Where the KDIC intends to issue Bonds, it shall determine the amount, terms and methods of issuance and redemption at every issuance and report them to the MOFE. <Amended by Act No. 5556, Sep. 16, 1998>
- (3) The necessary matters for the issuance of Bonds shall be determined by the Committee.
- (4) The prescription of Bonds shall terminate at the lapse of 5 years for principal and two years for interests.
- (5) The Government may guarantee the redemption of the principal and interest of Bonds.
- (6) Bonds shall be deemed bonds under [Article 2 (1) 3] of the Securities and Exchange Act. [This Article Newly Inserted by Act No. 5492, Dec. 31, 1997]

deemed necessary for the protection of depositors, the MOFE may cancel all or part of such disposition or suspend the execution of such disposition.

Article 28 (Report and Examination)

- (1) When deemed necessary, the MOFE may have the KDIC report matters pertaining to its businesses, accounting, and properties, or have his subordinated officials examine the state of the KDIC’s business, books and records, documents, facilities, or other matters. <Amended by Act No. 5556, Sep. 16, 1998>
- (2) Where the subordinate officials conduct an examination under Para. (1), such officials shall carry certificates indicating their authorities and show the certificates to the relevant person.

SECTION 6. Supervision

Article 27 (Supervision)

- (1) The MOFE shall guide and supervise the duties of the KDIC, and may give necessary orders. <Amended by Act No. 5556, Sep. 16, 1998>
- (2) When a disposition taken by the KDIC under this Act is unlawful, or when

CHAPTER III. DEPOSIT INSURANCE

Article 29 (Insurance Relations)

- (1) Insurance relations among the KDIC, an insured financial institution, and depositors shall be formed and effected when a depositor holds depositors and other claims on an insured financial institution. <Amended by Act No. 5492, Dec. 31, 1997>
- (2) Any insured financial institution shall indicate whether insurance relations have been created and their contents under Para.(1) on such terms and conditions as the KDIC may determine. <Newly Inserted by Act No. 5492, Dec. 31, 1997; Act No. 5556, Sep. 16, 1998>

Article 30 (Payment of Insurance Premiums)

- (1) Each insured financial institution shall pay every year to the KDIC the amount (one hundred thousand won where the amount is less than one hundred thousand won) calculated by multiplying its balance of deposits (in the case of insurance companies an amount as determined by the Presidential Decree in consideration of underwriting reserve pursuant to [Article98] of the Insurance Business Act) by the ratio as determined by the Presidential Decree not exceeding 0.5 percent as an annual insurance premium. In this case, the ratio applicable to each insured financial institution may be set differently taking into consideration the management and financial status of insured financial institution and

accumulated amounts in each account for any specific type of insured financial institutions pursuant to [Article 24-3 (2)]. <Amended by Act No. 5556, Sep. 16, 1998>

- (2) Notwithstanding Para.(1), the KDIC may either reduce all or part the insurance premium or defer the payment of such insurance premium by specifying a period for the insured financial institutions which fall under any of the following items upon resolution of the Committee: <Amended by Act No. 5492, Dec. 31, 1997>
 1. An insured financial institution which is related to an insured risk when such risk occurs; and
 2. An insured financial institution whose normal business is extremely difficult, in view of its financial status, showing the signs of a suspension of the payment of deposits.
 3. When an insured financial institution does not pay the insurance premiums mentioned in Para. (1), by the specified time, such insured financial institution shall pay arrears in addition to the insurance premiums to the KDIC, as prescribed by the Presidential Decree. <Amended by Act No. 5492, Dec. 31, 1997>
 4. The method and time of payment of insurance premium and arrears and other necessary matters mentioned in Para. (1) and (3), shall be prescribed by the Presidential decree.

Article 31 (Payment of Insurance Money)

- (1) When an insured risk occurs to an insured

financial institution, the KDIC shall pay the insurance money upon the request of the depositors of the insured financial institution concerned: provided, that with respect to a category I insured risk, there shall be a payment decision of the insurance money pursuant to [Article 34]. <Amended by Act No. 5492, Dec. 31, 1997>

- (2) In the case of a category I insured risk, the KDIC may in advance pay the depositors part of depositors and other claims upon their requests as prescribed by the Presidential Decree. <Amended by Act No. 5492, Dec. 31, 1997>
- (3) The KDIC shall make a public notification of the period and method of payment and other necessary matters pursuant to Para. (1) or (2), as prescribed by the Presidential Decree, and the depositors shall request payment within the publicly announced period: Provided, That where it is deemed that there is cause for not requesting payment within such period, this shall not apply.
- (4) In case a financial institution which is newly established, or which continues to exist, or which is converted as a consequence of a merger or conversion under the Act on the Structural Improvement of the Financial Industry continues to conduct the business of the pre-existing financial institution which no longer exists due to a merger or conversion pursuant to [Article 9] of the same act, such financial institution and such pre-existing financial institution shall be deemed to exist respectively as an independent insured financial institution in applying Para. (1) for one year from the data of the registration of the merger or of

the amendment to its Articles of Incorporation with respect to the change of its business category. <Newly Inserted by Act No. 5556, Sep. 16, 1998>

- (5) In case a category II insured risk follows a category I insured risk, such category II insured risk shall not be deemed as an independent insured risk in applying Para. (1). <Newly Inserted by Act No. 5556, Sep. 16, 1998>

Article 32 (Calculation of Insurance Money)

- (1) The insurance money paid to each depositor by the KDIC pursuant to [Article 31] shall be the amount obtained by deducting the total amount of debts (excluding guarantee obligations) owed by each depositor to his corresponding insured financial institution from the total amount of deposits and other claims of such depositor as of the public announcement for payment of insurance money pursuant to [Article 31 (3)] (hereinafter referred to as “**public announcement date for payment of insurance money**”): Provided, That this shall not apply where it is otherwise determined by the Presidential Decree. <Amended by Act No. 5492, Dec. 31, 1997; Act No. 5556, Sep. 16, 1998>
- (2) The maximum amount of insurance money mentioned Para. (1) shall be determined by the Presidential Decree.
- (3) Where there is an amount received in advance (hereinafter referred to as “**provisionally-paid money**”) by each depositor pursuant to [Article 31 (2)], the insurance money shall be the amount obtained by deducting the provisionally-paid money from the amount mentioned in

- Para. (1) and (2).
- (4) Where the amount of the provisionally-paid money to a depositor exceeds the insurance money mentioned Para. (1) and (2), the depositor shall return such excess amount to the KDIC.

Article 33 (Notification of Insured Risk)

- (1) When an insured risk occurs, the insured financial institution shall promptly notify the KDIC of such fact without delay.
<Amended by Act No. 5492, Dec. 31, 1997; Act No. 5702, Jan. 29, 1999>
- (2) Where one of the following events occurs, the MOFE, the Financial Supervisory Commission or the Financial Supervisory Service Governor shall promptly notify the KDIC: <Amended by Act No. 5492, Dec. 31, 1997; Act No. 5556, Sep. 16, 1998>

1. When an order to suspend the payment of deposits and other claims or to suspend the business is issued to an insured financial institution;
2. When either the authorization or permission of business for an insured financial institution is cancelled, or the dissolution resolution of an insured financial institution is approved; and
3. When a notification pursuant to [Article 115] of the Bankruptcy Act, is received from the court.

Article 34 (Payment Decision)

- (1) The KDIC, in the case of a category I insured risk, shall decide whether or not to pay the insurance money within 2 months from the date of the receipt of the

notification pursuant to [Article 33] upon resolution of the Committee. <Amended by Act No. 5492, Dec. 31, 1997>

- (2) The KDIC may extend the time limit of Para. (1) up to one month by obtaining an approval from the MOFE. <Amended by Act No. 5556, Sep. 16, 1998>

Article 35 (Acquisition of Claims)

The KDIC, within the amount of such payment, shall acquire the rights of the depositors against the failed financial institution When it pays, insurance money and provisionally-paid money.
<Amended by Act No. 5492, Dec. 31, 1997>

CHAPTER IV. RESOLUTION OF FAILED FINANCIAL INSTITUTIONS

Article 35-2 (Purchase of deposits and other claims)

- (1) When the KDIC pays insurance money pursuant to [Article 31 (1)], it may purchase deposits and other claims related to insured risk concerned.
- (2) The KDIC shall, in the case of purchasing deposits and other claims pursuant to Para. (1), pay an amount obtained by estimating the value of deposits and other claims (hereinafter referred to as “*estimate payment*”) pursuant to Para. (3) upon the request of depositors. In this case, the amount calculated by deducting the expenses from the collected amount of deposits and other claims which have been purchased by the KDIC exceeds the estimate payment, the KDIC shall pay the excess amount additionally to the Depositors.
- (3) An Estimate Payment shall be the amount calculated by multiplying the value of deposits and other claims to be purchased by the KDIC from such depositors which should be calculated as of the public announcement date for payment of insurance money (excluding deposits and other claims equivalent to guarantee obligations of depositors, and deposits and other claims provided as collateral) by Estimate Payment Rate pursuant to [Article 35-3]. <Amended by Act No. 5556, Sep. 16, 1998> [This Article Newly Inserted by Act No. 5492, Dec. 31, 1997]

Article 35-3 (Estimate Payment Rate)

- (1) The KDIC shall, when it purchases deposits and other claims pursuant to [Article 35-2 (1)], determine an Estimate Payment Rate, taking into consideration an amount to be collected from deposits and other claims related to the failed financial institution concerned in view of such estimated institution’s financial status if bankruptcy proceedings are initiated. [This Article Newly Inserted by Act No. 5492, Dec. 31, 1997]

Article 35-4 (Approval of Payment of Estimate Payment)

The KDIC shall, when it intends to pay the Estimate Payment pursuant to [Article 35-2(2)], obtain approval from the MOFE through the decision of the Committee by determining Estimate Payment Rate mentioned in [Article 35-3], the period and method, etc of purchasing deposits and other claims. <Amended by Act No. 5556, Sep. 16, 1998> [This Article Newly Inserted by Act No. 5492, Dec. 31, 1997]

Article 35-5 (Public Announcement of Purchase)

The KDIC, when it obtains approval pursuant to [Article 35-4], publicly announce the fact in such manner as prescribed in the Presidential Decree. [This Article Newly Inserted by Act No. 5492, Dec. 31, 1997]

Article 35-6 (KDIC’s right of Set off by Subrogation)

The KDIC may, on behalf of Depositors, offset

deposits and other claims (excluding deposits and other claims provided to insured financial institutions concerned as collateral by such depositors) of each depositor by debt obligations (excluding guarantee obligations) for which Depositors are liable to the insured financial institutions as of the public announcement date for payment of insurance money. [This Article Newly Inserted by Act No. 5556, Sep. 16, 1998]

Article 36 (Arrangement for Mergers)

The KDIC may arrange mergers or assignment of business between insured financial institutions and failed financial institutions or acquisitions of failed financial institutions by the third party (hereinafter referred to as “*mergers of failed financial institutions*”) as deemed necessary for the protection of depositors and maintenance of stability the financial system. <Amended by Act No. 5492, Dec. 31, 1997>

Article 36-2 (Request for Contract Transfers)

- (1) In case a financial institution falls under the criteria to be prescribed in the Presidential Decree and it is deemed necessary for the protection of Depositors, the KDIC may request the Financial Supervisory Commission to take necessary measures against the failed financial institution concerned, such as ordering the transfer of contracts and filing of petition of bankruptcy, etc.
- (2) The Financial Supervisory Commission, when requested by the KDIC pursuant to Para. (1), shall notify the KDIC of the result without delay. [This Article Newly Inserted by Act No. 5492, Dec. 31, 1997]

Article 36-3 (Establishment of Resolution

Institution)

- (1) The KDIC may establish a financial institution for taking over business or contracts of failed financial institutions (hereinafter referred to as “*Resolution Institution*”) upon approval from the MOFE as deemed necessary for the protection of depositors and maintenance of stability the financial system. <Amended by Act No. 5556, Sep. 16, 1998>
- (2) A resolution institution shall be a corporation.
- (3) The KDIC shall prepare the Articles of Incorporation of any resolution institution including the following matters: <Newly Inserted by Act No. 5556, Sep. 16, 1998>
 1. Purpose;
 2. Trade Name;
 3. Total amount of paid-in capital;
 4. Number of stocks to be issued at its incorporation;
 5. Face value per stock;
 6. Location of the main office; and
 7. Method of public notification.
- (4) The capital of any Resolution Institution shall be contributed in full by the KDIC from the account of the Fund. <Amended by Act No. 5556, Sep. 16, 1998>
- (5) Resolution Institution may use a titles such as banks, securities companies, insurance companies, merchant banks, mutual savings and finance companies or credit union. [Articles 35, 36, 37 through 39] shall apply to such institution as is deemed failed financial institution within the scope related to resolution of failed financial institutions and. [This Article Newly Inserted by Act No.

5492, Dec. 31, 1997]

Article 36-4 (Appointment and Officers and their Authority)

- (1) A resolution institution shall have one president, not more than two directors, and one statutory auditor.
- (2) The president, directors, and statutory auditor shall be appointed by the KDIC. In this case, it shall obtain approval from the Minister of Finance and Economy in appointing the president. <Amended by Act No. 5556, Sep. 16, 1998>
- (3) The president shall represent the resolution institution and exercise general control over the business thereof.
- (4) The KDIC may, when deemed necessary, dismiss the president, directors, or statutory auditor. In this case, it shall obtain approval from the Minister of Finance and Economy in dismissing the president. <Amended by Act No. 5556, Sep. 16, 1998>
- (5) No person who has an interest in the failed financial institution shall be appointed as president, director, or statutory auditor.
- (6) [Articles 12(2) through (4), 14 and 15] shall apply mutatis mutandis to the resolution institution. [This Article Newly Inserted by Act No. 5492, Dec. 31, 1997]

Article 36-5 (Business Scope of Resolution Institutions)

- (1) Resolution Institutions shall carry out the payment of deposits and other claims, collection of claims such as loans, or other business affairs necessary for the efficient

performance of resolution business of a failed financial institution which is approved by the MOFE. <Amended by Act No. 5556, Sep. 16, 1998>

- (2) An amount of deposits and other claims paid by a Resolution Institution to depositors pursuant to Para. (1) shall be limited to insurance money and an Estimate Payment, and the payment shall be deducted from insurance money mentioned in [Article32]. <Amended by Act No. 5556, Sep. 16, 1998>
- (3) The KDIC may provide funds within the scope necessary for the operation of Resolution Institutions in accordance with a decision by the Committee.
- (4) The KDIC shall direct and supervise the business affairs of Resolution Institutions as prescribed by the Presidential Decree. [This Article Newly Inserted by Act No. 5492, Dec. 31, 1997]

Article 36-6 (Registration of Establishment and Announcement)

- (1) The KDIC shall, when it establishes a Resolution Institution pursuant to [Article36-3], register it with the court having jurisdiction over the location of the Resolution Institution's main office.
- (2) The KDIC shall, when it establishes a Resolution Institution, publicly announce the establishment.
- (3) The necessary matters for registration mentioned in Para.(1) and public announcement in Para.(2) shall be prescribed by the Presidential Decree. [This Article Newly Inserted by Act No. 5492, Dec. 31, 1997]

Article 36-7 (Business Period of Resolution

Institution)

- (1) The business period of Resolution Institution shall be up to three years: Provided, That the business period may be extended up to one year upon approval from the MOFE. <Amended by Act No. 5556, Sep. 16, 1998>
- (2) The KDIC shall dissolve a Resolution Institution upon approval from the MOFE in case of a termination of business period of the Resolution Institution, merger, or assignment or assumption of business between the Resolution Institution and an insured financial institution or the acquisition of a Resolution institution when by a third party. <Amended by Act No. 5556, Sep. 16, 1998>
- (3) When the KDIC deems that the continuation of business of any Resolution Institution is likely to damage the interest of depositors, it may dissolve the Resolution Institution upon approval from the MOFE. <Amended by Act No. 5556, Sep. 16, 1998> [This Article Newly Inserted by Act No. 5492, Dec. 31, 1997]

Article 36-8 (Relationship with Other Acts)

- (1) Unless otherwise prescribed in this Act, the Bank of Korea Act, the General Banking Act, the Securities and Exchange Act, the Insurance Business Act, the Merchant Banks Act, the Mutual Savings and Finance Company Act, the Credit Union Act and the [Articles 288, 289(1) and (2), 295, 297 through 299, 299-2, 300, 317, 382 through 385, 389(1), 393, 409 through 410, and 517 through 520] of the Commercial Law shall not apply to

Resolution Financial Institutions.

<Amended by Act No. 5556, Sep. 16, 1998>

- (2) In case there is any special provision in this Act with respect to Resolution Institution, this Act shall prevail over the Commercial Law. [This Article Newly Inserted by Act No. 5492, Dec. 31, 1997]

Article 37 (Application for Financial Assistance)

Any person who intends to assume or merge an failed financial institution or a failing financial institution or take over the business or contracts thereof may apply to the KDIC for financial assistance. <Amended by Act No. 5556, Sep. 16, 1998> [This Article Newly Inserted by Act No. 5492, Dec. 31, 1997]

Article 38 (Decision on Financial Assistance)

- (1) When there is an application for financial assistance pursuant to [Article 37] or when it is deemed necessary to ensure that a merger of failed financial institutions go smoothly, the KDIC may provide financial assistance in accordance with a decision by the Committee. <Amended by Act No. 5556, Sep. 16, 1998>
- (2) The criteria, methods, and conditions and other necessary matters for financial assistance pursuant to Para. (1) shall be determined by the Committee. <Newly Inserted by Act No. 5492, Dec. 31, 1997>

Article 38-2 (Support for Failing Financial Institutions)

- (1) When the KDIC deems it necessary to improve a failing financial institution's financial status for the protection of depositors and stability of the credit system, it may make capital contribution or contribution to such failing financial institution or buy securities to be designated by the MOFE in accordance with a decision by the Committee.
<Amended by Act No. 5556, Sep. 16, 1998>
- (2) The KDIC may, When it is requested by the Financial Supervisory Commission pursuant to [Article 12 (1)] of the Act on Structural Improvement of the Financial Industry, make a capital contribution in the failed institution. [This Article Newly Inserted by Act No. 5492, Dec. 31, 1997]

Article 39 (Special Case of Continuation of Business)

[Article 9 (1)] of the Act on Structural Improvement of the Financial Industry shall apply mutatis mutandis to the business of an insured financial institution which has taken over all of the business of an failed financial institution pursuant to [Article37]. <Amended by Act No. 5257, Jan. 13, 1997; Act No. 5492, Dec. 31, 1997>

CHAPTER V. PENAL PROVISIONS

Article 40 (Penal Provisions)

A person who violates [Article 17 (3)] shall be punished by an imprisonment for not more than 2 years, or by a fine not exceeding 10 million won.

Article 41 (Penal Provisions)

A person who either fails to meet a request for the submission of materials pursuant to [Article 21 (1)] or submits false materials, or a person who refuses, obstructs, or avoids an investigation pursuant to [Article 21 (2)] shall be punished by an imprisonment for not more than 1 year or a fine not exceeding 5 million won.

Article 42 (Legal Fiction of Public Officials in Application of Criminal Law)

- (1) The officers and employees of the KDIC, and the officers and employees of an acting agency mentioned in [Article20] shall be regarded as public officials in application of [Articles 129 through 132] of the Criminal Law.
- (2) The scope of the employees mentioned in Para.(1) shall be prescribed by the Presidential Decree.

Article 43 (Joint Penal Provisions)

When a representative, agent, employee or other employed person of an insured financial institution commits an act in violation of [Article

41] with respect to the business affairs of such insured financial institution, a fine corresponding to those mentioned in the same Article shall be also imposed to such institution, in addition to punishment against offender. <Amended by Act No. 5492, Dec. 31, 1997>

Article 44 (Negligence Fine)

- (1) A person who violates [Articles 7, 29(2) and 33(1)] shall be punished by a negligence fine not exceeding 2 million won. <Amended by Act No. 5556, Sep. 16, 1998>
- (2) The MOFE shall impose and collect the negligence fines mentioned in Para.(1) in such manner as prescribed by the Presidential Decree. <Amended by Act No. 5556, Sep. 16, 1998>
- (3) A person who objects to the disposition of a negligence fine pursuant to Para.(2) may file an objection with the MOFE within thirty days from the date of receiving the notice of such disposition. <Amended by Act No. 5556, Sep. 16, 1998>
- (4) When a person on whom a negligence fine is imposed pursuant to Para.(2) files an objection pursuant to Para.(3), the MOFE shall, without delay, notify the competent court of such fact, and the competent court which has received such notification shall render a judgement on the disposition of a fine for negligence in accordance with the Non-Contentious Case Litigation Procedure Act. <Amended by Act No. 5556, Sep. 16, 1998>
- (5) When no objection is filed and no negligence fine is paid within the period mentioned in Para.(3), the MOFE shall collect the negligence fine following the

example of a disposition of national taxes in arrears. <Amended by Act No. 5556, Sep. 16, 1998>

ADDENDA

Article 1 (Enforcement Date)

This Act shall enter into force on June 1, 1996: Provided, That the provisions of Chapters 3 and 4 shall enter into force on January 1, 1997.

Article 2 (Incorporation Committee)

- (1) The MOFE shall, within three months from the date of the promulgation of this Act, organize an incorporation committee by entrusting not more than ten incorporation commissioners, and have such incorporation commissioners handle business matters pertaining to the preparation for the incorporation of the KDIC.
- (2) The incorporation committee shall draw up the articles of incorporation of the KDIC and receive authorization of the Minister of Finance and Economy.
- (3) When the incorporation committee receives authorization pursuant to Para.(2), it shall make a registration of incorporation of the KDIC.
- (4) When the incorporation committee completes the registration of incorporation pursuant to Para.(3), it shall transfer its duties and property to the President under the provisions of the KDIC, and when the transfer is completed, the incorporation commissioners shall be regarded as decommissioned thereupon.
- (5) When necessary, the incorporation committee may execute its duties with the

dispatched service of officers or employees of the concerned insured banks or institutions with the consent of said insured banks or institutions.

- (6) The Government may, within the limit of its budget, make contributions to the incorporation committee to defray the expenditure required in the preparation for the incorporation of the KDIC.

Article 3 Omitted.

ADDENDA <Act No. 5257, Jan. 13, 1997>

Article 1 (Enforcement Date)

This Act shall enter into force on March 1, 1997.

Articles 2 through 5 Omitted.

ADDENDA <Act No. 5403, Aug. 30, 1997>

Article 1 (Enforcement Date)

This Act shall enter into force on the date of its promulgation.

Articles 2 through 8 Omitted.

ADDENDUM <Act No. 5421, Dec. 13, 1997>

This Act shall enter into force on the date of its promulgation.

ADDENDA <Act No. 5492, Dec. 31, 1997>

Article 1 (Enforcement Date)

- (1) This Act shall enter into force on April 1, 1998: Provided, That the amendments to Subpara.1, 5 and 5-2 of [Article 2], and [Articles 26(2), 26-2 and 37 through 38-2], and the amendments to [Articles 5, 6(1) and (3), and 7] of the Addenda shall enter into force on the date of its promulgation, and the provisions of [Article 7] of the Addenda shall remain in force until March 31, 1998.
- (2) Until March 31, 1998, with regard to the enforcement of the provisions enumerated in the proviso of Para.(1): for the powers of the Financial Supervisory Commission, the Monetary Board shall exercise them over insured financial institutions listed in Subpara.1(a) and (i) of [Article 2], the MOFE over insured financial institutions listed in (b) through (h) and (k) through (m) of the same subparagraph, and the Securities and Exchange Commission over insured financial institutions listed in (j) of the same subparagraph, respectively; for the powers and operations of the Korea Deposit Insurance Corporation, the Korea Deposit Insurance Corporation shall exercise them over insured financial institutions listed in Subpara.1(a) through (i) of [Article 2], the Securities and Exchange Commission over insured financial institutions listed in (j) (a fund management company under [Article 69-2(1)] of the Securities and Exchange Act over the business of bond issue under [Article 26-2]), the Insurance Supervisory Board over insured financial institutions listed in (k) of the same paragraph, and the Credit Management Fund over insured

financial institutions listed in (l) and (m) of the same subparagraph, respectively; for the powers and operations of the management committee, the management committee of the Korea Deposit Insurance Corporation shall exercise them over insured financial institutions listed in Subpara.1(a) through (i) of [Article2], the Securities and Exchange Commission over insured financial institutions listed in (j) of the same subparagraph, the Management Committee of the Insurance Guarantee Fund over insured financial institutions listed in (k) of the same subparagraph, and the management committee of the Credit Management Fund over insured financial institutions listed in (l) and (m) of the same subparagraph, respectively; and for the deposit insurance fund, insured financial institutions listed in Subpara.1(a) through (i) of [Article 2] shall be deemed the deposit insurance fund, insured financial institutions listed in Subpara. (j) of the same subparagraph. the Securities Investor Protection Fund, insured financial institutions listed in (k) of the same subparagraph, the Insurance Guarantee Fund, and insured financial institution listed in (l) and (m) of the same subparagraph, the Credit Management Fund, respectively.

Article 2 (General Transitional Measures)

- (1) Any authorization, permission or other acts done by the Insurance Supervisory Board in relation to the Insurance Guarantee Fund, by the Korea Non-Bank Deposit Insurance Corporation in relation to

Contributed Fund Operation Accounts, or by the Credit Unions Federations in relation to the Credit Unions Stabilization Fund under the previous provisions at the time of enforcement of this Act shall be deemed acts done by the Korea Deposit Insurance Corporation under this Act.

- (2) Any registration, report or other acts done to the Insurance Supervisory Board in relation to the Insurance Guarantee Fund, to the Korea Non-Bank Deposit Insurance Corporation in relation to Contributed Fund Operation Accounts, or to the Credit Unions Federation in relation to the Credit Unions Stabilization Fund under the Previous provisions at the time of enforcement of this Act shall be deemed acts done to the Korea Deposit Insurance Corporation under this Act.

Article 3 (Transitional Measures on Contributions)

- (1) Contributions which merchant banks and mutual savings and finance companies paid to the Korea Non-Bank Deposit Insurance Corporation on business authorization under [Article 5], and contributions which the Credit Unions Stabilization Fund received under [Article 83-22] of the Credit Unions Act before the enforcement of this Act shall be contributions made to the Deposit Insurance Fund this Act.
- (2) Contributions which insurers paid to the Insurance Guarantee Fund under [Article 197-10] of the Insurance Business Act, contributions which merchant banks and mutual savings and finance companies paid to the Korea Non-Bank Deposit

Insurance Corporation after the closing of each business year under [Article 5] of the Korea Non-Bank Deposit Insurance Corporation Act, and contributions which Credit Union paid to the Credit Unions Stabilization Fund under [Article 83-22] of the Credit Unions Act before the enforcement of this Act shall be deemed insurance premiums under this Act.

- (3) Where the KDIC extends loans to the Securities Investors Protection Fund under the amendment to [Article 6] of the Addenda, the rights and duties of the Securities Investors Protection Fund over the loaned money shall be succeeded to by universal title by the KDIC on April 1, 1998.

Article 4 (Transitional Measures on management committee Members and Officers of the Korea Deposit Insurance Corporation)

Members commissioned under [Article 9 (1) 6] of the previous provisions and officers of the KDIC before the enforcement of this Act shall perform their duties until members or officers under this Act are commissioned or appointed.

Article 5 (Dispatch of Related Personnel)

- (1) Where deemed necessary to prepare for the integration of the Securities Investors Protection Fund, the Insurance Guarantee Fund, contribution operation business accounts of the Credit Management Fund and the Credit Unions Stabilization Fund, the KDIC may receive a dispatch of related personnel in charge of the business and have them carry out its necessary

functions.

- (2) The Korea Deposit Insurance Corporation shall prepare data on business, an inventory of property, and financial status of each Fund and report them to the MOFE through a decision by the policy committee within one month after the enforcement of this Act.

Article 6 (Special Case for Operation of Funds Created through Bond Issue)

- (1) Funds which the Korea Deposit Insurance Corporation raised through the issue of bonds under [Article 26-2] before March 31, 1998, may be extended as loans to the Securities Investors Protection Fund, the Insurance Guarantee Fund, the Credit Management Fund or the Credit Unions Stabilization Fund, notwithstanding the provisions of [Article 25].
- (2) Funds raised under Para.(1) shall be deemed to have been issued at the relevant account of the deposit insurance fund under [Article 24-3(1)] after April 1, 1998.
- (3) Notwithstanding the provisions of [Article 31] of the Credit Management Fund Act, funds borrowed from the Korea Deposit Insurance Corporation shall be audited separately as special accounts.

Article 7 Omitted.

Article 8 (Support for Budget of the Korea Non-Bank Deposit Insurance Corporation)

The Korea Deposit Insurance Corporation may contribute to the Korea Non-Bank Deposit Insurance Corporation expenses required for the budget of the Credit Management Fund set

under [Article 4 (2)] of the Addenda of the Act on the Establishment of Financial Supervisory Organizations until the Financial Supervisory Service is established after the enforcement of this Act.

ADDENDA <Act No. 5556, Sep. 16, 1998>

Article 1 (Enforcement Date)

This Act shall enter into force on the date of its promulgation: Provided, That amendment to Subpara.2(d) of [Article 2] shall enter into force on October 1, 1998.

Article 2 (Application to Insurance Premiums)

The amendment to [Article 30 (1)] shall apply to the portion of insurance premiums for which obligation for payment is first created after the enforcement of this Act.

Article 3 (Application to the Ceiling on Insurance Premium)

The previous provisions of [Article 30 (1) 1 through 6] shall apply until August 31, 2003 with regard to the amendment to [Article 30 (1)], unless the ceiling on the ratio of the amount to be paid as an annual insurance premium by each insured financial institution to the balance of deposits is altered through a deliberation of the Regulatory Reform Committee.

Article 4 (Application to Calculation of Insurance Money)

- (1) The amendment to [Article 32 (1)] shall apply to insurance money to be publicly announced to be paid pursuant to [Article 31 (3)] first after the enforcement of this

Act.

- (2) The amendment to [Article 32-2(3)] shall apply to an estimate payment announced to be paid pursuant to [Article 35-5] first after the enforcement of this Act.

Article 5 (Transitional Measures on Notes Guaranteed by Merchant Banks)

Money raised through the notes guaranteed by merchant banks pursuant to the previous provisions at the time of enforcement of this Act shall be deemed deposits pursuant to the amendment to Subpara.2(d) of [Article 2].

Article 6 (Special Cases on Resolution Institutions)

- (1) Financial institutions established with authorization from the MOFE pursuant to [Article 3 (1)] of the Merchant Bank Act in order to carry out the restructuring business of failed financial institutions at the time of the enforcement of this Act (hereinafter referred to as “*bridge financial institutions*”) shall be deemed restructuring financial institutions established upon approval by the MOFE pursuant to the amendment to [Article 36-3].
- (2) Authorizations, permissions or other acts conducted by bridge financial institutions and any registration, report or other acts made to bridge financial institutions before the enforcement of this Act shall be deemed acts conducted by or made to resolution institutions.
- (3) The registration and public announcement establishment of a bridge financial institution at the time of the enforcement of this Act shall be deemed those of a resolution financial institution pursuant to this Act.

ADDENDUM <Act No. 5702, Jan. 29, 1999>

This Act shall enter into force on the date of its promulgation.

ENFORCEMENT DECREE OF THE DEPOSITOR PROTECTION ACT

Wholly Amended by Presidential Decree No. 15842, Jul.
25, 1998

Amended by Presidential Decree No. 15911,
Oct.10, 1998

Article 1 (Purpose)

The purpose of this Decree is to prescribe matters delegated by the Depositor Protection Act and matters necessary for the enforcement thereof.

Article 2 (Insurance companies excluded from Insured Financial Institutions)

Insurance companies which shall be excluded from insured financial institutions pursuant to Subpara.1 (k) of [Article 2] of the Depositor Protection Act (hereinafter referred to as "*the Act*") are insurance companies which are corporations mainly engaging in reinsurance or guarantee insurance.

Article 3 (Scope of Deposits)

(1) The money which insured financial institutions prescribed in Subpara.1 of [Article 2] of the Act (hereinafter referred to as "*insured financial institutions*") have raised from any of the following sources shall not be included in the scope of deposits prescribed in Subpara.2 of [Article 2] (hereinafter referred to as "*deposits*"):

1. The Government or local government;
2. The Bank of Korea, the Financial Supervisory Service established under the Act on the Establishment of Financial Supervisory Organization, or the Korea Deposit Insurance Corporation established under the Act (hereinafter referred to as "*the KDIC*"); and
3. Other insured financial institutions.

(2) The money which insured financial institutions prescribed in Subpara.1(a) through (i) of [Article 2] of the Act (hereinafter referred to as "*Banks*") have raised by any of the following methods shall not be included in the deposits prescribed in Subpara.2(a) of [Article 2] of the Act:

1. Deposits denominated in foreign currencies under the Foreign Exchange Management Act;
2. Negotiable certificates of deposit(CD);
3. Development trust;
4. Issuance of bonds; and
5. Sale of bonds under repurchase agreements.

(3) The money which insured financial institutions prescribed in Subpara.1(j) of [Article 2] of the Act (hereinafter referred to as "*Securities Companies*") receive as deposits from their customers and which falls under any of the following subparagraphs shall not be included in the deposits prescribed in Subpara.2(b) of [Article 2] of the Act (hereinafter in this paragraph referred to as "*customer deposit money*"):

1. The money in deposit for the payment of taxes incurred to customer deposit money;
2. The money raised by sale of bonds under repurchase agreements;
3. The money in deposit for the acquisition of or subscription for the purchase of securities which are publicly offered or distributed in the secondary market under the Securities and Exchange Act; and
4. Money deposited in securities finance company established under the Securities and Exchange Act (hereinafter referred to as “*securities finance company*”) to guarantee the redemption of the face amount of the securities loaned to customer under the same Act.

(4) The Insurance premiums which insured financial institutions prescribed in Subpara.1(k) of [Article 2] of the Act (hereinafter referred to as “*insurance companies*”) have received and which fall under any of the following subparagraphs shall not be included in the deposits prescribed in Subpara.2(c) of [Article 2] of the Act:

1. Insurance premiums received under insurance contracts (limited to contracts whose policyholders and insurance premium payers are corporations) other than retirement insurance contracts under the Labor Standards Act (hereinafter referred to as “*retirement insurance*”);
2. Insurance premiums received under guarantee insurance contracts; and
3. Insurance premiums received under reinsurance contracts.

(5) and (6) Deleted. <Oct. 10, 1998>

Article 4 (Registration of Establishment)

- (1) The establishment of the KDIC shall be registered at the location of its main office within two weeks from the date on which the MOFE approves the AI.
- (2) The matters required in the registration of the KDIC shall be as follows:
 1. Purpose;
 2. Trade name;
 3. Location of its main office;
 4. Names and addresses of directors and statutory auditor; and
 5. Methods of public notification.

Article 5 (Registration of Relocation)

- (1) The KDIC shall, when it relocates its main office into the jurisdiction of another registry office, it make a registration of relocation within two weeks at the old location, and the matters mentioned in each subparagraph of [Article 4 (2)] within three weeks at the new location.
- (2) The KDIC shall, when it relocates, its main office within the jurisdiction of the same registry office, make a registration of relocation within two weeks thereafter only the purport of the move.

Article 6 (Registration of Change)

The KDIC shall, when there is a change in the matters prescribed in any subparagraph of [Article 4 (2)], register the changed matters at the location of its main office within two weeks thereafter.

Article 7 (Registration of Appointment of Representatives)

- (1) In case President of the KDIC appoints a representative, the following matters shall be registered at the location of its main office within two weeks thereafter. This provision shall also apply to the case of any change is registered matters.
1. Name and address of the representative;
 2. Location and name of the main office for which the representative is appointed; and
 3. In case the power of the representative is restricted, the contents of such restriction

Article 8 (Calculation of Registration Period)

For the matters requiring an authorization and approval from the MOFE among the matters to be registered by the KDIC pursuant to the provision of this decree, the registration period shall be counted from the date on which the documents on its authorization or approval have arrived.

Article 9 (Application for Registration)

- (1) The registration of establishment pursuant to [Article 4] shall be made by joint application of incorporators, the registration pursuant to [Articles 5 through 7] shall be made by the application of the President of the KDIC.
- (2) To the application documents for registration pursuant to [Articles 4 through 7] the documents proving such causes shall be attached.

Article 10 (Operation of Policy Committee)

- (1) Meetings of the Policy Committee prescribed in [Article 8] of the Act (hereinafter referred to as “*the committee*”) or subcommittees prescribed in [Article 10 (5)] of the Act (hereinafter referred to as “*the subcommittee*”) shall be convened by the chairman of the related committee in accordance with the provisions of the AI.
- (2) The directors and statutory auditor of the KDIC may attend a meeting of the committee or the subcommittee and state their opinions.
- (3) An allowance may be paid to the members attending a meeting of the committee or the subcommittee within the limit of the budget of the KDIC. However, this provision shall not apply to the cases where a public official attends a meeting which is directly related to his duties.
- (4) Matters necessary for the operation of the committee or the subcommittee other than matters prescribed in this Decree shall be determined by the chairman upon resolution of the committee or the subcommittee.

Article 11 (Qualifications for Commissioned Members of Policy Committee)

Members commissioned by the MOFE pursuant to [Article 9] of the Act shall be those who are not disqualified as directors or statutory auditor or employees of the KDIC pursuant to [Article 16] of the Act, and who have extensive knowledge and experience in finance, economics, or law.

Article 12 (Agencies)

- (1) Acting agencies prescribed in [Article 20]

of the Act (hereinafter referred to as “agency”) shall be as follows:

1. The Korea Asset Management Corporation established under the Act on the Effective Management of Non-performing Assets of Financial Institutions and the Establishment of Korea Asset Management Corporation;
 2. Insured financial institutions;
 3. The Mutual Savings and Finance Companies Federation established under the Mutual Savings and Finance Company Act (hereinafter referred to as “*the Mutual Savings and Finance Companies Federation*”); and
 4. The Credit Unions Federation established under the Credit Union Act.
- (2) The KDIC may, when it mandates part of its business pursuant to [Article 20] of the Act, pay fees to such agencies on such terms and conditions to be determined by the committee or the subcommittee.

Article 13 (Budget and Settlement of Accounts)

The budget of the KDIC shall be subject to approval by the MOFE before the commencement of the fiscal year pursuant to [Article 23] of the Act, the settlement of accounts of the KDIC shall be subject to approval by the MOFE within two months after the closing of the fiscal year.

Article 14 (Contributions)

- (1) Pursuant to [Article 24 (4)] of the Act, an insured financial institution shall, when it obtains authorization or permission of business or establishment, pay the KDIC

the amount calculated by multiplying its paid-in capital or capital contribution by the relevant rate by the type of insured financial institution mentioned in each of the following subparagraphs as a contribution within one month from the date of commencing business:

1. Banks: 1/100;
 2. Securities companies: 1/100;
 3. Insurance companies: 1/100;
 4. Merchant banks: 5/100;
 5. Insured financial institutions mentioned in Subpara.1(m) of [Article 2] of the Act (hereinafter referred to as “*Mutual Savings and Finance Companies*”): 5/100; and
 6. Insured financial institutions mentioned in Subpara.1(n) of [Article 2] of the Act (hereinafter referred to as “*Credit Unions*”); 1/100.
- (2) In case the accumulated amount in the account of a type of insured financial institutions in the Deposit Insurance Fund established pursuant to [Article 24 (1)] of the Act (hereinafter referred to as “*the Fund*”) falls short of the amount to be paid as insurance money to holders of Deposits and Other Claims prescribed in the subpara.4 of [Article 2] of the Act (hereinafter referred to as “*Depositors*”), the KDIC may have the insured financial institutions concerned in such type of insured financial institutions contribute additionally an amount approved by the MOFE upon resolution of the committee or the subcommittee within the amount of shortfall within one month from the date on which the KDIC has decided to pay insurance money. In this case, additional

contributions shall not exceed the limit of contributions prescribed in [Article 24 (4)] of the Act.

- (3) Notwithstanding Para.(1), an insured financial institution shall, when it obtains authorization or permission of business or establishment by a merger or partition, not pay the contribution to the KDIC.
- (4) Notwithstanding Para(1) and (2), the KDIC may defer the payment of the contribution upon resolution of the committee or the subcommittee, by specifying a period, for an insured financial institution whose normal operation is in such a difficulty situation as depositors and other claims of the institution are likely to be suspended in light of a financial condition of that institution.

Article 15 (Methods of Borrowing)

- (1) The KDIC may borrow funds to be repaid by a type of insured financial institutions through the account of that type of insured financial institutions pursuant to [Article 26 (1)] of the Act.
- (2) The KDIC shall, when it intends to borrow funds pursuant to Para.(1), prepare documents describing the matters in each of the following subparagraphs , and obtain an approval from the MOFE:
 1. Reasons for borrowing;
 2. The amount to be borrowed;
 3. Interest rate on the loan, method and time of payment of interest; and
 4. Method and period of redemption of the borrowed fund.

(3) *“other institutions to be prescribed in the*

Presidential Decree” mentioned in [Article 26 (1)] of the Act refers to following institutions: <Amended by Presidential Decree No. 15911, Dec. 10. 1998>

1. The Korea Federation of Mutual Savings and Finance Companies;
2. Securities finance companies;
3. The Export and Import Bank of Korea established under the Export and Import Bank of Korea Act;
4. The National Credit Union Federation under the Credit Union Act; and
5. Resolution Institutions mentioned in [Article 36-3] of the Act.

Article 16 (Time for Payment of Insurance Premium)

- (1) In accordance with [Article 30 (1)] of the Act, an insured financial institution shall pay to the KDIC an insurance premium calculated by the formula in Table 1 within three months after the closing of each fiscal year: However, banks shall pay insurance premiums within one month from the end of each quarter.
- (2) An insured financial institution shall, when it fails to pay insurance premium prescribed in Para.(1) by the time limit for payment, pay to the KDIC additional arrears calculated by multiplying the number of days past the payment deadline by interest rates set by the committee or the subcommittee based on overdue interest rates at the time of the loaning of general funds of such insured financial institution.
- (3) *“the amount to be prescribed by the Presidential Decree”* in the former

sentence of [Article 30 (1)] of the Act refers to the total of the amounts by classification in each of the following subparagraphs.: <Newly Inserted by Presidential Decree No. 15911, Dec. 10. 1998>

1. Contracts under which the cause of the payment of insurance money, etc. (meaning the amount or dividend agreed to be paid to a policyholder when a cause to pay insurance money occurs under an insurance contract or when a policyholder asks to cancel an insurance contract; hereinafter in this paragraph the same shall apply) has not yet occurred as of the closing date each fiscal year: the accumulation of insurance premiums and prepaid insurance premiums to be paid at the cancellation or termination of the contract period of insurance, calculated to the specifications for calculating insurance premiums and underwriting reserves pursuant to [Article 7 (1) 1] of the Insurance Business Act by classification of insurance or by its lapse of contract term;
2. Contracts under which the cause of payment of insurance money has occurred as of the closing date each fiscal year:
 - (a) An amount to be paid determined but not yet paid;
 - (b) An estimated insurance money not yet paid when the amount to be paid is not determined; and
 - (c) A litigation value still pending in court in connection with an amount of insurance money to be paid.

3. An amount which is accumulated by an insurance company in order to pay dividends to policyholders and approved by the Financial Supervisory Commission.

Article 17 (Suspense Payment)

- (1) The KDIC may pay in advance depositors an amount as set by the Committee or the subcommittee within the limit of insurance money to be paid pursuant to [Article 32 (2)] of the Act (hereinafter referred to as “*suspense payment*”) in accordance with [Article 31 (2)] of the Act: However, insurance money shall, when suspense payment exceeds insurance money, etc, be the maximum amount for payment.
- (2) The KDIC shall publicly announce the period and methods of payment pursuant to the main sentence of [Article 31 (3)] of the Act in not less than one daily newspaper published in Seoul Special Metropolitan City and not less than one daily newspaper published in the district in which its main office is located at least once: However, in case the KDIC pays insurance money or suspense payment to the depositors of mutual savings and finance companies and credit unions, it shall make a public announcement in not less than 2 daily newspapers including one daily newspaper published in the district in which their main offices are located at least once.

Article 18 (Exceptions to Calculating Methods of Insurance Money)

- (1) In calculating the insurance money

pursuant to [Article 32 (1)] of the Act, When depositors have offered deposits and other claims as collateral (hereinafter in this Article referred to as ***“deposits as collateral”***) or provide guarantees to such insured financial institutions for a third party, the KDIC may suspend the payment of insurance money within the amount equivalent to deposits as collateral or guarantee obligations until such secured claims or guarantee obligations are extinguished. <Amended by Presidential Decree No. 15911, Dec. 10. 1998>

(2) The KDIC shall, when it suspends the payment of insurance money pursuant to Para.(1), issue documents describing the following matters to depositors who have requested the payment of such insurance money: <Amended by Presidential Decree No. 15911, Dec. 10. 1998>

1. The amount of insurance money the payment of which is suspended;
2. The amount of deposits as collateral and the name of the person to whom the claims on collateral are offered;
3. The amount of the guarantee obligations and the name of such creditor; and
4. The procedures and methods for depositors to request the payment of suspended insurance money upon the extinction of secured claims or guarantee obligations.

(3) Notwithstanding the [Article 32 (1)] of the Act, with regard to the insurance money to be paid by the KDIC to the insured or the beneficiaries of a retirement insurance contract or retirement lump sum trust

entered into by enterprises or organizations with workers as the insured or the beneficiaries in order to pay severance pay under the Labor Standards Act, the total amount of obligations owed by such insured or the beneficiaries to such insured financial institutions shall not be deducted from the total amount of deposits and other claims which the insured or beneficiaries have in the insured financial institutions as of the date of the public announcement of the payment of insurance money (hereinafter in this Article, referred to as ***“rate of payment announcement of insurance money”***) pursuant to [Article 31 (3)] of the Act: However, this provision shall not apply to the case where such insured financial institution has obtained a consent in writing from the workers concerned. <Amended by Presidential Decree No. 15911, Dec. 10. 1998>

(4) When the settlement of securities which have been traded by depositors before the date payment announcement through securities companies (including the settlement of stock index futures trade under the Securities and Exchange Act and the exercise of stock options under the Enforcement Decree of the Securities and Exchange Act) is made after the date of payment announcement of insurance money, such settlement amount shall be included in calculating the insurance money, which may be held by the time such amount is settled. <Amended by Presidential Decree No. 15911, Dec. 10. 1998>

(5) The amount of deposits and other claims, in calculating insurance money pursuant to

[Article 32 (1)], shall be limited to the amount calculated by adding the amount of deposits to the amount calculated by multiplying that amount by the interest rate to be determined by the committee or the subcommittee, taking into account the average interest rate of one-year maturity time deposit in nationwide banks: However, this shall not apply to the insurance money (excluding insurance money paid upon termination of insurance period) among deposits and other claims against insurance companies.

- (6) The limit of the payment of insurance money pursuant to [Article 32 (2)] of the Act shall be twenty million won.

Article 19 (Public Announcement of Occurrence of Insured Risk)

The [Article 17 (2)] shall apply mutatis mutandis to the public announcement of occurrence of insured risk pursuant to [Article 33-1] of the Act and that of estimate payment rate pursuant to [Article 35-5] of the Act.

Article 20 (Criteria of Request for Contract Transfers)

- (1) When the liabilities of a failed financial institution mentioned in Subpara.5 of [Article 2] of the Act (hereinafter in this Article, referred to as *“failed financial institution”*) exceeds its assets, and any of the following subparagraphs occurs, the KDIC may, in accordance with [Article 36-2] of the Act, request that the Financial Supervisory Commission take necessary measures such as an order of transfer of contacts or filing of petition of bankruptcy, and so on against the

failed financial institution upon a resolution by the committee or the subcommittee:

1. When depositors’ interests are damaged or the fund’s liabilities are increased due to any delay in mergers or assumptions or assignment of business between insured financial institutions and failed financial institutions or assumptions of failed financial institutions by a third party (hereinafter referred to as *“mergers of insolvent financial institutions”*) pursuant to [Article 36] of the Act; and
 2. When depositors’ interests are damaged or the fund’s liabilities are increased due to extreme difficulty in mergers of failed financial institutions.
- (2) The KDIC shall, when it establishes a resolution institution to take over the business or contracts of failed financial institution (hereinafter referred to as *“resolution institution”*) pursuant to [Article 36-3] of the Act, request that the Financial Supervisory Commission order the transfer of the contracts of the failed financial institution pursuant to [Article 36-2 (1)] of the Act.

Article 21 (Supervision over Resolution Institutions)

The KDIC may direct and supervise the business of resolution institutions or take necessary measures against them pursuant to [Article 36-5 (4)] of the Act.

Article 22 (Registration of Establishment of Resolution Institutions)

- (1) The establishment of a resolution institution shall be registered at the location of its main office within two weeks from the date of approval from the MOFE.
- (2) Matters to be registered for establishment by a resolution institution shall be as follows:
 1. Purpose;
 2. Name;
 3. Total amount of capital;
 4. Total number of stocks to be issued;
 5. Face value per stock;
 6. Names and addresses of directors and statutory auditor;
 7. Location of the main office and branches; and
 8. Methods of public notification.

Article 23 (Registration of Relocation of Resolution Institutions)

[Articles 5 through 8 and 17 (2)] shall apply mutatis mutandis to the registration of relocation, registration of change, registration of appointment of representatives, calculation of registration period, and announcement of establishment of resolution institutions.

Article 24 (Applicants for Registration of Resolution Institutions)

- (1) A registration of establishment pursuant to [Article 22] shall be made by the application of the President of the KDIC, and a registration pursuant to [Article 23] shall be made by the application of the president of a resolution institution.
- (2) To the applications for registration pursuant to [Articles 22 and 23], the documents proving their causes shall be attached.

Article 25 (Scope of Staff Subject to Legal Action of Public Officials in Application of Criminal Law)

The scope of the staff prescribed in [Article 42 (2)] of the Act shall be as follows:

1. Staff of the KDIC whose rank is assistant manager or higher;
2. Staff of the acting agency whose rank is assistant manager or higher who engages in the agency business prescribed in [Article 20 (1)] of the Act: However, this shall be limited only to the case where punishment under the Criminal Law is imposed in connection with such businesses.

Article 26 (Procedures for Imposition and Collection of Negligence Fines)

- (1) The MOFE shall, when imposing a negligence fine pursuant to [Article 44 (2)] of the Act, investigate and confirm the violated act concerned, and notify the person who is subject to the disposition of negligence fine, of the payment of such negligence fine by stating the violated fact, the amount of negligence fine, etc. in writing.
- (2) The FSC shall, when it intends to impose a negligence fine pursuant to Para.(1), give in advance the person who is subject to the disposition of negligence fine, an opportunity to state orally or in writing his opinion, by fixing a period of ten (10) days or longer. In this case, if no opinion is stated for the fixed period, it shall be considered that there is no opinion to state.
- (3) The MOFE shall, in determining the amount of the negligence fine, take into

consideration the motive and consequences of such violation, etc.

- (4) Negligence fines shall be collected in accordance with the procedures in the manuals for tax collecting officials. In this case, the method and the period of objection shall be stated in the payment notice.

ADDENDA

Article 1 (Enforcement Date)

This Decree shall enter into force on the date of its promulgation: However, The amendments to [Article 3 (4) 1] (limited to insurance premiums received under guarantee insurance contracts) and 2, [Article 18 (5)], and [Article 4] of the Addenda shall enter into force on August 1, 1998, the amendments to [Article 2] (excluding the portion for insurance companies who are corporations mainly engaged in reinsurance business) and [Article 3 (1), (2) 1 through 4, (3) 3 and 4, and (4) 1] (excluding the portion relating to insurance premiums received under guarantee insurance contracts or reinsurance contracts among insurance contracts in which legal persons are policyholders and payers of insurance money) shall enter into force on January 1, 2001.

Articles 2 (Special Application to Scope of Deposits)

As of enforcement of this Decree, the money falling under any of the following subparagraphs shall be included in the scope of deposits from the enforcement date this Decree through December 31, 2000:

1. The money which banks raised by selling bonds under repurchase agreements pursuant to [Article 2] of the

Addenda of the previous Amendment to the Enforcement Decree of the Depositor Protection Act (Presidential Decree No. 15525);

2. The money which securities companies raised by selling bonds under repurchase agreements; and
3. Insurance premiums which insurance companies engaged mainly in guarantee insurance business received under guarantee insurance contracts.

Article 3 (Special Applications for Payment of Insurance Premiums by Insurance Companies and Merchant Banks)

Notwithstanding the amendment to the main sentence of [Article 16 (1)], insurance companies and merchant banks shall pay insurance premiums to the KDIC to be paid in 1998 within two months after the enforcement of this Decree.

Article 4 (Special Applications on Calculating Methods of Insurance Money)

- (1) Where an insured risk mentioned in Subpara.7 of [Article 2] of the Act occurs during the period from August 1, 1998 though December 31, 2000, the amount of deposits and other claims. in calculating insurance money pursuant to [Article 32 (1)] of the Act shall be calculated by the following subparagraphs: However, this provision shall not apply to the insurance money (excluding insurance money to be paid due to the termination of insurance period) to be included in deposits and other claims against insurance companies:

1. In cases where the aggregate amount deposits of respective depositors is twenty million won or smaller, it should be the amount of the deposits and other claims pursuant to the amendment to [Article 18 (5)]. However, in case such aggregate exceeds twenty million won, the limit should be twenty million won; or
 2. In cases where the aggregate amount of deposits of respective depositors exceeds twenty million won, it should be the amount of such deposits. However, in case the amount of the deposits and other claims against insurance companies is smaller than the amount of deposits, it should be the amount of the deposits and other claims.
- (2) Para.(1) shall apply only to the money raised by insured financial institutions from depositors after August 1, 1998. However, with respect to the deposits to be deposited in installment after determining a certain period in which a predetermined amount is regularly deposited, this shall apply to those first subscribed after the enforcement of this Decree.

Article 5 (Special Applications for limit of Insurance Money to be paid)

- (1) Notwithstanding the amendment to [Article 18 (6)], the limit of insurance money to be paid by the KDIC to depositors who have deposits and other claims against insurance companies at the time of the enforcement of this Decree shall be fifty million won.
- (2) In case an insured risk prescribed in

Subpara.7 of [Article 2] of the Act occurs during the period from the date of promulgation of this Decree through December 31, 2000, the amendments to Para.(1) and [Article 18 (6)] shall not apply to the limit of payment of insurance money.

Article 6 (Interim Measures on Insurance Premiums)

- (1) In calculating banks' insurance premiums for the quarter in which this Decree is promulgated, the portion prior to the date of its promulgation shall be calculated by daily pro-rata pursuant to the previous [Article 14 (1)] and the portion starting from the date of its promulgation of this Decree shall be calculated by daily pro-rata pursuant to the amendments to [Article 16 (1)].
- (2) In calculating insurance premiums of securities companies, insurance companies and merchant banks for the fiscal year in which this Decree is promulgated, the portion from April 1, 1998 to the date prior to the date of its promulgation shall be calculated by daily pro-rata according to the formula prescribed in Table 2, and the portion from the date of its promulgation to March 31, 1999 shall be calculated by daily pro-rata pursuant to the amendments to [Article 16 (1)].
- (3) In calculating insurance premiums to be paid by mutual savings and finance companies in 1998, the portion from July 1, 1997 to March 31, 1998 shall be calculated by daily pro-rata pursuant to [Article 5 (2)] of the Korea Non-Bank Deposit Insurance Corporation Act prior

to its repeal pursuant to [Article 2] of the Addenda of Amendment to the Mutual Savings and Finance Company Act (Act No. 5501), and the portion from April 1, 1998 to June 3, 1998 shall be calculated by daily pro-rata according to the formula prescribed in Table 2.

- (4) In calculating insurance premiums of mutual savings and finance companies for the fiscal year in which this Decree is promulgated, the portion from July 1, 1998 to the date prior to the date of its promulgation shall be calculated by daily pro-rata according to the formula prescribed in Table 2, and the portion from the date of its promulgation to June 30, 1998 shall be calculated by daily pro-rata pursuant to the amendment to [Article 16 (1)].
- (5) In calculating insurance premiums of mutual savings and finance companies for the year 1998, the portion to March 31, 1998 shall be calculated by daily pro-rata pursuant to [Article 83-22] of the Credit Union Act prior its amendment pursuant to Amendment to the Credit Union Act (Act No. 5506), the portion from April 1 to the date prior to the promulgation of this Decree shall be calculated by daily pro-rata according to the formula prescribed in Table 2, the portion from the date of promulgation of this Decree shall be calculated by daily pro-rata pursuant to the amendment to [Article 16 (1)] and insurance premiums for 1998 to be paid by credit unions to the former Credit Union Stabilization Fund pursuant to [Article 83-22] of the same Credit Union Act shall be deducted.

ADDENDUM <Presidential Decree No. 15911, Oct. 10, 1998>

This Decree shall enter into force on the date of its promulgation.

Table 1 <Amended by Presidential Decree No. 15911, Oct. 10, 1998>

Formula for Calculating Insurance Premiums (relating to [Article 16 (1)])

Insured Financial Institutions	Formula
Banks	Quarterly Insurance Premium: Quarterly average balance of deposits, etc. x $\frac{5}{10000} \times \frac{1}{4}$
Securities Companies	Annual Insurance Premium: Annual average balance of deposits, etc. x $\frac{10}{10000}$
Insurance Companies	Annual Insurance Premium: Amount as stated in Article 16 (3) x $\frac{15}{10000}$
Merchant Banks	Annual Insurance Premium: Annual average balance of deposits, etc. x $\frac{15}{10000}$
Mutual Savings & Finance Companies	Annual Insurance Premium: Annual average balance of deposits, etc. x $\frac{15}{10000}$
Credit Unions	ANNUAL INSURANCE PREMIUM: ANNUAL AVERAGE BALANCE OF DEPOSITS, ETC. X $\frac{15}{10000}$ (those dealing only with capital contributions, annual average balance of deposits, etc. x $\frac{3}{10000}$)

Note: After taking into account the number of years since establishment of the insurance companies, its credit rating and its financial prudence, the KDIC may, if it deems necessary, adjust the rate (hereinafter referred to as "**standard rate**") as mentioned in 3. of the above Table as decided by the appropriate sub-committee of the Policy Committee according to the following standards:

- A. Raise the standard rate by $\frac{5}{100}$ if the insurance companies was established less than 10 years ago.
- B. Lower the standard rate within the limit of $\frac{5}{100}$ according to the net insurance premium-type reserve rate of the contractor reserves for life insurance companies without any accumulated losses.
- C. Lower the standard rate within the limit of $\frac{5}{100}$ according to the policyholder's surplus proportion of the annual self retained insurance premium for non-life insurance companies without any accumulated losses.

Table 2

Formula for Calculating Insurance Premiums (relating to [Article 6])

Insured Financial Institutions	Formula
Securities Companies	Annual Insurance Premium: Annual average balance of deposits, etc. x $\frac{10}{10000}$
Insurance Companies	Annual Insurance Premium: Total amount of deposits, etc. x $\frac{15}{10000}$

Merchant Banks	Annual Insurance Premium: Annual average balance of deposits, etc. x 12/10000
Mutual Savings & Finance Companies	Annual Insurance Premium: Annual average balance of deposits, etc. x 15/10000
Credit Unions	Annual Insurance Premium: Annual average balance of deposits, etc. x 6/10000
