# Annual Report 1999

Protecting Depositors and Maintaining the Stability of the Financial System

Korea Deposit Insurance Corporation

## Chairman's Statement

As a result of relentless progress in restructuring of Korean financial industry and business organizations after the foreign currency crisis of late 1997, many of the unstable factors in the industry steadily decreased during 1999 including the easement of the money market. Real economy has taken a turn for the better and appears it will maintain that course.

Following a tumultuous period that stemmed from the economic crisis, the Korea Deposit Insurance Corporation (KDIC or the Corporation) has exerted dramatic efforts to revitalize public confidence and stabilize financial industry regulations through swift payment of insurance benefits and appropriate funding for reorganization projects. In particular, the Corporation focused on revamping regulatory strategies and creating appropriate environment for maximization of public funds recovery.

The Corporation established a debenture recovery oriented department and retained appropriate experts in order to recover debentures effectively and swiftly and to thoroughly investigate accountability of individuals who are suspected of illegal dealings leading to the failure of their respective firms.

By amending pertinent regulations, the Corporation also sought to assume the responsibilities of a liquidator as well as a bankruptcy trustee for applicable financial institutions. The Corporation, thus, was assigned the right to file for liability litigation. The Resolution and Finance Corporation was established to maximize the value and liquidity of the undertaken assets. Furthermore, the Corporation is in constant preparation and close monitoring mode to prevent the failure of financial institutions and to swiftly react to changes in the insurance premium rate system.

Lee , Sang Yong
Chairman&President

In all, this report contains a 1999 (the fourth fiscal year) operation overview including the organization of the Korea Deposit Insurance Corporation, details of the resources of the funds allocated for failed financial institution restructuring, and operative results of the Corporation.

In recent times, competition within the financial market has increased dramatically, and as a result, instability of the industry has widened. Thus, the need for a sound deposit insurance system is ever increasing.

Everyone at the Korea Deposit Insurance Corporation will continue to forge tireless efforts to establish and develop a solid deposit insurance system. Our utmost appreciation is extended to all affiliate agencies, insured financial institutions, and most importantly the public for not reserving an ounce of cooperative efforts and understanding. At the same time, we hope for their continued interest, direction, and encouragement.

**Lee, Sang-Yong**
Chairman and President

# ** Table of Contents **

I. State of Deposit Insurance System
1. Introduction and History
2. Insured Financial Institutions
3. Insured Deposits
4. Insurance Protection Limitations
5. Payment Status of Insurance Claim Benefits
6. Resolution of Failed Financial Institutions
7. Investigative Results on Insured Financial Institutions

II. Organizational Structure of Korea Deposit Insurance Corporation
1. Introduction
2. Policy Committee
3. Board of Directors
4. Organizational Chart and Responsibilities

III. Major Operations in 1999
1. Funding for the Deposit Insurance Fund
2. Resolution of Failed Financial Institutions
3. Development of Effective Funds Recovery Methodology
4. Determination of Failure Culpability
5. Management Analysis of Insured Institutions
6. Research and Development for Improving the Deposit Insurance System
7. Long-term Development Strategy Establishment

IV. 1999 Year End Status of the Deposit Insurance Fund
1. Composition of Deposit Insurance Fund and Operational Status
2. Status of Insurance Claim Payments and Restructuring Fund Allocation
3. Overall State of Financial Condition

V. Appendix

I. Content of the Depositor Protection Act Revision (January 21, 2000)]

II. Depositor Protection Act

III. Depositor Protection Act Enforcement Decree

IV. Major 1999 Decisions rendered by the Management Committee

# I. State of Deposit Insurance System

## 1. Introduction and History

The primary purpose of the deposit insurance system is to endow depositor confidence by guaranteeing the payment of deposits, within a certain limit, to depositors of applicable financial institutions, thereby preventing adverse withdrawal of deposits and minimizing external adverse effects of a financial institution's failure and to maintain stability of the financial system.

Prior to the establishment of the Korea Deposit Insurance Corporation (KDIC), a formal and concrete deposit insurance mechanism for banking institutions did not exist in Korea. In fact, only the government acted as a protector of depositors. In terms of non-banking financial institutions, trust funds were in place as a deposit insurance mechanism. Life and liability insurance companies utilized insurance-guarantee funds for that purpose, while securities investor protection funds served that role for securities houses. Mutual savings and finance companies, merchant banks and investment brokerage houses employed credit management funds such as the Korean Federation of Community Credit Cooperatives which obtained deposit protection from respective safety funds. These funds were managed by the Insurance Supervisory Board, the Korea Securities & Finance, the Korea Non-Deposit Insurance Corporation, the Korean Federation of Community Credit Cooperatives and the National Federation of Credit Unions respectively.

As the financial industry becomes more dynamic and liberal in the midst of globalization of the world's economy and increasing abroad market accessibility, which is a precursor for heightened competition, the possibility of failure among banks has become more prevalent. Such anxiety led the Korean National Assembly to sign the Depositor Protection Act into law on December 29, 1995 and establish the Korea Deposit Insurance Corporation on June 1, 1996 in an effort to establish a deposit insurance system with respect to thrift institutions. The Act was revised on December 31, 1997 to form a firmer ground for a more sound depositor insurance system while endeavoring to structure a comprehensive and systematic depositor insurance mechanism operation. Consequentially, all industry-specific deposit insurance funds were consolidated into the Korea Deposit Insurance Corporation by April 1, 1999. The KDIC duly assumed the operating responsibilities of the six major financial industries' (banks, securities houses, insurance companies, merchant banking corporations, mutual savings and finance companies (MSFC), and credit unions) depositor insurance carriers.

In all, the Depositor Protection Act has been revised five times since enactment (precluding revision resulting from amendments of other legislation) and has enabled growth of the deposit insurance fund, simplification of financial resolution institution establishment and smooth recovery of public funds that were utilized during financial industry restructuring process.

## 2. Insured Financial Institutions

*'Insured financial institutions'* refers to a category of financial institutions that are applicable under the agency's depositor insurance scope, pursuant to the Depositor Protection Act, and remit depositor insurance premiums to the Corporation. Banks, securities houses, insurance companies, merchant banks, mutual savings and finance companies, and credit unions are included in the category. Obtaining depositor insurance is mandatory for all banking and thrift institutions operating in Korea. Thus, all applicable financial institutions are subject to the protection of the KDIC as insured institutions.

In terms of banks, general banks like nationwide commercial banks and regional banks that are approved under the General Banking Act; specialized banks such as the Korea Development Bank (including domestic branches of foreign banks) and the Export-Import Bank of Korea; regional branches of the National Federation of Fisheries Cooperatives that perform and manage credit union services for the Federations of Agricultural, Fisheries, and Livestock Cooperatives are applicable under the protection scope of the KDIC.

All domestic securities and stock brokerage houses and domestic branches of foreign securities houses are applicable within the scope of the KDIC, as well as all insurance companies with the exception of surety (guarantee) and casualty insurance oriented companies. One stipulation is that surety oriented insurance companies are temporarily protected by the KDIC until the end of 2000.

Other merchant banking corporations and mutual savings and finance companies can obtain protection from the KDIC after being approved under the guidelines of the insurable deposit insurance corporation criteria.

**Status of the Applicable Institutions**
**As of December 31, 1999**

| Division | Banks | Securities Houses | Insurance Companies | | Merchant Banks | MSFCs | Credit Unions | TOTAL |
|---|---|---|---|---|---|---|---|---|
| | | | Life | Casualty | | | | |
| Domestic Financial Institutions | 22[1)] | 32 | 23 | 12 | 10 | 187 | 1,454 | 1,740 |
| Branches of Foreign Institutions | 48 | 22 | 6 | 3 | | | | 79 |
| Others[2)] | 25 | | | | | | | 25 |
| **TOTAL** | 95 | 54 | 29 | 15 | 10 | 187 | 1,454 | 1,844 |

Note:
1) Including the credit union services operation of the National Federation of Agricultural, Fisheries, and Livestock Cooperatives.
2) Credit union operation of regional Fisheries Cooperatives.

## 3. Insured Deposits

The scope of the insured deposits is designated as the funds that KDIC guarantees to distribute to depositors in case of an insured financial institution's failure in accordance with the guidelines of Article 2 of the Depositor Protection Act and the Enforcement Decree's Article 3 within the Act. In consideration of the financial crisis that erupted at the end of 1997, certain financial products originating from that period are covered in their entirety until the end of 2000. Also, the scope of applicable depositors has expanded to cover the government, regional authorities, the Bank of Korea, the Financial Supervisory Service (FSS), the Korea Deposit Insurance Corporation, and insured financial institutions. Meanwhile, the scope of protected deposits was reduced during 1998, due to revisions of the Enforcement Decree.

**(1) Banks**

The funds contributed by banks in the process of assuming liabilities resulting from deposits, savings, and insurance premium installments of unspecified mass and contributions based on trusts whose principals are protected according to

Article 10, Para 2 of the Trust Business Act, are protected at all times. On the other hand, deposits in foreign currency, certificate of deposits, bank issued bonds, development trusts, and repurchase agreements (RPs) are protected until the end of year 2000.

However, tax-exempted household trust, laborer friendly trust, special monetary trust, household monetary trust, and corporate monetary trust accounts whose funds had been deposited prior to May 1, 1996, and target oriented reserve trust and performance dividend trust accounts opened after May 1, 1996 are exempted from the category of deposit insurance applicable financial products.

**(2) Securities and Stock Brokerage Houses**

Funds (deposits) received by securities and stock brokerage houses from an investor for the purpose of purchasing securities, stocks, or bonds are fully protected. However, RPs that were issued before July 25, 1998, portions of the funds maintained by securities houses which were deposits by investors for securities purchase subscriptions pursuant to the Securities and Exchange Act, and collateral funds for loaned securities are protected only until the end of 2000. On the contrary, funds set aside for the payment of taxes incurred with respect to beneficiary certificates, investment securities, bonds, and other customer deposits are not covered.

**(3) Insurance Companies**

Insurance premiums paid by individual policy-holders and severance payment benefits are subject to complete coverage, pursuant to the Labor Standard Act. However, in the cases of institutional insurance contracts (where the policy holder and premium payer is an institution) and the premium was received by a surety company before August 1, 1998 are protected until the end of 2000, whereas re-insurance contracts are precluded from the protection scope.

**(4) Merchant Banks**

Proceeds received by merchant banks through sales of financial products such as promissory notes or products that pay dividends to unspecified investors whose capital was invested in securities are protected as well as promissory notes that were guaranteed by merchant banks before September 30, 1998. However, bills sold with exception of beneficiary certificates, merchant banks bonds, RPs, and secured bills issued before September 30, 1998, are not covered.

**(5) Mutual Savings and Finance Companies**

Funds and secondary bills (bills that are issued by a financial institution, generally to the public, based on bills that the institution purchased at a discount from a seller-typically a commercial entity) supplied by a loan association fund, installment payments, deposits, and savings are protected.

**(6) Credit Unions**

Investment contributions, deposits, and savings of credit unions are covered.

## Status of Insured Financial Products
## (As of December 31, 1999)

| Type of companies | Insured Financial Products | | Excluded Financial Products | Notes |
|---|---|---|---|---|
| | Covered at all times | Covered until end of 2000 | | |
| Commonality | Individual / Corporate Deposits | Government/Regional Authorities/The Bank of Korea/Financial Supervisory Commission | Loans (Call) | |
| Banks | Deposits, Savings, Installments, Secondary Bill, Principal Covered Trusts | Foreign Currency Deposits, CDs, Development Bank Trusts, Bank Bonds | Performance Dividend Trusts, RPs | RPs issued before 7/25/98 will be covered until the end of 2000 |
| Securities Houses | Client Deposits, Securities Savings | Pre-collected Tax Payments, Collateral for Loaned Liquid Securities | Pre-collected Tax Liability, Investment Securities, RPs, Stock Company Bonds | RPs issued before 7/25/98 will be covered until the end of 2000 |
| Insurance Companies | Individual policies, Severance pay policies | Corporate Policy | Surety Policies, Reinsurance Policies | Surety Policies issued before 8/1/98 are covered until the end of 2000 |
| Merchant Banks | Promissory Notes, Secondary Bills, CMA | | Bills Sold, Foreign Currency Loans, Investment Securities, RPs, Merchant Bank Bonds | Secured Bills secured before 10/1/98 check date are covered at all times |
| MSFCs | Loan Association Funds, Installments, Deposits, Savings, Secondary Bills | | | |
| Credit Unions | Contributions, Deposits, Savings | | | |

Note: Temporary Coverage will terminate as of January 1, 2001.

## 4. Insurance Protection Limitations

When KDIC was first established in 1996, the insurance coverage was 20 million won per individual depositor. However, due the heightened instability of the financial market resulting from the financial crisis of 1997, the coverage was extended to the entirety of principal and interest (Enforcement Decree Revision of December 1997) in late 1997. Since then, the market has become more stable due to the restructuring process. At the same time, the possibility of morally hazardous acts became more apparent. Therefore, the Enforcement Decree was revised in July of 1998 to diminish the scope of the nominal coverage.

If an insolvency of a bank, merchant bank, mutual savings and finance company, or credit union, that is within the scope of the insurance protection, occurs before January 1, 2001, both principal and interest will be covered for the accounts that were opened on or before July 31, 1998. On the other hand, for deposits and new accounts that were opened on or after August 1, 1998, only up to 20 million won will be covered if the principal exceeds that amount. If the sum of the principal and applicable interest is less than or equal to 20 million won, the sum of the principal and the interest based on the pertinent interest rate set forth by the KDIC (designated interest) or the original interest rate will be covered up to 20 million won (whichever is lower).

In the case of securities houses, the principal and interest of the funds that were deposited before August 1, 1998 will be covered fully, whereas funds that were deposited on or after August 1, 1998, will be covered only up to 20 million won if the principal exceeds that amount. For accounts whose sum of the principal and applicable interest is less than or equal to 20 million won, the coverage will be up to 20 million won based on the sum of the principal and the designated interest rate or the original interest rate (whichever is lower).

For insurance policies that were purchased on or before July 31, 1998, contract maturation amount (maturity amount or accident benefit amount) and other related obligatory funds will be covered fully. If a policy was purchased on or after August 1, 1998 and the sum of the premiums paid exceeds 20 million won, the coverage will be up to the sum of policy maturation amount and other related payments or the sum of the premiums (whichever is lower). If the sum of paid premium is less than or equal to 20 million won, either the sum of the contract maturation amount and other payment, or the sum of the premium balance and the designated interest (whichever is lower), will be covered up to 20 million won. However, if maturation or claim triggering incident occurs before a payment freeze or bankruptcy of the insurance company, the policy will be fully covered.

Whence a situation that calls for KDIC's involvement occurs among banks, securities houses, merchant banks, and credit unions on or after January 1, 2001, the principal and the designated interest will be covered up to 20 million won. In the case of insurance companies, the lower of the sum of the contract maturation amount and other related obligations, and the sum of the premium balance and the designated interest, will be covered up to 20 million won (up to 50 million won for policies purchased on or before July 24, 1998).

**Insurance Claim Payment Limitations**

| | Until December 31, 2000 | On or after |
|---|---|---|

| | Purchased on or before July 31, 1998 | Purchased on or after August 1, 1998 | | January 1, 2001 |
|---|---|---|---|---|
| | | Principal or paid premium: Less than or equal to 20 million won | Principal or paid premium: Less than or equal to 20 million won | |
| Banks, Securities Houses, Merchant Banks, MSFC, Credit Unions | Principal & Original Interest-Fully Covered. | Sum of Principal & Designated Interest Covered up to 20 million won | Only the Principal Covered | Sum of Principal & Designated Interest Covered up to 20 million won |
| Insurance Companies | Sum of Contract Maturation Amount (Maturity amount or Accident Benefit amount) and other payments-Fully Covered | Lower of the sum of contract maturation amount and other payments, and sum of premium balance and the designated interest covered up to 20 million | Lower of the sum of contract maturation amount and other payments, and sum of premium balance and the designated interest covered | Lower of the sum of contract maturation amount and other payments, and sum of premium balance and the designated interest covered up to 20 million (up to 50 million won for policies purchased on or before July 24, 1998 ) |
| | | If maturation or claim triggering incident occurs before a payment freeze or a bankruptcy of the insurance company occurs, the policy will be fully covered | | |

Note:
Designated Interest: Lower of the original bank interest, and interest set forth by the KDIC Policy Committee based on average interest rate of 1 year maturation savings accounts.

## 5. Payment Status of Insurance Claim Benefits

The KDIC makes insurance claim payments under two categories. The first is when the Financial Supervisory Commission mandates deposit or obligation payment suspension or revokes the license of an insured financial institution because of insolvency. The other is a situation where an insured financial institution self-declares dissolution or bankruptcy or revocation of its operational/business license. The appropriate claim payments for such failures are made per each depositor's request. With respect to the first scenario, the KDIC Policy Committee must determine and announce the claim payment schedule within two months after receiving the failure notification. That period can be extended up to one month via approval of the Minister of the Ministry of Finance and Economy (MOFE).

To prevent anxiety among depositors, the KDIC may make temporary payments in advance according to the confines set forth by the policy committee (or subcommittee) within appropriate limitations in the first case. If the temporary payment exceeds the actual coverage, the depositor must refund the difference, as the KDIC would make supplementary payment if the temporary payment were less than the actual coverage amount.

The KDIC must announce the initial date of the claim payment process, duration, method, and other necessary issues. The claim payment amount should be the sum of the deposits minus any of the depositor's liability owed to the failed institution as of the date of payment announcement. However, the depositor's liability in connection with the severance pay insurance policies purchased pursuant to the Labor Standard Act and lump sum retirement payment trusts cannot be deducted from the covered deposit amount. Furthermore, if the applicable depositor has liability (including cash deposit) owing to the financial institution in the form of collateral for a third party's loan or debt, the payment of the insurance claim can be deferred in the amount of that liability. The KDIC assumes the rights of the depositors with respect to the depositor's deposits if they have received advanced or on-time claim payments within the limit of the payment amount.

## 6. Resolution of Failed Financial Institutions

The Financial Supervisory Commission and the KDIC may designate a financial institution to be insolvent for the following reasons.

A. When a field inspection of an insured financial institution reveals that it has liabilities, which exceed its assets or such situation has occurred due to a major financial incident or issuance of bad debentures, and thus normal operation is impossible.
B. When an insured financial institution's remittances on deposits or liabilities, or loan payments on loans from other financial institutions have been effectively stopped.
C. When an insured financial institution may face difficulties in making payments on deposits or liabilities, or make payments on loans from other financial institutions without assistance from outside institutions or loans (funds loaned in normal financial transactions are precluded).

When an insured financial institution becomes insolvent, the KDIC can make claim payments to applicable depositors and take resolution measures regarding the failed institution. By supporting merger and acquisition of the failed financial institution, the KDIC can also help protect the depositors and minimize the cost of resolution.

Therefore, in the interest of maintaining the stability of the financial system, the KDIC may take over the failed financial institution, arrange merger(s) with healthy insured financial institutions, or arrange a third party to take over the failed institution. If there is a delay or a problem in the above process to the point where the depositors are facing damaging circumstances or the KDIC's burden becomes overwhelming, the Corporation can request the Financial Supervisory Commission to mandate the failed financial institution to transfer itself to a suitable institution.

In particular, the KDIC can facilitate smooth resolution by providing appropriate capital through measures like contributions, investment, financing, fund reserve, asset sales, and liability guarantees. Institutions that are interested in acquiring, or merging with failed, or borderline failure institutions (at-risk financial institutions) can apply to the KDIC for financial assistance. Furthermore, the KDIC can provide the criteria for such acquisition application, in advance, to expedite the third party take over procedures.

The KDIC can also provide direct support to at-risk financial institutions. For institutions that are determined by the KDIC to be at risk of failure or insolvency, the Corporation can provide assistance in the form of investment, contribution, or stock purchase (equity participation). The KDIC can support applicable failed institutions in the same manner per request of the Financial Supervisory Commission.

By the end of 1999, the KDIC has funneled nearly 43 trillion won (based on bond amount) to resolve financial problems that arose from the revocation of operational/business licenses, suspension of payments on liabilities and outright failure of financial institutions. The funds were used to make payments on insurance claims, minimize damages (pure asset protection) that could result from mergers and acquisitions, and as preservation investments.

**Financial Incidents and Resolution Status**
**(September 1997 through December 1999)**

| Type of companies | License Revocation | Failures | | Transfer or Ownership | | Claim Recipients[1] | Self Recovered[2] | Notes |
|---|---|---|---|---|---|---|---|---|
| | | Type 1 | Type 2 | Type 1[1] | Type 2[2] | | | |
| Banks | 5 | 5 | | 5 | | | | |
| Securities Houses[3] | 6 | 2 | 2 | | | 4 | | |
| Insurance Companies | 5 | 5 | | 5 | | | | Duwon Life's operation revoked in 1999 |
| Merchant Banks | 19 | 19 | | | 16 | 1 | 2 | Nara and Joongang recovered on its own |
| MSFCs | 54 | 54 | | 8 | 39 | | | 7 firms are in transfer proceedings |
| Credit Unions | 132 | 128 | 4 | | | 116 | 1 | 8 firms approved for claim, 7 undecided |
| **TOTAL** | 221 | 213 | 6 | 18 | 55 | 121 | 3 | |

Note:
1) Transfer to an insured financial institution.
2) Transfer to a financial resolution institution.
3) Koryo, Dongseo are not financial incidents.

In order to maximize the recovery of the public funds funneled into the above incidents, the KDIC may demand damage payments from the managerial entities of the failed institutions. If a failed institution does not comply with such demand, the Corporation can assume the legal rights to take appropriate legal actions to accomplish its objectives. Moreover, the KDIC can request affiliated government agencies to provide information pertaining to the assets of the failed institutions and their managers and officers.

## 7. Investigative Results on Insured Financial Institutions

The relationship between KDIC, an insured financial institution, and a depositor is established when the depositor opens an applicable account at an insured financial institution. The insured institution must post the contents of its relationship with KDIC in accordance with the regulatory guidelines set forth on August 10, 1998. The KDIC may investigate the following circumstances with respect to an insured institution's compliance of the above requirement.

- ◆ Containment of information regarding the relationship between the insured institution and KDIC including passbooks and promotional materials.
- ◆ Pubic availability of informative pamphlets and posters created by the KDIC and provided to the insured institutions for public distribution.
- ◆ Public availability of pamphlets containing a list of insured financial products (Effective as of January 1, 1999).

The KDIC can request operating and asset related documents pertaining to calculation of insurance premiums and payments, calculation of claim amounts and payments, and resolution process from an insured institution within appropriate limitations. If an insured institution is found to be at risk of insolvency based on a preliminary review of the above documents, the KDIC may perform a detail investigation of the institution's operations and asset status.

If necessary, the KDIC can also request the Chairman of the Financial Supervisory Commission to establish a detailed investigative scope and perform an official investigation, and report the findings to the KDIC. The Corporation can mandate its employees to cooperate in the investigation as well as make additional requests for related documents that the Financial Supervisory Commission may have on the institution.

# II. Organizational Structure of Korea Deposit Insurance Corporation

## 1. Introduction

The KDIC is a special, non-capitalized corporation whose main purpose is to protect the depositors by insuring the payment of their deposits (within a certain limit) in case an insured financial institution fails or becomes insolvent and is unable to pay the depositors.

## < HISTORY >

| | |
|---|---|
| 1995. 12. 29 | : Enactment of the Depositor Protection Act. |
| 1996. 03. 25 | : Committee and review office for the establishment of the KDIC opened. |
| 1996. 05. 28 | : Establishment and Announcement of the Enforcement Decree of the Depositor Protection Act. |
| 1996. 06. 01 | : Creation of the KDIC according to the guidelines of the Depositor Protection Act. |
| 1997. 01. 01 | : Began conducting depositor insurance activities. |
| 1997. 12. 05 | : Revision of the Enforcement Decree. |
| 1997. 12. 13 | : Revision of the Depositor Protection Act. |
| 1997. 12. 31 | : Revision of the Depositor Protection Act. |
| 1998. 04. 01 | : Consolidation of the deposit insurance funds of the six financial industries. |
| 1998. 07. 25 | : Revision of the Enforcement Decree. |
| 1998. 09. 16 | : Revision of the Depositor Protection Act. |
| 1998. 10. 10 | : Revision of the Enforcement Decree. |
| 1999. 01. 29 | : Revision of the Depositor Protection Act. |
| 2000. 01. 21 | : Revision of the Depositor Protection Act. |

## 2. Policy Committee

The policy committee is the highest decision making organization of the KDIC. It is made up of 14 individuals including the Vice Minister of the Ministry of Finance and Economy, the Assistant Director of the Budget Planning Office (included by the January 21, 2000 revision of the Depositor Protection Act), the Vice Chairman of the Financial Supervisory Commission, the Vice President of the Bank of Korea, the President of National Bankers Association, representatives of seven financial industries, and two appointees of the Minister of the Ministry of Finance and Economy.

The committee is in charge of reviewing and making decisions on the following topics.

- Establishment of the KDIC's fundamental operational policies.
- Review of fund management plans.
- Amendments to the Articles of Incorporation.
- Adoption, alteration, and reorganization of policies related to core operational objectives

of the KDIC.

- Budgeting and settlement of the books.
- Issuance of the depositor insurance bonds.
- Reduction or postponement of insurance premium payments.
- Payment of insurance claims or advanced insurance claims.
- Approval of calculated payment amount.
- Funding support for financial resolution institutions.
- Funding support for institutions looking to acquire, merge, absorb or take over the operations of failed institution(s).
- Assisting at-risk institutions.
- Requesting assistance in asset transfer of failed institutions.
- Determining an institution to be insolvent or at risk of failure.
- Transactions between fund accounts.
- Payment of service fees for third party management.
- Allocation and management of reserve funds.

## Core Activities of the Policy Committee

| Resolutions Issues | Decided Issues | Items of Review | Designated Issues |
|---|---|---|---|
| ◆ Changes in the Articles of Incorporation<br>◆ Budget and settlement of the accounts<br>◆ Reduction of insurance premium and deferment<br>◆ Issuance of the depositor insurance bonds<br>◆ Payment of insurance claims or advanced insurance claims<br>◆ Funding support in relation with failed institutions<br>◆ Approval of payment calculation<br>◆ Determining and carrying out of funding support for at-risk institutions<br>◆ Operational guidelines of the committee<br>◆ Requesting necessary actions regarding transfers | ◆ Determining whether or not an institution is insolvent<br>◆ Determining whether or not an institution is at risk of insolvency<br>◆ Investigating operations and asset status of an insured institution<br>◆ Deciding necessary actions regarding transactions between fund accounts<br>◆ Deciding necessary actions related to funding assistance for failed institutions<br>◆ Payment of service fees for third party operation<br>◆ Advance Temporary Payment | ◆ Operational plan of the fund<br>◆ Adoption and revision of operational guidelines | ◆ Allocation and management of reserve funds<br>1. Purchase of securities<br>2. Designation of insured institution as the depository |

In case a decision that the policy committee has to render deals with a specific type of insured institution, a subcommittee may be formed to achieve optimal efficiency. Currently, seven subcommittees are overseeing banks, securities houses, life insurance companies, casualty insurance companies, merchant banks, mutual savings and finance companies, and credit unions. A member of the policy committee typically becomes designated as the chairperson of a subcommittee. The decisions rendered by the subcommittee are considered to be those of the policy committee.

## 3. Board of Directors

The Board of Directors is the highest governing body of the KDIC. It is made up of the president, the senior executive director, and the executive directors of the KDIC. The auditor can attend the board meetings and provide opinions, but does not have voting privileges.

The Board also renders decisions on the following issues.

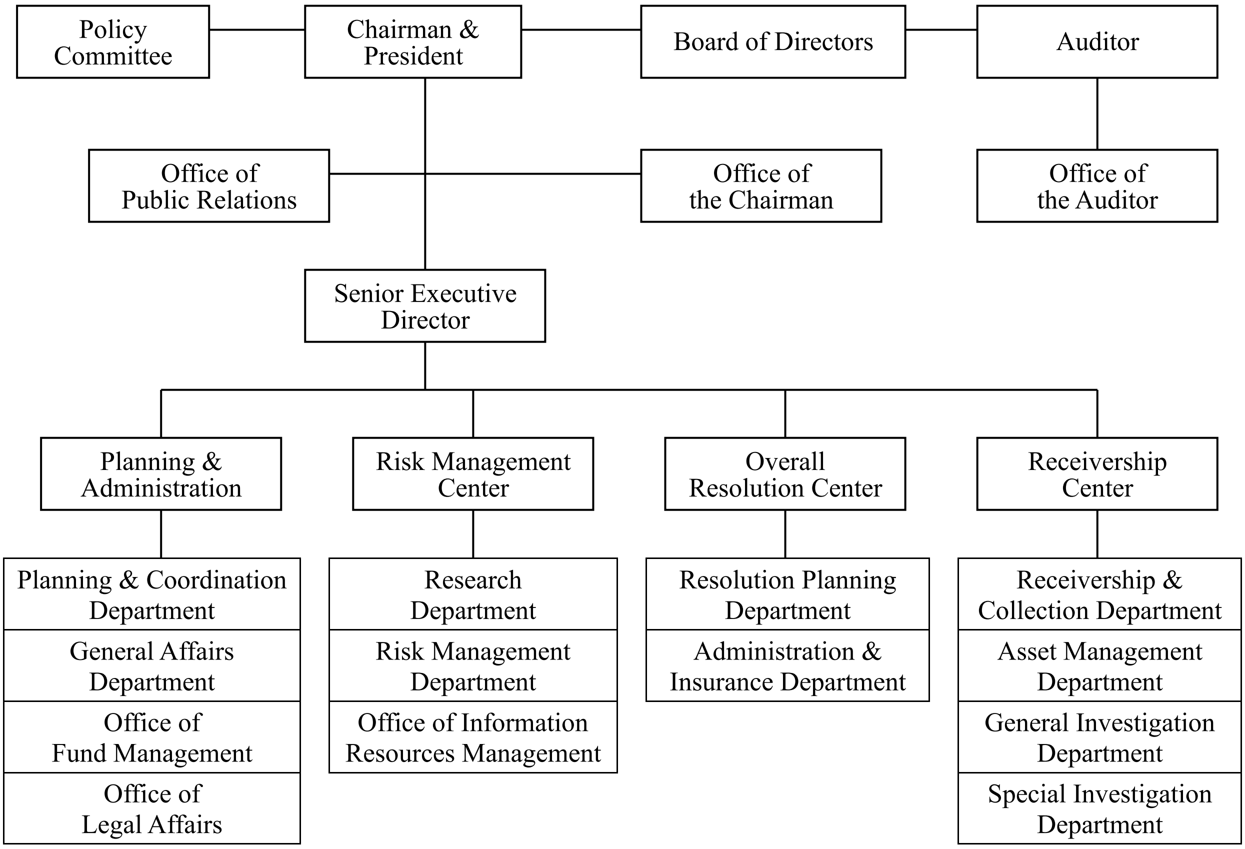
- Items reviewed and decided by the policy committee or the subcommittees.
- Adoption, alteration, and reorganization of operational protocols.
- Staff organization.
- Entering into an important contract and changes within that contract.
- Cancellation of a contract.
- Important litigation and arbitration.
- Other items deemed appropriate by the president of the KDIC.

## 4. Organizational Chart and Responsibilities

The KDIC was established in 1996 with the purpose of efficiently carrying out depositor insurance activities. It is made up of four main centers, ten departments, and six offices. (Visit www.kdic.or.kr for more information.)

To maintain the stability of the financial system and to protect depositors, the KDIC makes insurance claim payments and supplies funds that may be needed in either assisting or resolving a failed financial institution. The Corporation uses funds that are collected in terms of deposit insurance fund bond issuance and insurance premium remitted by insured institutions. It also conducts resolution activities including acquisitions, mergers, and resolutions of failed institutions, as well as normalization of at-risk institutions. Moreover, in case a failed institution is liquidated immediately, the KDIC can create and operate a financial institution on a temporary basis in order to minimize the adverse effects of possible domino failures of related institutions and negative socioeconomic impact. To ease the operation of such temporary institution, the KDIC can mandate submission of necessary data and information from insured institutions for analysis. The Corporation may also investigate the operations and asset status of the failed institution to assess the recovery level of the public funds it contributed in the resolution process. The KDIC also performs duties that are assigned by the government and activities set forth by laws other than the Depositor Protection Act, in an effort to protect the depositors.

# KDIC Organization Chart



# III. Major Operations in 1999

## 1. Funding for the Deposit Insurance Fund

### A. Inflow of Contributions

Insured financial institutions that are newly created, as result of the July 1997 revision of the Enforcement Decree of the Depositor Protection Act, must pay a set portion of their invested capital or investment as general contribution to the KDIC. Typically, the contribution account of the Corporation is made up of funds provided by the government and insured institutions. The methods and rates of contributions are discussed in the chart below. KDIC collected a total of 209.8 million won from the insured institutions in 1999.

**Methods of Contribution and Respective Contribution Rates**

| Source | Methods of Contribution |
|---|---|
| Government | Cash contribution or non-reimbursable transfer of government assets |
| Insured Financial Institution | Within one month from the first day of operation of the insured financial institution, the institution obtains approval for its establishment and operation.<br>Within one month from the premium payment due date if the reserves in each of the Deposit Insurance Fund accounts are less than the actual premium within the legal contribution rate. |
| | Contribution Rate: A set percentage of the invested capital or investment<br>- Banks, Securities Houses, Insurance Companies, Credit Unions: 1/100 (Legal limit: 1/100)<br>- Merchant Banks, Mutual Savings and Finance Companies: 5/100 (Legal limit:10/100) |

**Contribution Inflow from Insured Institutions**

(Unit: 1 million won)

| | Banks | Securities Houses | Insurance Companies | | Merchant Banks | MSFCs | Credit Unions | TOTAL |
|---|---|---|---|---|---|---|---|---|
| | | | Life | Casualty | | | | |
| Received Amount | 10,000* | | | | 24,000 | 7,998 | 2,871 | 44,869 |
| 1998 | | | | | | 200 | 9 | 209 |
| 1999 | 300 | 1,050 | | 30 | | 715 | 3 | 2,098 |
| **TOTAL** | 10,300 | 1,050 | | 30 | 24,000 | 8,913 | 2,883 | 47,176 |

* Government's contribution prior to the consolidation of the fund.

### B. Premium Proceeds (Income)

In accordance with the Depositor Protection Act, the insured financial institutions are required to remit to KDIC, a set percentage of the carried over balance of deposit payment (reserve fund for insurance companies) each year. Currently, banks are required to pay the premium within one month from the end of each quarter, and other insured institutions are required to remit within three months from the end of each fiscal year. In 1999, the KDIC received a total of 416.1 billion won from institutions of six financial industries.

**Premium Rates**

| | Banks | Securities Houses | Insurance Companies | Merchant Banks | MSFCs | Credit Unions |
|---|---|---|---|---|---|---|
| Applied Premium Rate | 5/10,000 | 10/10,000 | 15/10,000[1)] | 15/10,000 | 15/10,000 | 15/10,000[2)] |
| Upper Limit (Legal Limit) | 50/10,000 | 50/10,000 | 50/10,000 | 50/10,000 | 50/10,000 | 50/10,000 |

Note:
1) The premium rates are gradually applied based on the number of years the insurance companies have been in business, their credit level and the condition of their financial status within a designated limit.
2) For credit unions that only deal with equity participation investment capital, a 3/10,000 rate is applied.

**Premium Revenue Status**

(Unit: 100 million won)

| | Banks | Securities Houses | Insurance Companies | | Merchant Banks | MSFCs | Credit Unions | TOTAL |
|---|---|---|---|---|---|---|---|---|
| | | | Life | Casualty | | | | |
| Received Amount | | | 1,414 | 379 | 848 | 2,017 | 402 | 5,060 |
| 1997 | 321 | | | | | | | 321 |
| 1998 | 1,292 | | 386 | 143 | 132 | 390 | | 2,343 |
| 1999 | 1,975 | 51 | 1,011 | 249 | 336 | 377 | 162 | 4,161 |
| **TOTAL** | 3,588 | 51 | 2,811 | 771 | 1,316 | 2,784 | 564 | 11,885 |

### C. The Issuance of the Deposit Insurance Bonds

During 1999, the KDIC provided most of the financial industry restructuring funds by issuing the deposit insurance bonds. Beginning with the 15th issuance of the bonds in February, the KDIC completed a total of 28 issue sessions to end at the 42nd issuance in December. Through that effort, the KDIC funneled 22.485 trillion won in 1999.

## Volume of Issued Bonds per Account
## (As of December 31, 1999)

(Unit: 100 million won)

| | Banks | Securities Houses | Insurance Companies | | Merchant Banks | MSFCs | Credit Unions | TOTAL |
|---|---|---|---|---|---|---|---|---|
| | | | Life | Casualty | | | | |
| Issued in 1998 | 120,650 | 141 | 11,534 | | 58,272 | 15,085 | 4,468 | 210,150 |
| Issued in 1999 | 158,591 | 3 | 41,422 | 678 | | 15,977 | 8,179 | 224,850 |
| Balance | 279,241 | 144 | 52,956 | 678 | 58,272 | 31,062 | 12,647 | 435,000 |

Bearing in mind the time needed to accumulate the appropriate repayment resources, the bonds were typically issued with five years or longer maturity dates. Fixed interest rates that are issued according to bids offered based on the market interest rate, and the variable interest rate that reflects the circulation profit rate of type 1 public housing bonds issued with quarterly interest payments were used as interest mechanism for the bonds.

## Volume of Issued Bonds per Each Condition

(Unit: 100 million won)

| Maturity Based | | | | Interest Rate Based | | | |
|---|---|---|---|---|---|---|---|
| 1998 | | 1999 | | 1998 | | 1999 | |
| Maturity Date | Amount | Maturity Date | Amount | Interest Rate | Amount | Interest Rate | Amount |
| 3 years & 3 months | 3,295 | 3 years | 58,560 | Fixed Interest Rate | 92,015 | Fixed Interest Rate | 49,501 |
| 5 years | 81,121 | | | | | | |
| 5 years & 3 months | 11,923 | 5 years | 65,666 | | | | |
| 5 years & 6 months | 16,250 | | | | | | |
| 6 years | 16,250 | 7 years | 1,133 | Variable Interest Rate | 118,135 | Variable Interest Rate | 175,349 |
| 6 years & 6 months | 16,250 | | | | | | |
| 7 years | 16,250 | 7 years | 99,491 | | | | |
| 7 years | 48,811 | | | | | | |
| **TOTAL** | 210,150 | Total | 224,850 | Total | 210,150 | Total | 224,850 |

Note:
1) 1-year deferred, pay 6.25% every 3 months seven times for 2 years and pay 56.25% at maturity.
2) 5-years deferred; pay equal amounts over a 2-year period to fulfill payment.
3) Average yield rate was applied during one month immediately prior to interest payment period.

### D. Fund Loan

The KDIC can borrow funds from the government, the Bank of Korea, insured institutions, mutual savings and finance companies, securities houses, the Export-Import Bank of Korea, the Federation of Credit Unions, and financial resolution institutions if it deems necessary for the purpose of providing funds to the deposit insurance fund per approval of the Minister of the Ministry of Finance and Economy.

Funds were borrowed in order to support the Hanareom Merchant Bank's substitution payment of deposits of failed or declared insolvent institutions last year. Most of the funds originated from the consolidation of credit management funds (insurance funds). The funds loaned from the International Bank for Reconstruction and Development (IBRD [The World Bank]), which were channeled through the Sanup Bank, were used as contributions to the Seoul Guarantee Insurance Corporation. A government loan is made up of funds loaned from a special finance account, which was established for the payment of deposit insurance bond interest, and the Asian Development Bank (ADB) loan, which was taken out to acquire the stocks of Cho Hung Bank (CHB).

**Loaned Fund Status (Remaining Balance)**

**(As of December 31, 1999)**

(Unit: 100 million won)

<table>
<tr><th colspan="2"></th><th>Amount</th><th>Loan Account</th></tr>
<tr><td rowspan="4">Loans from financial institutions</td><td>Banks</td><td>48,549</td><td>Merchant Bank (Acquired from credit management fund)</td></tr>
<tr><td>Hanareom Merchant Bank</td><td>1,420</td><td>Merchant Bank</td></tr>
<tr><td>Sanup Bank*</td><td>12,016</td><td>Casualty Insurance Company</td></tr>
<tr><td>Subtotal</td><td>61,985</td><td></td></tr>
<tr><td rowspan="3">Loans from the government</td><td>Special accounting for financing</td><td>36,836</td><td>Banks:20,192; Merchant Banks:12,483; MSFC:1,842; Life Insurance Companies:1,394; Casualty Insurance Companies:298; Credit Unions:614; Securities House:13</td></tr>
<tr><td>ADB Loan</td><td>2,415</td><td>Banks</td></tr>
<tr><td>Subtotal</td><td>39,251</td><td></td></tr>
<tr><td colspan="2">TOTAL</td><td>101,236</td><td></td></tr>
</table>

* Loan Financed from IBRD

## 2. Resolution of Failed Financial Institutions

### A. Banks

KDIC makes use of two methods in the normalization and resolution of insolvent banks. It can provide normalization funds by acquiring insolvent banks' stocks, or contribute funds necessary to cover the insolvent portion of assets that an insured bank acquires for resolution, thereby avoiding possible insolvency of such insured bank and maintaining the stability of the financial market.

In terms of the KDIC's acquisition of insolvent bank stocks, it invested 2.1123 trillion won on February 18, 1999 in the CHB under the condition that the bank will consolidate with Kangwon Bank and Chungbuk Bank as a means for normalization of its operation. Subsequently, the Kangwon Bank and the Chungbuk Bank invested 212.3 billion won and 393.3 billion won, respectively, during their consolidation with the CHB. In total, 2.7179 trillion won was contributed in the consolidation process. The Corporation entered into normalization plan contracts with the CHB and the Hanvit Bank, which had already received contributions before 1999. The contract legally obligates the banks to achieve normal operation and allows the KDIC to perform quarterly field inspections as well as review the progress of the normalization status.

The KDIC also assisted the normalization of the Peace Bank, which was considered to be at risk of insolvency by investing 220 billion won and acquiring its preferred stocks on March 31, 1999. In the case of the Korea First Bank (KFB), which had been acquired by the KDIC, a contract pertaining to its purchase by the Newbridge Capital was entered into on December 23, 1999 to achieve KFB's normal operation and international credit rating improvement. The KDIC also contributed an additional 38 billion won on December 31, 1999 in that process. As a result of a partial equity write off of KFB stocks the Corporation had already owned and 4.2086 trillion won in additional contributions, the KDIC ended up with 45.92% ownership of KFB as of December 31, 1999. With respect to the Seoul Bank, existing capital was written off to help facilitate a self-managed normalization as opposed to selling it to a foreign institution. To improve the BIS ratio, the KDIC contributed 3.3201 trillion won on September 18, 1999.

In accordance with the formal decision for transfer of the Financial Supervisory Commission and contribution agreements between the KDIC and acquiring institutions, 3.8279 trillion won was additionally contributed on a quarterly basis to make up for insolvent portions of the assets acquired by five institutions. The KDIC also acquired 158.8 billion won in assets of the acquiring institutions and prevented their insolvency.

The KDIC created the Resolution and Finance Corporation, a wholly owned subsidiary company, on December 24, 1999 for the following purposes.

1. Maximize the recovery of the public funds by receiving dividends from the estates of the insolvent institutions for the uncollected debentures the KDIC had received after making contributions.
2. Effectively manage and recover the assets of KFB that were not acquired initially and the assets of the five insolvent banks that contain put-back options.

**Status of Fund Contributions to Banks**
**(As of December 31, 1999)**

(Unit: 100 million won)

| Institutions | Investment | | Fund Contribution | | Asset Acquisition | |
|---|---|---|---|---|---|---|
| | 1998 | 1999 | 1998 | 1999 | 1998 | 1999 |
| Kookmin* | 2,000 | | 10,651 | 7,534 | | 179 |
| H&CB* | 2,965 | | 6812 | 11,009 | | 538 |
| Shinhan* | 2,925 | | 15376 | 9,226 | | 591 |
| Hana* | 4,728 | | 7739 | 3,400 | | 54 |
| Koram* | 2,600 | | 17212 | 7,110 | | 226 |
| KFB | 7,500 | 42,086 | | 380 | | 30,275 |
| Seoul | 7,500 | 33,201 | | | | |
| CHB | | 27,179 | | | | |
| Commerce | 16,321 | | | | | |
| Hanil | 16,321 | | | | | |
| Peace | | 2,200 | | | | |
| Resolution and Finance Corp. | | 1 | | | | |
| TOTAL | 62,860 | 104,667 | 57,790 | 38,659 | | 31,863 |

* Support in relation to insolvent banks

## B. Securities Houses

As of 1999, six securities houses were in resolution procedures due to either operation suspension mandate or filing of bankruptcy. Of the firms, the deposit payments of Koryo and Dongseo clients were completed through the Securities Investor Protection Fund. With respect to Jangeun Securities, Dongbang Paragreen Securities, Hannam Investment Securities, and Korea Industrial Securities, insurance claims are currently in progress through Kookmin Bank, which functions as a representative of the KDIC.

**Status of Fund Contribution to Securities Houses**
**(As of December 31, 1999)**

(Unit: 100 million won)

| Receiving Institution | Classification | Contributed Amount | Notes |
|---|---|---|---|
| Jangeun | Insurance Claim Payment | 40 | Based on needed payment amount |
| Dongbang Paragreen | Insurance Claim Payment | 100 | Based on needed payment amount |
| Hannam Investment | Insurance Claim Payment | 1 | Based on needed payment amount |
| Korea Industrial | Insurance Claim Payment | 3 | Based on needed payment amount |
| TOTAL | | 144 | |

## C. Insurance Companies

In 1999, the KDIC provided resolution fund support and additional restructuring services to six insolvent life insurance companies: Kookmin, Taepyongyang, Duwon, Dong-ah, Handuck, and Chosun Life. For Daehan Life, whose transfer was nullified and Seoul Guarantee Insurance, whose liquidity was insufficient, the KDIC pushed for the normalization of their operations by providing funds.

Notwithstanding the four life insurance companies (Kukje, BYC, Sun, and Koryo) that were withdrawn by transfers in 1998, of the life insurance companies that had obtained conditional approval to maintain operations from the FSC, the KDIC endeavored to reorganize six companies, including Kookmin, through public sale. Kookmin's operation normalization seemed far reaching, but only resulted in further insolvency.

Subsequently, in accordance with the FSC's designation of insolvent financial institutions and its mandate for financial assistance, the KDIC has completely written off the contributed capital of the six insolvent insurance companies and has also provided 30 billion won in contributions to each of the six institutions. In addition, the KDIC invested 1.9015 trillion won to five life insurance companies (Kookmin, Taepyongyang, Dong-ah, Handuck, and Chosun) in the form of priority equity participation, and in the form contributions to Daehan Life who merged with Duwon Life.

With respect to Daehan Life, which was designated by the FSC to be insolvent due to the loans it issued to its subsidiaries, KDIC provided 50 billion won in the form of priority equity participation on October 1, 1999 and mandated on the spot inspections of its assets / liabilities status by an outside specialty institution to facilitate its normalization. As a part of that effort, KDIC additionally invested 2 trillion won on November 25, 1999. Coincidentally, KDIC established Daehan Life Management Team Selection Committee and through it KDIC selected a team of managers who would carry out the normalization of Daehan Life. KDIC is planning to accomplish early normalization by reviewing the progress of the normalization plans proposed by the committee on a quarterly basis.

With respect to Seoul Guarantee Insurance, which merged with Daehan and Korea Guarantee Insurance, KDIC provided 1.25 trillion won on June 24, 1999 in the form of equity participation to help bring about its normalization through liquidity assistance. However, the normalization of Seoul Guarantee became uncertain due to the Samsung Motors and Daewoo incidents. Consequently, KDIC is in close communications with pertinent institutions and continuously monitoring Seoul Guarantee's business operations to prevent its failure and continue normalization efforts.

**Status of Fund Contribution to Insurance Companies**

**(As of December 31, 1999)**

(Unit: 100 million won)

| Institutions | Equity Participation | | Contributions | |
|---|---|---|---|---|
| | 1998 | 1999 | 1998 | 1999 |
| Samsung Life* | | | 4,329 | 22 |
| Kyobo Life* | | | 2,399 | 12 |
| Heungkook Life* | | | 2,723 | 69 |
| Jeil Life* | | | 2,084 | 3 |
| Seoul Guarantee | | 12,500 | | |
| Daehan Life | | 20,500 | | |
| Daehan Life (acquiring Duwon) | | | | 2,368 |
| Kookmin Life | | 2,862 | | |
| Taepyongyang Life | | 1,751 | | |
| Duone Life | | 300 | | |
| Dong-ah Life | | 10,214 | | |
| Handuck Life | | 2,327 | | |
| Chosun Life | | 993 | | |
| TOTAL | | 51,447 | 11,535 | 2,474 |

* Related to liability portions assumed by KDIC.

**D. Merchant Banks**

Fortunately, there were no financial incidents directly involving merchant banks in 1999. However, the payment of insurance claims resulting from previous years' insolvency continued throughout the year.

Due to insufficient liquidity, a total of 19 (17 newly suspended firms and 2 repeat suspended firms) merchant banks were mandated to suspend their operations since December of 1997. Sixteen (16) of those firms were transferred to Hanareom Merchant Bank and appropriate insurance payment and bankruptcy procedures are in progress while for one merchant bank, the KDIC is making insurance claim payments through Hanareom Merchant Bank.

Of the merchant banks that received or are receiving insurance claim payments, 14 companies (operations suspended before March of 1998) have received payments from the Korea Non-Deposit Insurance Corporation until April of 1998. For merchant banks like Saehan, Hangil and Daehan that filed insurance claims during or after May 1998, the claim payments were made based upon the results of KDIC's investigation and collaborated inspections.

To help facilitate such insurance claim payments, KDIC loaned 12.6821 trillion won to Hanareom Merchant Bank and subsequently recovered 2 trillion won. In looking at the contents of the assistance, the Korea Non-Deposit Insurance Corporation provided 4.8549 trillion won in January of 1998 with respect to all deposits of financial institutions while KDIC provided 5 trillion won as well in the same period through the Korea Non-Deposit Insurance Corporation Fund.

In addition, 827.2 billion won was contributed in July of 1998 for the payment of insurance claims with respect to the failed Saehan Merchant Bank and Hangil Merchant Bank.

Moreover, KDIC assumed 1.2917 trillion won in receivables when the Non-Deposit Insurance Funds were consolidated in 1998 while contributing 12.1 billion won in the form of equity participation to Chungsol Merchant Bank. In August of 1998, KDIC paid US$311 million dollars, which was the foreign currency debt payment guarantee of Saehan and Hangil merchant banks with regard to the Export-Import Bank of Korea, and sold the right to claim damages to Hanareom Merchant Bank.

**Status of Fund Contribution to Merchant Banks**

**(As of December 31, 1999)**

(Unit: 100 million won)

| Institutions | Equity Participation | | Contributions | |
|---|---|---|---|---|
| | 1998 | 1999 | 1998 | 1999 |
| Chungsol | 121 | | 1,275 | |
| Saehan | | | 4,238 | |
| Hangil | | | 1,139 | |
| Daegu | | | 502 | |
| Korea | | | 914 | |
| Asia | | | 300 | |
| Keumho | | | 375 | |
| Youngnam | | | 370 | |
| Dongyang | | | 1,200 | |
| Woolsan | | | 200 | |
| Hyundai | | | 505 | |
| Hanwoi | | | 531 | |
| Samyang | | | 250 | |
| Jeil | | | 1,118 | |
| Hanareom | 300 | | 126,821 | |
| TOTAL | 421 | | 139,738 | |

## E. Mutual Savings and Finance Companies

A total of 25 mutual savings and finance companies were met with insolvency problems in 1999. Of those companies, Hanil and Daehan were transferred to a third party institution, while Kyungjoo and 15 other companies were acquired by Hanareom Mutual Savings and Finance. Currently, insurance claim payment for Woojung is in progress. With respect to other operation suspended MSFCs, KDIC plans to either support self-normalization, or acquisition and claim payment by Hanareom if third party acquisition is impossible. In terms of insolvent MSFCs, the claim payments are made by deposits and bond purchases. With respect to deposits that are related to suspicions of illegal liquidations, withdrawals, and counterfeit identity loans, payments will be made after a legal confirmation procedure determines the deposits to be lawful.

In that effort, KDIC provided 1.433 trillion won at zero interest to the Hanareom Mutual Savings and Finance Company and provided 183.5 billion won to seven MSFCs that acquired insolvent assets and liabilities of failed MSFCs.

**Status of Fund Contribution to MSFCs**
**(As of December 31, 1999)**

(Unit: 100 million won)

| Institutions | Equity Participation | | Contributions | |
|---|---|---|---|---|
| | 1998 | 1999 | 1998 | 1999 |
| New Choongbuk | 100 | | 161 | |
| Kisan | | | 541 | |
| Donghwa | | | 639 | |
| Ilshin | | | 155 | |
| Dong-ah | | | 104 | |
| Kyungbook | | | 170 | |
| Saenuri | | | 392 | 21 |
| Daewon | | | 563 | |
| Chungilseosan | | | 89 | |
| Daechun | | | | 102 |
| Haedong | | | | 263 |
| Saeonyang | | | | 45 |
| Pusan | | | | 271 |
| Union | | | | 518 |
| Arim | | | | 615 |
| Hanareom | 1 | | 14,647 | 14,330 |
| TOTAL | 101 | | 17,461 | 16,165 |

Note:
Of the total contributions provided to the MSFCs (464.9 billion won) excluding the Hanareom Mutual Savings and Finance Company, 1 billion won was recovered from Saenuri (600 million won) and Daewon (400 million won).

## F. Credit Unions

As of the end of 1999, 132 credit unions were met with insolvency problems resulting from deposit or bond payment suspensions. With the exception of Ayoung, which achieved normal operation by merging with a nearby credit union, 131 credit unions are in resolution proceedings. KDIC is making claim payments for the failed credit unions because it was determined that it would cost more to fund capital to merge failed credit unions with other healthy credit unions.

Out of 124 of the 131 insolvent credit unions, whose claim payment decisions have been made, 77 credit unions received 823.8 billion won in claim payments after a thorough investigation and determination of appropriate claim amounts. For other problematic credit unions, KDIC is planning to make claim payments through appropriate procedures. However, for credit unions that have guarantee liabilities, or their officers are suspected of illegal loan approvals, or are in need of deposit legitimacy reevaluation, claim payments are suspended until such suspicions are nullified.

**Status of Fund Contribution to Credit Unions**

**(As of December 31, 1999)**

(Unit: 100 million won)

| Institutions | Type | Amount Provided | Notes |
|---|---|---|---|
| 116 Credit Unions | Insurance Claim Payment | 12,608 | Accumulated from 1998 to 1999 |
| 39 Credit Unions | Loans | 367 | Acquired Safety Fund |
| **TOTAL** | | 12,975 | |

* Of the total of 36.7 billion won loaned to credit unions, 32.7 billion has been recovered, and 4 billion won is outstanding among seven credit unions

## 3. Development of Effective Funds Recovery Methodology

### A. Reevaluation of Dividend Ratio Determined by Bankruptcy Estates

#### (1) Utilization of the Inspection Committee

KDIC has funneled approximately 43 trillion won (based on bonds issued) of public funds in 1999 to protect the depositors and to facilitate smooth reorganization of the Korean financial industry. To reduce the public's burden, KDIC began concentrating all of its efforts in recovering the contributed funds in the latter part of 1998.

With respect to bankruptcy estates in the beginning, KDIC in effect, lacked the appropriate wherewithal because the only way to recover the public funds provided in the forms of contributions and insurance claim payments was by participating in the credit disbursement process of the bankruptcy trustees. Furthermore, KDIC did not have the authority of an auditor (inspection committee member). Thus, much effort was devoted to facilitate the appointment of an employee of KDIC to the inspection committee in order to resolve the KDIC's inability to participate in bankruptcy proceedings. As a result of that endeavor, KDIC's employees were appointed, for the first time, as the audit committee members of the bankruptcy trustee organizations of eight failed credit unions including Daeguhanyung Credit Union on December 19, 1998. Subsequently, despite strong opposition from the likes of bankruptcy trustee organizations, KDIC pressed on to facilitate KDIC employee appointment to the audit committee. Consequently, as of the end of December 1999, KDIC employees were appointed to the audit committee of 140 bankruptcy estates out of a total of 143 estates whose creditor meetings were completed.

**Number of Auditors Elected to Bankruptcy Estates per Financial Industry**

**(As of December 31, 1999)**

| Type | Banks | Merchant Banks | Insurance Companies | MSFCs | Credit Unions | **TOTAL** |
|---|---|---|---|---|---|---|
| Bankrupted Institutions | 5 | 16 | 4 | 21 | 94 | 140 |

#### (2) Improvement of Contributed Fund (debenture) Recovery Rate

As employees of KDIC became appointed as the audit committee members, KDIC began engaging in a full-scale debenture recovery process. In May 1998, KDIC established a department with the specific purpose of developing an effective debenture recovery processes. As a result, the

Debenture Management Office, which had been in operation since the end of 1998, was divided into the Debenture Management Department and the Office of Debenture Research. The Debenture Management Department was put in charge of determining the appropriateness of the bankruptcy trustees' asset liquidation mechanisms based on the regulatory understanding that the bankruptcy trustees need the audit committee's agreement in selecting a method for the liquidation of the assets. The Office of Debenture Research was put in charge of filing damage claims against the failed financial institutions' employees and officers of who are suspected to be responsible for the failure.

During 1999, the Debenture Management Department effectively processed the agreement reached during operations of 140 bankruptcy trustees and thereby facilitated the sale of the insolvent assets at appropriate prices and minimization of cost. In particular, by convincing the trustees to reconsider the agreement-requested issues with respect to the reorganization of corporate liabilities, the Corporation accomplished approximately 2.9 billion won increase in the recovery of the public funds. Also, in accordance with Article 172 of the Bankruptcy Act (audit committee member's right to investigate the status of bankruptcy trustees), the status of four bankruptcy trustees were investigated between November and December of 1999.

**(3) Early Dividend Payment Endeavor**

To recover the public funds as quickly as possible, early disbursement of the asset liquidation proceeds of the assets held by the bankruptcy trustees is necessary. However, there is a technical shortfall in terms of the amount of credit that the KDIC plans to provide to the bank bankruptcy trustees as well as the lack of desire by the bankruptcy trustees in making the disbursement and less than concrete disbursement procedures. Thus, in order to make sure that the secondary disbursement recipients who were excluded during the primary disbursement will receive the appropriate dividends, the Corporation asserted the priority of the secondary disbursement recipients' claim pursuant to Article 242 of the Bankruptcy Act, and convinced the trustees to conduct intermediary disbursement based on the initial debentures that were issued despite some disputes as to the integrity of some claims. In addition, by relentlessly pursuing bankruptcy trustees of the failed credit unions and MSFCs and providing them with feasible disbursement procedures, the Corporation recovered 871.3 billion won from 34 bankruptcy estates by the end of 1999.

**Status of Recovered Public Funds per Financial Industry**
**(As of December 31, 1999)**

(Amount Unit: 100 million won)

| Financial Industry | Number of Estates | Amount | Notes |
|---|---|---|---|
| Banks | 5 | 5,516 | Dongnam, Choongchung, Kyoungki, Daedong, Donghwa |
| Merchant Banks | 2 | 1,784 | Shinhan, Hangdo |
| Insurance Companies | 4 | 705 | Koryo, BYC, Kukje, Sun |
| Securities Houses | 1 | 0.04 | Sanup |
| Credit Unions | 22 | 708 | Bokhyun, etc. |
| **TOTAL** | 34 | 8,713 | |

## B. Improvement of the Recovery Rate of the Contributed Public Funds.

KDIC contributed approximately 22 trillion won to twenty financial institutions including Hanvit Bank, CHB, Seoul Bank, KFB, Peace Bank and Korea Reinsurance Corporation. The recovery of the funds will be accomplished by selling off the assets of those financial institutions that the Corporation acquired during the contribution process. To speed up that recovery, the KDIC is endeavoring to improve the value of those assets by assisting expedient achievement of normal operation of those institutions. The KDIC is planning to develop concrete sales strategies including the sale session schedule in consideration of the progress of the normalization as well as the market condition.

## C. Maximization of Debenture Recovery by the Financial Resolution Institutions

### (1) Improvement of the Debenture Recovery Rate of the Financial Resolution Institutions

In consideration of the fact that the financial resolution institutions are temporary entities, the KDIC guided the institutions' proactive recovery process by making sure they have effective and stable human resource management and supported them in restructuring their organizations as well as establishing and implementing of their budgets.

The Hanareom Merchant Bank consolidated its sixteen departments and ten branches into four departments and one branch respectively on February 22, 1999. At the end of 1998 the bank had already reduced its employee size from 362 to 185 to promote effective management of the consolidated infrastructure and to reduce cost. To improve the efficiency of the debenture recovery process, the bank focused on the management of the recovery based on quarterly recovery plans, transfer of debentures to other institutions, strengthening of collateral, and strategic management of debtor institutions. Consequently, the bank achieved recovery rates of 50.8% of assets in KRW, 40.4% in foreign currency, and 76.6% of payment guarantee claim debentures. All together, 59.7% of the assets acquired through selective asset transfer was recovered.

In terms of the Hanareom Mutual Savings and Finance Company, 33 existing departments were consolidated into 25, while the staff sized was reduced from 347 to 277 between June 1, 1999 and December 1, 1999 as a part of the effort to improve the efficacy of the organizational management and to promote systemic management of the debentures it holds. As a proactive approach to the recovery process, one person was put in charge of each of the debentures while the employment contracts of the department heads were extended based on the recovery performance assessment result of each department. Consequently, the Hanareom Mutual Savings and Finance Company achieved a recovery rate of 62% by the end of 1999.

**Status of Debenture Recovery Rates from Financial Resolution Institutions**
**(As of December 31, 1999)**

(Unit: 100 million won, US$ million, %)

| Type | | Purchased Assets | Recovered Amount | Recovery Rate |
|---|---|---|---|---|
| Hanareom Merchant Bank | Korean won | 54,077 | 27,469 | 50.8 |
| | US dollar | 3,520 | 1,422 | 40.4 |
| | Korean won | 32,521 | 24,881 | 76.5 |
| Hanareom Mutual Savings and Finance | | 9,545 | 5,916 | 62.0 |

**(2) Litigation Filed with Respect to Priority Reimbursements of Deposit Debenture.**

The Mutual Savings and Finance Companies Act allows preferred (priority) payment of deposit debentures before other debentures are paid. Thus, if the deposit payments of debentures of Hanareom Mutual Savings and Finance Company are recognized as priority debentures, the recovery amount can increase dramatically. Therefore, KDIC filed lawsuits against Kisan Mutual Savings and Finance Company and three other MSFCs to force their recognition of the relevant debentures as priority debentures. Independently, KDIC filed lawsuits against majority stock holding individuals of Kyoungki Mutual Savings and Finance Company and two other failed institution officers to determine their culpability in order to maximize the recovery of the public funds. In the case that such legal action yields even a small benefit, KDIC will request the priority disbursement of deposits by credit unions and acknowledgement of the culpability of the credit unions' major stockholders and officers through the applicable bankruptcy trustees and may file lawsuits if necessary.

## D. Recovery of Abroad Assets

The KDIC is responsible for recovering debentures not only in terms of the assets currently owned by the Corporation, but also the assets held by the bankruptcy trustees, financial resolution institutions, and the RFC. Regarding the recovery of debentures based on the assets of the financial resolution institutions and the RFC, the KDIC does not initially assume the role of the primary recovery entity. However, the Corporation has endeavored to support the primary entities by closely monitoring their recovery process and providing consultation or through direct involvement if necessary.

During causal effect investigation of Samyang Merchant Bank's failure, it was determined that Samyang Merchant Bank's abroad assets in the amount of US $47 million (54 billion won) were unrecoverable for various reasons. Thus, KDIC established a special task force within the appropriate department with the specific duty of recovering those assets.

By convincing a foreign fund manager to cooperate in that effort, on November 25, 1999 at the local office of the fund manager, the KDIC task force was able to investigate the foreign assets of Samyang Merchant Bank. Eventually, KDIC made a second visit on December 27, 1999 and was able to induce volunteered transfer of Samyang Merchant Bank's assets. Thereby, KDIC established a mechanism for a full-scale recovery endeavor.

As a result, KDIC obtained an agreement from Samyang Merchant Bank to transfer US $1.9 million in deposits and US $7.1 million in stocks to the appropriate bankruptcy estate. By transferring the unrecoverable assets, KDIC achieved approximately US $40 million of foreign currency debenture recovery.

### E. Management of Failed Financial Institutions, and Administration of Liquidation and Bankruptcy

The intervention of bankruptcy proceedings by an inspection committee tended to be passive and conservative by nature. Therefore, to accomplish more proactive, direct, and expedited debenture recovery by taking charge of managerial duties to bankruptcy procedures, the Financial Industry Restructuring Act and the Depositor Protection Act were revised as of December 16, 1999. Consequently, in December, 80 candidates among the employees of KDIC received special training in order to be able to perform the duties of insolvent institution managers, and liquidation and bankruptcy administrators.

Furthermore, based on the opinions of experienced employees and the special training instructors, production of a handbook (manual) for insolvent institution management, and liquidation and bankruptcy administration was initiated. At the same time, a solid basis for successful accomplishment of those tasks was developed by inducing a cooperative environment through continuous discussions regarding the qualifications and betterment strategies of the jointly selected managers.

Beginning in 2000, KDIC plans to implement stronger methods of recovery of the public funds by directly performing liquidator and bankruptcy administrator duties, and filing subrogation damage claim lawsuits and/or participating in relevant lawsuits via the revised regulations. The ultimate goal of such action is the maximization of the public fund recovery rate through early completion of bankruptcy proceedings.

## 4. Determination of Failure Culpability

### A. Investigation of Unlawful or Morally Hazardous Acts of Insolvency Related Individuals.

In order to obtain basic evidentiary data with respect to culpability and accountability, KDIC investigated 86 financial institutions. Consequently, the investigations found 764 individuals to be liable, and the appropriate damage claim amount to be 5.4001 trillion won.

**Results of Investigated Financial Institutions**
**(As of December 31, 1999)**

(Unit: amount in 100 million won)

| Type | Banks | Insurance Companies | Merchant Banks | MSFCs | Credit Unions | **TOTAL** |
|---|---|---|---|---|---|---|
| Number of Investigated Institutions | 5 | 4 | 17 | 4 | 56 | 86 |
| Amount | 50 | 32 | 111 | 30 | 541 | 764 |

## B. Allocation (accumulation) of Responsible Assets

### 1) Asset Status Investigation

For the investigations to yield effective results, applicable assets must be researched and discovered. To achieve that objective, KDIC obtained 3,622 items of asset related data from local governments and civil credit information management companies.

### 2) Protected Debentures

The KDIC forwarded the collected asset data to the bankruptcy administrators of the appropriate financial institutions, and thereby prompted 1,560 cases of provisional seizures mounting to a sum of 274.7 billion won and 118 cases of provisional liquidations.

**Status of Protected Debentures**
**(As of December 31, 1999)**

| Type | Banks | Insurance | Merchant | MSFC | Credit Union | TOTAL |
|---|---|---|---|---|---|---|
| # of Cases* | 41 | 39 (1)** | 165 (79) | 123 (38) | 1,192 | 1,560 |
| Amount* | 68 | 87 | 971 | 860 | 761 | 2,747 |

* Number of Provisional Seizures and Seized Amount
** ( ) Number of Provisional Disposals

## C. Damage Claim Lawsuits in Progress

KDIC utilized both in-house and outside attorneys to determine the appropriate individuals who must reimburse the debentures and the scope of their accountability. The results of that process were forwarded to the appropriate bankruptcy administrators. Accordingly, damage claim lawsuits either have been or will be filed against 222 individuals from 53 institutions for a total of 263.1 billion won.

**Status of Lawsuits**
**(As of December 31, 1999)**

(Units: 100 million won; cases)

| Type | Banks | Insurance | Merchant | MSFC | Credit Union | TOTAL |
|---|---|---|---|---|---|---|
| # of Institutions | 3 | - | 3 | 22 | 25 | 53 |
| # of Defendants | 14 | - | 21 | 106 | 81 | 222 |
| Amount (in 100 million won) | 99 | - | 1,482 | 895 | 155 | 2,631 |

## 5. Management Analysis of Insured Institutions

### A. Collection of Management Data and Establishment of Management Structure

As an effort to proficiently analyze management hazards of insured financial institutions, KDIC has been developing a system that would facilitate efficient collection and use of financial and non-financial data of the institutions. A system for acquiring financial information was established based on sharing of management data among related institutions including the FSS. By effectively performing and processing searches, a database is being developed.

From September of 1999, financial statements and business reports of banks have been in joint use by KDIC through computer terminal networks. Subsequently, securities houses and insurance companies began sharing their data in November, and MSFCs came on board the sharing system in December. Moreover, an association of pertinent supervisory institutions including the FSC and the Bank of Korea was established in November which created a structured system for business information sharing. Since December, KDIC has been collecting business information of the credit unions through electronic medium from the National Federation of Credit Unions.

Database establishment was also progressed in 1999. Beginning 1990, the balance sheets, and profit and loss statements were processed into PC based database files. Based on this foundation, KDIC began accumulating and creating quarterly database reports of the management statistics of the insured financial institutions.

### B. Establishment of Periodic Business Management Analysis and Document Investigation System

In 1999, KDIC performed quarterly or mid year analyses of settled and/or provisionally settled account results, status of assets, and asset ratios based on BIS standard of insured financial institutions of the industries. For Hanvit, CHB, Peace and Seoul Bank who have received public funds, their plans for operation normalization and actual performances have been reviewed.

In order to establish a document investigation system, a checklist regarding risk management of banks was created, and the development of a risk examination module, FICALS (Financial Institution's Capital adequacy, Asset quality, Liquidity and Sensitivity to market risk) was started.

### C. Request for Investigation and Examination

A manual for investigation and examination of insured financial institutions was created, and related regulations were reviewed. At the same time, discussions for establishing a basic foundation for joint investigation with the FSS were carried out. In November, KDIC requested the FSS to inspect the operation normalization status of a few banks and jointly they investigated the banks' implementation of normalization procedures.

### D. Initiation Preparation for Using Graduated Insurance Premium System

By imposing graduated insurance premiums that correspond to the level of instability or danger that financial institution can create in their business operation, KDIC strove to prevent moral hazards in the financial industry and to promote healthy operation. Aiming to implement the graduated insurance premium system by 2000, KDIC has worked to develop an operational structure of the system.

For that purpose, KDIC determined basic factors including a list of applicable financial industries, a graduation index, and graduation gap specifications. Through a public hearing held in April, KDIC also collected opinions of scholars and industry experts. In cooperation with MOFE, revision or introduction of related laws and regulations were discussed. In October, KDIC invited two experts from Federal Deposit Insurance Corporation (FDIC) of the U.S. to consult and advise on the implementation method of the graduated insurance premium system.

To apply the graduated insurance premium system beginning in 2000, KDIC has devised an internal calculation standard for a graduation index and report format while reviewing possible problems that could occur during the implementation and operation of the system.

## 6. Research and Development for Improving the Deposit Insurance System

### A. Research for Effective Recovery Methods of the Contributed Public Funds

In order to effectively recover the public funds that were funneled into the reorganization of the financial industry, KDIC studied the recovery organization, structure, authority, and actual recovery rates of other nations that experienced financial crisis. KDIC obtained information on the U.S. FDIC's resolution of failed banks, US RTC (Resolution Trust Corporation)'s resolution of failed savings and loans associations, debenture recovery conducted in the form of asset management/disposal contracts, and the debenture recovery mechanisms organization used by the Deposit Insurance Corporation of Japan to supplement KDIC's debenture recovery operations.

Furthermore, in an effort to prevent employees of financial institutions from causing morally hazardous situations, KDIC studied the resolution procedures, pertinent regulations, and legal actions taken by the governments of U.S. and Japan in dealing with their financial incidents and financial crimes. By establishing a firm theory and ground with respect to KDIC's assumptions of damage claim rights, KDIC endeavored to develop effective preventive measures for financial institution failures.

### B. Research of Insurance Premium Rate Structure

KDIC conducted a variety of researches to enhance the effectiveness of the deposit insurance system including the computation of appropriate insurance premium rates for each financial industry in consideration of the repayment (reimbursement) of reorganization expenses, and development of appropriate application methods for graduated insurance premium rates based on the danger (risk) level of a particular insured institution.

Moreover, public hearings concerning the graduated insurance premium system were held to establish understanding among the general public with regard to the premium rate structure. Press conferences and seminars were held to explain the accomplishments and future objectives of the deposit insurance system. A public seminar was held as well at the COEX for the same purpose.

### C. Inducement of Active International Cooperation

Through active cooperation and exchange of human resources, KDIC acquired useful information and data. To develop an international exchange system, KDIC's employees were sent to FDIC and other nations' deposit insurance agencies for training while experts from those related agencies were invited to KDIC for the purposes of providing consultations on the issues at hand.

Furthermore, through international activities like the ADB (Asian Development Bank) Project, and publication and distribution of KDIC's 1998 Annual Report, KDIC faithfully endeavored to develop constructive public relations and international recognition.

## 7. Long-term Development Strategy Establishment

### A. Establishment of Development Strategy

By establishing a new vision of KDIC's functionality and directions for future growth, KDIC endeavored to actively respond to the dynamic financial environment, and thereby position itself as a leader of the financial system.

A symposium was held in June with '*Development Direction of Deposit Insurance in the 21st Century'* as its topic to discuss and develop KDIC's role in maintaining the stability of the financial system, creating a sense of understanding for the need to expand KDIC's functions and creating of an environment that would easily facilitate future improvements.

The recovery prospect and reimbursement of the contributed funds strategies that were developed on a per scenario basis (passive, conservative, etc.) to assist the development and implementation of rational operative protocols for KDIC were used as data during an inspection of the government which was conducted by the National Assembly of Korea. KDIC is arranging with a consulting service (KDI) to develop a rational framework for the KDIC to accomplish the "development of rational management strategies of the Deposit Insurance Fund for smooth reorganization of the financial industry."

### B. Legal Consultation and System Revision

To round off imperfections in the system with regard to its operations, KDIC developed many improvement strategies and submitted them to pertinent administrative institutions. For operations that called for clear legal interpretations and decisions, KDIC faithfully listened to legal advisors to maintain fairness in carrying out its tasks.

To increase the effectiveness of debenture recovery, KDIC researched and analyzed the debenture recovery systems of U.S., Japan and other major countries, and provided the results for appropriate consideration during the regulation revision process. Consequently, those results were reflected in the revision of the Depositor Protection Act and the Financial Industry Restructuring Act to empower KDIC with management and administration ability of failed or bankrupted financial institutions, the right to assume and exercise the damage claim rights, and the right to request information from public institutions.

Moreover, KDIC suggested and induced a revision of the Special Tax Limitation Act to exempt KDIC from paying corporate taxes such as registration tax and acquisition tax when it acquires unlisted stocks upon becoming the majority owner of a financial institution. KDIC also suggested and induced a revision to the Enforcement Decree of the Asset Liquidity Act and obtained the right to acquire assets of resolved financial institutions.

# IV. 1999 Year End Status of the Deposit Insurance Fund

## 1. Composition of Deposit Insurance Fund and Operational Status

(Unit: 100 million won)

| | Type | 1996 | 1997 | 1998 | 1999 |
|---|---|---|---|---|---|
| ORGANIZATION | Transfer from prior FY | | 52 | 343 | 9,770 |
| | Government Contributions | 100 | | | |
| | Fin. Institution Contributions | | | 351 | 21 |
| | Insurance Premium Revenue | | 321 | 7,403 | 4,161 |
| | Fund Debenture Issued | | | 210,150 | 224,850 |
| | Premium Debenture Issued | | | 575 | 13,996 |
| | Discount Debenture Issued | | | -3 | |
| | Loans | | | 12,997 | 26,254 |
| | Fin. Institution Loans | | | 77,431 | 25,886 |
| | Deposits and Interest* | | | 4,035 | 13,336 |
| | Loan Reimbursements | 3 | 8 | 5,905 | 21,978 |
| | Bankruptcy Disbursement | | | | 6,930 |
| | Tangible Write-offs | | | | 14,181 |
| | Advanced Payments | | | 4,192 | 200 |
| TOTAL | | 103 | 381 | 323,379 | 361,563 |
| OPERATION | Contribution** | | | | 41,134 |
| | Equity Participation | | | 63,382 | 156,114 |
| | Assets Acquired | | | 69,377 | 1,753 |
| | Loans*** | | | 153,386 | 46,275 |
| | Loan Repayments | | | 7,462 | 33,870 |
| | Insurance Claim Payments | | | 4,446 | 8,306 |
| | Fund Debenture Interest | | | 10,838 | 28,223 |
| | Loan Interest | | | 293 | 12,341 |
| | Operation Costs | 50 | 37 | 92 | 175 |
| | Prepaid Corporate Tax | 1 | 1 | 4,333 | 146 |
| | Internal (household) Financial Resources | 52 | 343 | 9,770 | 32,226 |
| TOTAL | | 103 | 381 | 323,379 | 361,563 |

* Includes Interest Revenue on Loans issued by Hanareom Merchant Bank (for payment of interest on loans issued to (acquired from) financial institutions)
** Includes 5.3 billion won of credit management fund budget support
*** Includes deposit payments

## 2. Status of Insurance Claim Payments and Restructuring Fund Allocation

(Unit: 100 million won)

<table>
<tr><th colspan="2"></th><th>Type</th><th>Amount (in Total)</th></tr>
<tr><td colspan="2" rowspan="16">Equity Participation</td><td>Seoul Bank</td><td>40,701</td></tr>
<tr><td>KFB</td><td>49,586</td></tr>
<tr><td>Hanvit Bank (Commerce, Hanil)</td><td>32,642</td></tr>
<tr><td>Kookmin Bank and 5 other acquired banks</td><td>11,923</td></tr>
<tr><td>Hana Bank (Hana, Boram Bank)</td><td>3,295</td></tr>
<tr><td>CHB</td><td>27,179</td></tr>
<tr><td>Peace Bank</td><td>2,200</td></tr>
<tr><td>Hanareom Merchant Bank</td><td>300</td></tr>
<tr><td>New Choongbuk Mutual Savings and Finance Company</td><td>100</td></tr>
<tr><td>Chungsol Mutual Savings and Finance Company</td><td>121</td></tr>
<tr><td>Hanareom Mutual Savings and Finance Company</td><td>1</td></tr>
<tr><td>Seoul Guarantee Insurance</td><td>12,500</td></tr>
<tr><td>Daehan Life</td><td>20,500</td></tr>
<tr><td>Kookmin, Taepyongyang, Duwon, Dong-ah, Handuck, Chosun Life</td><td>18,447</td></tr>
<tr><td>Resolution and Finance Corporation</td><td>1</td></tr>
<tr><td>Subtotal</td><td>219,496</td></tr>
<tr><td colspan="2" rowspan="5">Contribution</td><td>Kookmin and 5 other acquired banks</td><td>96,069</td></tr>
<tr><td>Samsung and 4 other acquired insurance companies</td><td>11,641</td></tr>
<tr><td>KFB</td><td>380</td></tr>
<tr><td>Daehan Life</td><td>2,368</td></tr>
<tr><td>Subtotal</td><td>110,458</td></tr>
<tr><td rowspan="4">Purchased assets</td><td rowspan="2">Direct</td><td>Kookmin and 5 other acquired banks</td><td>1,588</td></tr>
<tr><td>KFB(Vietnam and New York's branch shares)</td><td>165</td></tr>
<tr><td rowspan="2">Through financial resolution institutions</td><td>KFB</td><td>30,110</td></tr>
<tr><td>Subtotal</td><td>31,863</td></tr>
<tr><td rowspan="6">Insurance Claim Payments</td><td rowspan="3">Direct</td><td>116 Credit Unions</td><td>12,608</td></tr>
<tr><td>4 Securities Houses</td><td>144</td></tr>
<tr><td>Subtotal</td><td>12,752</td></tr>
<tr><td rowspan="3">Through financial resolution institutions</td><td>Hanareom Merchant Bank (Purchased and assumed 17 merchant banks)</td><td>126,821</td></tr>
<tr><td>Hanareom Mutual Savings and Finance Company (Purchased and assumed 36 MSFCs)</td><td>28,977</td></tr>
<tr><td>Subtotal</td><td>155,798</td></tr>
<tr><td colspan="2" rowspan="4">Loans</td><td>14 Merchant Banks</td><td>12,917</td></tr>
<tr><td>15 MSFCs</td><td>4,649</td></tr>
<tr><td>39 Credit Unions</td><td>367</td></tr>
<tr><td>Subtotal</td><td>17,933</td></tr>
<tr><td colspan="2">TOTAL</td><td></td><td>548,300</td></tr>
</table>

## 3. Overall State of Financial Condition

### A. Fund Accounting

#### 1.) Financial Status

##### a. Assets

The fund account's fiscal year end asset balance increased by 7.805 trillion won from the previous year to end at 24.334 trillion won. The liquid factors that led to the overall increase of the balance respectively were: (up factors): 121.3 billion won in deposits; 2.2243 trillion won in securities; 253.4 billion won in uncollected insurance premiums; and 600 million won in prepaid corporate taxes; (down factors): 7.2729 trillion won in short-term loans; 900.7 billion won in uncollected revenues; 40.4 billion won in advanced insurance claim payments; 2.9506 trillion won in bad debt write-offs; and 471.8 billion won in other reductions. Such activities led to the decrease of liquid assets by 3.1356 trillion won. The fixed assets increased by 10.9409 trillion won due to the following additions: 6.4099 trillion won in equity participation, 9.7026 trillion won in long-term loans, 175.3 billion won in acquired assets, 1.797 trillion won in claim-right-assigned debentures, and 6.4266 trillion won in bad debt write-offs.

In terms of current assets, liquid assets make up 17% and fixed assets make up 83% of the total assets. The liquid assets at year end totaled 4.1396 trillion won and included items like 545 billion won in deposits, 2.7776 trillion won in securities, 4.9078 trillion won in short-term loans (including 4.3794 trillion won in bad debt write-offs), 253.4 billion won in uncollected insurance premiums, 4.7 billion won in prepaid insurance claims (including 2.3 billion won in bad debt write-offs), and 14.2 billion won in prepaid corporate taxes. The fixed assets at year end totaled 20.1939 trillion won and included items such as 13.185 trillion won in acquired equity, 12.27 trillion won in long-term loans (including 7.8144 trillion won in bad debt write-offs) 2.5445 trillion won in claim-right-assigned debentures (including 9.4631 trillion won in bad debt write-offs), and 175.3 billion won in acquired assets.

##### b. Liabilities

The liabilities increased by 25.4232 trillion won during 1999 to end at 56.4085 trillion won. Despite a 798.4 billion won decrease in loan issuance to financial institutions, issuance of 22.4848 trillion won in Deposit Insurance Fund bonds for financial industry reorganization, 2.6254 trillion won in financial borrowings obtained to pay interest on bonds, and 1.2610 trillion won in debts regarding bonds issued at premium led to the increase.

The total liquid liabilities, which amounted to 5.7153 trillion won (10.1% of the total liabilities), included 4.8549 trillion won in loans issued financial institutions, 431.1 billion won in unpaid expenses, 409.3 billion won in prepaid deposits. In terms of fixed liabilities, the year end figure was 50.6932 trillion won (89.9% of the total liabilities), and contributory factors included 43.4999 trillion won in Deposit Insurance Fund bonds, 3.9252 trillion won in financial borrowings, 1.3436 trillion won in loans obtained from financial institutions, and 1.2610 trillion won in debts regarding bonds issued at premium.

**2) Profit and Loss**

The total profit for 1999 was 3.1816 trillion won while the total loss was 21.599 trillion won yielding a net loss of 17.8783 trillion won. The loss was made up mostly of the following factors:

(Unit: trillion won)

| Loss Factor | Amount |
|---|---|
| Devaluation of acquired equity | 8.276 (39.3% of the total net loss) |
| Bad debt write-offs | 6.8717 (35.6% of the total net loss) |
| Deposit Insurance Fund bond interest expense | 2.9897 (14.2% of the total net loss) |

The factors that induced profit were 1.1881 trillion won in interest earnings, 1.1354 trillion won in unused expense reimbursements, and 463.3 billion won in insurance premium and contribution earnings.

Other than devaluation of acquired equity, bad debt write-offs, and Deposit Insurance Fund bond interest, the expense factors include 1.2815 trillion won in interest on loans acquired from financial institutions, 921.2 billion won in uncollected profits and 663.7 billion won in peculiar project budget transfer.

# Aggregate Balance Sheet (Fund Account)
## (As of December 31, 1999)

(Unit: won)

| ASSETS | | LIABILITIES | |
|---|---|---|---|
| Account Name | Amount | Account Name | Amount |
| Liquid Assets | 4,139,575,164,887 | Liquid Liabilities | 5,715,297,956,256 |
| 1. Operating Assets | 3,322,641,555,553 | 1. Contributed Liabilities | 4,854,896,000,000 |
| (1) Deposits | 545,047,525,778 | (1) Short-term Loans Acquired | 4,854,896,000,000 |
| (2) Securities | 2,777,594,029,775 | Loans Acquired from Fin. Inst. | 4,854,896,000,000 |
| 2. Supportive Assets | 528,349,600,000 | 2. Other Liquid Liabilities | 860,401,956,256 |
| (1) Short-term Loans Issued | 4,907,796,000,000 | (1) Suspended Receipts | |
| (Allowance for Bad Loan ) | (4,379,446,400,000) | (2) Advanced Receipt Revenues | |
| 3. Other Liquid Assets | 288,584,009,334 | (3) Unpaid Costs | 431,113,605,806 |
| (1) Transferred | 3,665,848,212 | (4) Prepaid Obligations | 409,276,000,000 |
| (2) Uncollected | 2,597,096,388 | (5) Pre Collected Tax Obligations | 20,012,350,450 |
| (3) Uncollected Revenue | 12,379,513,301 | (6) Other Liquid Liabilities | |
| (4) Uncollected Premiums | 253,406,390,723 | Fixed Liabilities | 50,693,226,198,623 |
| (5) Prepaid Corporate Taxes | 14,178,785,440 | 1. Contributed Liabilities | 50,029,520,648,396 |
| (6) Prepaid Claim Payments | 4,696,083,659 | (1) Deposit Insurance Obligations | 43,499,947,000,000 |
| (Bad Loan Write-offs) | (2,348,041,829) | Loans Acquired at Premium | 1,261,010,283,736 |
| (7) Provisional Payments | 8,333,440 | (Loans Acquired at Discount) | 209,710,000 |
| (8) Other Liquid Assets | | (2) Long-term Loans Acquired | 5,268,773,074,660 |
| Fixed Assets | 20,193,931,073,159 | Financial Loans Acquired | 3,925,173,074,660 |
| 1. Contributed Assets | 17,649,418,760,303 | Loans Acquired from Fin. Inst. | 1,343,600,000,000 |
| (1) Equity Contribution | 13,018,518,378,728 | (3) Suretyship Obligations | |
| (2) Long-term Loans Issued | 12,270,016,637,055 | (4) Unpaid Obligations | |
| (Allowance for Bad Loan) | (7,814,393,781,371) | 2. Peculiar Project Budget | 663,705,550,227 |
| (3) Purchased Assets | 175,277,525,891 | TOTAL LIABILITIES | 56,408,524,154,879 |
| 2. Claim Right Assigned Assets | 2,544,512,312,856 | | |
| (1) Claim Payments | 1,180,042,668,079 | | |
| (Bad Loan Write-offs) | (589,163,698,894) | | |
| (2) Unpaid Claim Payments | 19,717,050,135 | | |
| (Bad Loan Write-offs) | (9,130,411,076) | | |
| (3) Suretyship Obligation | 417,990,043,649 | | |
| (Bad Loan Write-offs) | (41,799,004,364) | | |
| (4) Contributions | 10,385,630,919,912 | Deposit Insurance Fund Reserves | -32,075,017,916,833 |
| (Bad Loan Write-offs) | (8,819,684,465,607) | 1. Deposit Insurance Fund | 196,368,753,091 |
| (5) Insurance Premium | 2,358,646,216 | 2. Deposit Insurance Fund Surplus | -32,271,386,669,924 |
| (Bad Loan Write-offs) | (1,449,435,194) | (Current Period Surplus) | -17,878,347,749,453 |
| (6) Other Claim Right Assigned Assets | 1,925,132,947 | | |
| (Bad Loan Write-offs) | (1,925,132,947) | | |
| TOTAL ASSETS | 24,333,506,238,046 | SUM OF LIABILITIES & RESERVES | 24,333,506,238,046 |

# <u>Aggregate Profit and Loss Statement (Fund Account)</u>

## (As of December 31, 1999)

(Unit: won)

| PROFITS | | LOSSES | |
|---|---|---|---|
| Account Name | Amount | Account Name | Amount |
| Fund Earnings | 463,335,024,569 | Fund Operation Expenses | 4,327,338,533,202 |
| 1. Contributions | 2,068,166,490 | 1. KDIC Operation Expenses | 17,257,895,592 |
| (1) Fin. Institution Contributions | 2,068,166,490 | 2. Reserve Fund Employee Expenses | 450,036,117 |
| 2. Premium Earnings | 461,266,858,079 | (1) Trust Renovation | 450,036,117 |
| Fund Operation Earnings | 1,365,104,648,733 | (2) Other Expenses | |
| 1. Reserve Fund Employ Earnings | 157,007,760,079 | 3. Contributed Fund Expenses | 4,309,630,601,493 |
| (1) Deposit Interest Earnings | 32,402,539,061 | (1) Contribution Expenses | 38,000,000,000 |
| (Deposit Settlement Interest) | 20,793,587,505 | (2) Interest on Outstanding Loans | 1,281,558,216,294 |
| (Trust Cash Fund Interest) | | (3) DIF Loan Interest | 2,989,674,089,782 |
| (Special Trust Fund Interest) | 8,408,886,037 | (4) Loss on Asset Liquidation | 177 |
| (Other Interest Earnings) | 3,200,065,519 | (5) Litigation Expenses | |
| (2) Securities Interest Earnings | 124,605,221,018 | (6) Other Contribution RE: Expenses | 398,295,240 |
| (Government Bond Interest) | 41,464,404 | Deposit Insurance Bond Issue Expenses | |
| (Currency Stabilization Securities Interest) | 105,754,105,186 | Legal Expenses | |
| (Industrial Bond Interest) | 4,771,083,430 | Advertisement Expenses | |
| (Long-term Bond Interest) | 14,038,568,004 | Miscellaneous Expenses | 398,295,240 |
| 2. Contribution Employee Earnings | 1,208,096,888,654 | Expenses Outside of the Fund | 16,732,648,079,901 |
| (1) Dividends | 114,958,902 | 1. Bad Loan Redemption Write-off Transfer | 6,871,678,859,537 |
| (2) Loan Interest Earnings | 1,188,087,944,283 | 2. Peculiar Project Budget Transfer | 663,705,550,227 |
| (3) Deposit Interest | | 3. Uncollected Earnings Outflow | 921,222,978,722 |
| (4) Suretyship Payment | | 4. Other Exterior Expenses | |
| (5) Contributed Asset Liquidation Earnings | 19,893,985,469 | 5. Corporate Tax | |
| Earnings Outside of the Fund | 1,353,199,123,773 | 6. Acquired Securities Appraisal | 8,276,040,691,415 |
| 1. Bad Loan Redemption Write-off Reimbursement | 217,574,294,981 | TOTAL EXPENSES | 21,059,986,613,103 |
| 2. Unpaid Expense Reimbursement | 1,135,395,627,708 | | |
| 3. Advanced Earning Reimbursement | | Current Period Surplus | -17,878,347,749,453 |
| 4. Acquired Securities Appraisal Earnings | | | |
| 5. Other Exterior Earnings | 229,267,659 | | |
| TOTAL EARNINGS | 3,181,638,863,650 | TOTAL | 3,181,638,863,650 |

* Deposit Insurance Fund

## B. KDIC Accounting

### 1) Financial Status

#### a. Assets

The total assets of KDIC increased from 3.876 billion won at the end of 1998 to 4.905 billion won by the end of 1999. Current assets such as cash, deposits, and provisional payments increased by 525 million won while investment assets increased by 257 million won. Tangible assets also increased by 247 million won.

The total liquid assets, which amounted to 988 million won (20.15% of total assets), were comprised of 748 million won in cash and deposits, 207 million won in provisional payments, and 30 million won in uncollected profits. The total fixed assets, which amounted to 3.917 billion won (79.85% of the total assets), included 2.858 billion won in security deposits, 19 million won in investment securities, 251 million won in group retirement fund deposits, 184 million won in real estate, 33 million won in automobiles, and 570 million won in other tangible assets.

#### b. Liabilities

The liabilities increased by 762 million won during 1999 to end at 4.632 billion won. The main increasing factors were a 252 million won increase in asset transfer and a 383 million won rise in retirement grant and liability appropriations.

Current liabilities were comprised of 3.665 billion won (79.1% of the total liabilities) in asset transfers, 771 million won (16.64% of the total liabilities) in retirement grant appropriations, and 95 million won (2.05% of the total liabilities) in pre-collected tax obligations.

### 2) Profit and Loss

KDIC's total revenue for 1999 was 17.306 billion won. The sources of the revenue were 17.258 billion won in fund transfer revenues and 48 million won in fund operation earnings.

Total expenses, which amounted to 17.039 billion won, were written-off as general operations expenses. The general operations expenses comprised of 7.741 billion won (45.5% of the total expense) in personnel expenses, 8.138 billion won (47.7% of the total expense) in costs, 606 million won (3.5% of the total expense) in amortization and depreciation, and 520 million won (3.0% of the total expense) in retirement grant appropriation transfers.

The fund surplus for 1999 was 267 million won, which was calculated by subtracting the total expense (17.039 billion won) from the total revenue (17.306 billion won).

## Balance Sheet (KDIC)

## (The 4th Term: Period Ending December 31, 1999)

(Unit: won)

| Account Name | | The 3rd Term | | The 4th Term | |
|---|---|---|---|---|---|
| Assets | | Amount | | Amount | |
| Liquid Assets | | | **463,499,321** | | **988,548,317** |
| | Cash and Deposits | 455,631,338 | | 748,541,322 | |
| | (Super Kiup) | (414,632,590) | | (581,908,760) | |
| | (Kiup Jayou) | (35,778,748) | | (147,073,178) | |
| | (Regular Deposits) | (5,220,000) | | (19,559,384) | |
| | Prepaid Corporate Tax | 3,312,950 | | - | |
| | Provisional Payments | - | | 207,260,273 | |
| | Prepaid Expense | 3,446,717 | | 2,239,523 | |
| | Uncollected Earnings | 1,108,316 | | 30,507,199 | |
| Fixed Assets | | | **3,413,337,035** | | **3,917,373,093** |
| Investment Assets | | | 2,872,421,000 | | 3,129,933,881 |
| | Security Deposits | 2,852,876,000 | | 2,858,864,000 | |
| | (Lease Security Deposits) | (2,842,560,000) | | (2,842,560,000) | |
| | (Telephone Service) | (10,316,000) | | (16,124,000) | |
| | (Cable Television) | - | | (180,000) | |
| | Investment Securities | 19,545,000 | | 19,545,000 | |
| | (City Railway Bonds) | (19,545,000) | | (19,545,000) | |
| | Group Retirement Grant Deposit | - | | 251,524,881 | |
| Tangible | | | 540,916,035 | | 787,439,212 |
| | Buildings | 466,891,099 | | 597,749,839 | |
| | (Aggregate Depreciation) | (270,277,708) | | (413,081,890) | |
| | Automobiles | 123,181,960 | | 145,327,720 | |
| | (Aggregate Depreciation) | (88,294,997) | | (112,561,794) | |
| | Other Tangible Assets | 913,846,728 | | 1,614,241,468 | |
| | (Aggregate Depreciation) | (604,431,047) | | (1,044,236,131) | |
| TOTAL ASSETS | | **3,876,836,356** | | **4,905,921,410** | |
| | | | | | |

(Unit: won)

| Account Name | | The 3rd Term | | The 4th Term | |
|---|---|---|---|---|---|
| Liabilities | | Amount | | Amount | |
| Liquid Liabilities | | | **3,454,335,785** | | **3,832,480,740** |
| | Transferred Assets | 3,413,337,035 | | 3,665,848,212 | |
| | Pre-collected Tax Obligation | 19,712,700 | | 95,792,768 | |
| | Unpaid Expenses | 21,286,050 | | 70,839,760 | |
| Fixed Liabilities | | | **416,495,918** | | **799,925,721** |
| | Retirement Grant Appropriations | 477,804,015 | | 609,869,293 | |
| | (Public Pension Transfer) | (77,423,500) | | (89,644,300) | |
| | Group Retirement Grant Appropriations | - | | 251,524,881 | |
| | Peculiar Project Budget | 16,115,403 | | 28,175,847 | |
| Deposit Insurance Fund Reserve | | | **6,004,653** | | **273,514,949** |
| | Deposit Insurance Fund | - | | - | |
| | Earnings Surplus | 6,004,653 | | 273,514,949 | |
| | (Current Fund Surplus) | (1,927,477) | | (267,510,296) | |
| Total Liabilities and Reserve Funds | | | **3,876,836,356** | | **4,905,921,410** |

**<u>Profit & Loss Statement (KDIC)</u>**

**(The 4th Term: Period Ending December 31, 1999)**

(Unit: won)

| Account Name | | The 3rd Term | | The 4th Term | |
|---|---|---|---|---|---|
| | | Amount | | Amount | |
| Fund Earnings | | | **5,798,664,159** | | **17,257,895,592** |
| | Fund Transfer Earnings | 5,798,664,159 | | 17,257,895,592 | |
| Fund Operation Earnings | | | **16,867,658** | | **48,228,725** |
| | Interest on Deposits | 16,140,859 | | 46,626,201 | |
| | Interest on Securities | 726,799 | | 1,248,529 | |
| | Other Earnings | - | | 353,995 | |
| Subtotal | | | **5,815,531,817** | | **17,306,124,317** |
| General Maintenance Expense | | | **5,813,604,340** | | **17,038,614,021** |
| | Personnel Expense | 2,710,556,291 | | 7,741,164,925 | |
| | General Expense | 2,472,430,058 | | 8,138,859,243 | |
| | Depreciation Expense | 447,293,159 | | 606,876,063 | |
| | Retirement Grant Appropriation Transfer Fund | 167,209,429 | | 520,224,993 | |
| | Peculiar Project Budget Transfer Fund | 16,115,403 | | 28,175,847 | |
| | Fund Accounting Outflow | - | | 3,312,950 | |
| Current Fund Surplus | | | **1,927,477** | | **267,510,296** |
| | Fund Surplus | 1,927,477 | | 267,510,296 | |
| TOTAL | | | **5,815,531,817** | | **17,306,124,317** |

## APPENDIX

I. Content of the Depositor Protection Act Revision (January 21, 2000)

II. Depositor Protection Act

III. Depositor Protection Act Enforcement Decree

IV. Major 1999 Decisions rendered by the Management Committee

# I. Content of the Depositor Protection Act Revision (January 21, 2000)

## 1. Purpose of Revision

To strengthen the regulations that provide the Corporation the legal authority and latitude to maximize the recovery of the public funds, the KDIC contributed recommendations on the process of paying the deposits of failed financial institutions, and to improve and supplement the imperfections of the regulations that were discovered during implementation.

## 2.Main Points

(1) Empower KDIC with the right to take legal actions against individuals who are responsible for causing insolvency of financial institutions to recover damages with respect to funds KDIC provided to failed financial institutions. (Article 21, Para 2 [New Para])

(2) Allow KDIC to request the documents related to insolvent financial institutions from appropriate government agencies to facilitate effective accountability investigations. (Article 21, Para 3 [New Para])

(3) Allow KDIC employees and/or officers to perform the duties of managers, liquidators, and bankruptcy administrators of insolvent financial institutions in the case that KDIC's employees and/or officers are elected to those positions in accordance with the Financial Industry Restructuring Act. (Article 35, Para 7 and 8 [New Para])

(4) Allow KDIC to provide funds to insolvent financial institutions not only in the form of equity participation, but also in the form of securities purchases to facilitate effective resolution. (Article 38, Para 2)

| Before Revision | After Revision |
|---|---|
| **Article 9 (Composition of Committee)**<br>(1) The Committee shall be composed of members of the following subparagraphs:<br>1. & 2. [Omitted]<br><New><br>3. ~ 12. [Omitted]<br><br>(2) The qualifications for the members of Para (1) 12 shall be prescribed by the Presidential Decree.<br>(3) The term of office of the members of Para (1) 12 shall be three years, and they may be re-appointed. | **Article 9 (Composition of Committee)**<br>(1) The Committee shall be composed of members of the following subparagraphs:<br>1. & 2. [UNCHANGED]<br>3. Vice President of Planing and Budgeting Office.<br>4. ~ 13. (Same as Para 3 through 12)<br><br>(2) The qualifications for the members of [Para (1)] 13 shall be prescribed by the Presidential Decree.<br>(3) The term of office of the members of [Para (1)] 13 shall be three years, and they may be re-appointed. |
| **Article 10 (Operation)**<br>(1.) & (2.) [Omitted]<br>(1) When the Chairman is unable to perform his duties for compelling reasons, the members mentioned in [Article 9 (1) 2 through 4] pursuant to the order prescribed thereby shall act for the Chairman.<br>(4) & (5) [Omitted]<br>(6) The subcommittee shall be composed of not less than seven members, including members listed in<br>(7) ~ (10) [Omitted] | **Article 10 (Operation)**<br>(1) & (2) [UNCHANGED]<br>(4) When the Chairman is unable to perform his duties for compelling reasons, the members mentioned in [Article 9 (1) 2 through 5] pursuant to the order prescribed thereby shall act for the Chairman.<br>(5) & (5) [UNCHANGED]<br>(6) The subcommittee shall be composed of not less than seven members, including members listed in<br>(7) ~ (10) [UNCHANGED] |
| <NEW> | **Article 15 –2 (Appointment)**<br>(1) The President of KDIC may appoint officers and employees of KDIC to represent KDIC in legal hearings or other official proceedings.<br>(2) The scope of the officers and employees of KDIC who are appointed pursuant to [Para (1)] shall be prescribed by the Presidential Decree. |
| <NEW> | **Article 21 –2 (Assignment and Assumption of Damage Claim Right)**<br>(1) KDIC shall have the right to request compensation for damages to employees and/or officers of applicable insolvent or *at risk of insolvency* financial institutions (hereinafter referred to as ***"insolvent financial institutions"*** and includes their liquidators and bankruptcy administrators) and to third party entities (hereinafter referred to as ***"insolvency related entities"***) responsible for insolvency or creating a risky circumstance pursuant to Para 1 of Commercial Code 401, Para 2-1.<br>1. Institutions that KDIC has determined to be eligible for insurance claim payments or such payments have already been made according to [Article 31 and Article 34, Para (1)].<br>2. Institutions that are applicable under [Article 36-3, Para 1], that have been mandated by KDIC to transfer their operations or client contracts to KDIC or KDIC has decided to make deposit and bond payments, or such payments have already been made. |

| Before Revision | After Revision |
| --- | --- |
| | 3. Institutions to which KDIC has decided to provide financial support or has already provided such assistance according to [Article 38].<br>4. Institutions to which KDIC has decided to provide financial support in the form of equity participation or contribution, or has already provided such assistance according to Article 38-2.<br>(2) KDIC mandates based on Para (1) applicable institutions must provide relevant reasons, request methods, and the duration of request in writing.<br>(3) In the case that an applicable institution does not comply with the mandates of KDIC under Para (1), KIDC can immediately assume and carry out damage payment request from the entities and individuals that caused or contributed to the insolvency.<br>(4) In the case that the insolvent institution performs on the damage payment request in the form of litigation pursuant to Para (1), KDIC can participate in the litigation in an effort to aid the institution. In such cases, Civil Litigation Code Articles 65 through 71 will be applied.<br>(5) In the case that KDIC files the damage request litigation in subrogation of an insolvent institution pursuant to Para (3), or at the request of the institution pursuant to Para (4), the institution must bear the cost of KDIC's participation.<br>(6) In the case that an insolvent institution becomes bankrupt, the costs that were not assumed by the institution pursuant to Para (5) will be perceived as an obligatory right of the bankruptcy administering institution.<br>(7) In the case that KDIC files for damage payment request, or performs such action in subrogation, or deems necessary in litigation participation pursuant to Paras (1) through (4), KDIC may perform investigations on the operations and asset status of the appropriate liquidating entity or bankruptcy administering institution of the relevant insolvent institution.<br>(8) Paras (1) through (6) apply to insured financial institutions that emerged as result of merger with an insolvent institution or third party acquirement of an insolvent institution. |
| <NEW> | **Article 21 –3 (Request for Production of Documents)**<br>(1) In the case that KDIC files for damage payment request, or performs such action in subrogation, or deems necessary in litigation participation pursuant to Article 21-2, Paras 1 through 4, KDIC may request the presidents or chiefs of pertinent central administration agencies, local government agencies, and/or public institutions that are selected by the Presidential Decree (hereinafter referred to as ***"public institutions"*** |

| Before Revision | After Revision |
|---|---|
| | in this Article) to provide information and data related to assets of entities or individuals that caused or contributed to the insolvency.<br>(2)Public institutions that receive requests from KDIC, pursuant to Para (1), must comply with the request unless it is met with compelling circumstances. |
| **Article 29 (Insurance Relations)**<br>(1) & (2) [Omitted]<br><NEW> | **Article 29 (Insurance Relations)**<br>(1) & (2) [UNCHANGED]<br>(3)KDIC may investigate the compliance of insurance related acknowledgement of insured financial institutions pursuant to Para 2. |
| **Article 31 (Payment of Insurance Money)**<br>(1) & (2) [Omitted]<br>(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. | **Article 31 (Payment of Insurance Money)**<br>(1) & (2) [UNCHANGED]<br>(3) As determined the by the Presidential Decree, KDIC must make public notification as to the initiation date of insurance claim payment, its duration, payment method, and other pertinent information pursuant to Para (1) and (2). |
| (4) & (5) [Omitted]<br><NEW> | (4) & (5) [UNCHANGED]<br>(6) If the right of a depositor to make an insurance claim based on Para (1) is not exercised with in five years from the payment initiation date, the statue of limitation of that right is deemed to be expunged. |
| <NEW> | **Article 35-7 (Administrator Affairs)**<br>In the case that an officer or an employee of KDIC is appointed as an administrator pursuant to Article 14-6, Para 1 of Financial Industry Restructuring Act and/or Article 86-2, Para 5 of Credit Unions Act, [Article 21, Para 3] of the Depositor Protection Act will be applied with respect to the role of such administrator. |
| <NEW> | **Article 35-8 (Liquidator or Bankruptcy Administrator Affairs)**<br>(1) In the case that either KDIC or a financial resolution institution pursuant to [Article 36-3, Para (1)], is determined to be the largest creditor of a liquidated credit union as per the Presidential Decree, an officer or an employee appointed by the president of KDIC will become the liquidator notwithstanding Article 57 of the Credit Unions Act.<br>(2) In the case that a credit union is bankrupted, the Financial Supervisory Commission may appoint one of the below individuals as the administrator of the bankruptcy procedures, notwithstanding Article 147 of the Bankruptcy Act. Once the appointee has been determined to |

| Before Revision | After Revision |
| --- | --- |
| | have the necessary expertise in financial related business and appropriate skills to carry out the role of a bankruptcy trustee by the court, the court must formally appoint that individual. In such instance, if KDIC or a Financial Resolution Institution pursuant to Article 36-3, Para (1) is determined to be the largest creditor of the credit union under the Presidential Decree, the Financial Supervisory Commission shall appoint the individual in Para (2).<br>1. Financial Expert selected by the Presidential Decree.<br>2. An officer or an employee of KDIC.<br>(3)If a general meeting of stockholders does not take place as per Article 533, Para 1 and Article 540, Para 1 of the Commercial Code after an officer or an employee of KDIC has been appointed as the liquidator pursuant to the Financial Industry Restructuring Act, any approval from the Financial Supervisory Commission will be deemed as the approval of a general meeting of the stockholders.<br>(4)In the case that an officer or an employee of KDIC has been appointed as the liquidator or bankruptcy trustee pursuant to Para 1, Para 2, or Article 15, Para 1 of the Financial Industry Restructuring Act, the appointee's role will be governed by [Article 21, Para (3)] of the Depositor Protection Act.<br>(5)The officer or the employee who is appointed as the liquidator or the bankruptcy trustee pursuant to Para 1, Para 2, or Article 15, Para 1 of the Financial Industry Restructuring Act, can not request any compensation with respect to the specified role. However, expenses that are incurred in the process of performing that role may be requested. |
| **Article 36-3 (Establishment of Financial Resolution Institution)**<br>(1) The KDIC may establish a financial institution for taking over business or contracts of failed financial institutions (hereinafter referred to as "***Financial Resolution Institution***") upon approval from the MOFE as deemed necessary for the protection of depositors and maintenance of stability the financial system. | **Article 36-3 (Establishment of Financial Resolution Institution)**<br>(1) The KDIC may establish a financial institution for taking over business or contracts of failed financial institutions, or the resolution process (hereinafter referred to as "***Financial Resolution Institution***") upon approval from the MOFE as deemed necessary for the protection of depositors and maintenance of stability of the financial system. |
| (2) ~ (5) [Omitted] | (2) ~ (5) [UNCHANGED] |
| **Article 36-5 (Business Scope of Financial Resolution Institutions)**<br>(1) ~ (4) [Omitted]<br><NEW> | **Article 36-5 (Business Scope of Financial Resolution Institutions)**<br>(1) ~ (4) [UNCHANGED]<br>(5)The Governor of the Financial Supervisory Service, when deemed necessary, may request a Financial Resolution Institution to |

| Before Revision | After Revision |
|---|---|
| | provide necessary data within a specific parameter, or mandate KDIC to perform an examination of the Financial Resolution Institution. |
| **Article 38-2 (Support for Failing Financial Institutions)**<br>(1) [Omitted]<br>(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 38-2 (Support for Failing Financial Institutions)**<br>(1) [UNCHANGED]<br>(2) The KDIC, when it is requested by the Financial Supervisory Commission pursuant to Article 12, Para 1 of the Act on Structural Improvement of the Financial Industry, or improvement of an insolvent institution's financial structure is deemed necessary in the interest of preserving the protection of the depositors and the stability of the credit system, may make a capital contribution in the failed institution pursuant to the Commission's decision or purchase its equity pursuant to the Presidential Decree. |
| <NEW> | **Article 38-3 (Special Debenture Transfer)**<br>(1) In the case that KDIC and Financial Resolution Institutions (hereinafter referred to as ***"agencies"***) acquire obligations with specific obligees in the process of acquiring assets pursuant to the Subpara 1 below, agencies will be deemed to have met the confrontation requirements of Article 450 of the Civil Code that deals with the obligations with specific obligees by publicly announcing the acquisition in more than 2 (two) daily newspapers (at least one of the newspapers must have national distribution). However, debtors, guarantors, and other relevant parties may confront the agencies with respect to issues that occurred in relation to the applicable asset transferor prior to the announcement.<br>1. Assets KDIC acquired in the process of insurance claim payment pursuant to Article 31, Para (1), or fund contribution pursuant to Article 38, Para (2).<br>2. Assets KDIC acquired from a Financial Resolution Institution.<br>3. Assets a Financial Resolution Institution acquired in relation to business operations pursuant to Article 36-5, Para (1).<br>(2) In the case that the agencies make appropriate announcement pursuant to Para (1), they must retain and manage information regarding the acquired debentures, and make it available for review by relevant parties. The criteria and process of reviewing such information shall be set forth by the Financial Supervisory Commission. |

<table>
<tr><th>Before Revision</th><th>After Revision</th></tr>
<tr><td>Article 40 (Penal Provisions)<br>A person who violates [Article 17 (3)] shall be punished by not more than 2 years of imprisonment, or by a fine not exceeding 10 million won.<br><NEW></td><td>Article 40 (Penal Provisions)<br>A person who violates [Article 17 (3)] shall be punished by not more than 2 years of imprisonment, or by a fine not exceeding 10 million won.<br>1. A person who divulges secrets is thereby in violation of [Article 17, Para (3)].<br>2. A person who either divulges, publicly announces, and/or uses the differences in weighted insurance premiums in his/her advertisement is thereby in violation of [Article 30, Para (2)].</td></tr>
<tr><td>Article 41 (Penal Provisions)<br>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 not more than 1 year of imprisonment or a fine not exceeding 5 million won.</td><td>Article 41 (Penal Provisions)<br>A person who falls under the Subpara 1 below, shall be punished by an imprisonment for not more than 1 year of or by a fine not exceeding 5 million won.<br>1. A person who either fails to meet a request for the submission of materials or submits false materials pursuant to [Article 21 (1)] or latter part of [Article 21-2 (8)].<br>2. A person who refuses, obstructs, or avoids an investigation pursuant to [Article 21 (2)],</td></tr>
<tr><td>Article 43 (Joint Penal Provisions)<br>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.</td><td>Article 43 (Joint Penal Provisions)<br>When a representative, agent, employee or other employed person of an insured financial institution commits an act in violation of [Article 41] or [Article 40 (2)] with respect to the business affairs of such insured financial institution, a fine corresponding to each Para of the two Articles shall be also imposed to such institution, in addition to punishment against offender.</td></tr>
<tr><td>Article 44 (Negligence Fine)<br>(1) A person who violates [Articles 7, 29(2) and 33(1)] shall be punished by a negligence fine not exceeding 2 million won.<br>(2) ~ (5) [Omitted]</td><td>Article 44 (Negligence Fine)<br>(1) A person who violates following Paras shall be punished by a negligence fine not exceeding 2 million won.<br>1. A person in violation of [Article 7, Article 29 (2), or Article 33 (1)].<br>2. A person who refuses, obstructs, or avoids an investigation pursuant to [Article 21 (2)],<br>(2) ~ (5) [UNCHANGED]</td></tr>
</table>

# II. 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**
**Act No. 6173, Jan. 21, 2000**

## 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 depositors 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 applications 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 agents 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 in 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, by issuing bills and selling financial products to unspecified persons for the purpose of investing the funds in securities, and pay profits therefrom as dividends
   (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, interest, 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 a 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 structures are so unsound that it is almost certain that they will become failed financial institutions, to be determined by the Policy Committee mentioned in [Article 8];

6. The term ***"financial assistance"*** refers to the following items which the Korea Deposit Insurance Corporation, established pursuant to [Article 3], provides using the Deposit Insurance Fund mentioned in [Article 24 (1)]:

   (a) Loan or deposit of funds;
   (b) Purchase of 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 *legal* 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.

**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 the Ministry 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 any other similar 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)**

(6) 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 President of Planing and Budgeting Office <Newly Inserted on Jan. 21, 2000>
4. Vice Chairman of the Financial Supervisory Commission (FSC);
5. The Vice Governor of the Bank of Korea;
6. Chairman of the Korea Federation of Banks;
7. Chairman of the Korea Securities Dealers' Association;
8. Chairman of the Korea Life Insurance Association;
9. Chairman of the Korea Non-life Insurance Association;
10. Chairman of the Merchant Banks Association of Korea;
11. Chairman of the Korea Federation of Mutual Savings and Finance Companies;
12. Chairman of the National Credit Union Federation; and
13. Two members commissioned by the Minister of the Ministry of Finance and Economy, upon the recommendation of the president of the KDIC.

(7) The qualifications for the members of Para (1) 13 shall be prescribed by the Presidential Decree. <Amended by Act No. 5492, Dec. 31, 1997; Jan. 21, 2000>

(8) The term of office of the members of Para (1) 13 shall be three years, and they may be re-appointed. <Amended by Act No. 5492, Dec. 31, 1997; Jan 21, 2000>

**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 5] in accordance with the order prescribed thereby shall act for the Chairman. <Amended by Act No. 5492, Dec. 31, 1997: Jan. 21, 2000>

(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, a 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 5 and 13]. <Newly Inserted by Act No. 5492, Dec. 31, 1997; Jan. 21, 2000>

(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: Jan. 21, 2000>

(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 Minister of the Ministry of Finance and Economy. <Amended by Act No. 5556, Sep. 16, 1998>
(3) The directors shall be appointed and dismissed by the Minister of the Ministry of Finance and Economy 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 Minister of the Ministry of Finance and Economy. <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 15 –2 (Appointment)**

(4) The president of KDIC may appoint officers and employees of KDIC to represent KDIC in legal hearings or other official proceedings.
(5) The scope of the officers and employees of KDIC who are appointed pursuant to Para (1) shall be prescribed by the Presidential Decree.<Newly Inserted on Jan. 21, 2000>

**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 Minister of the Ministry of Finance and Economy. <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 ***"agencies"***). <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 21-1 (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>

**Article 21 –2 (Assignment and Assumption of Damage Claim Right)**

(9) KDIC shall have the right to request compensation for damages from employees and/or officers of applicable insolvent or *at risk of insolvency* financial institutions (hereinafter referred to as ***"insolvent financial institutions"*** and includes their liquidators and bankruptcy administrators) and from third party entities (hereinafter referred to as ***"insolvency related entities"***) responsible for insolvency or creating a risky circumstance pursuant to Para 1 of Commercial Code 401, Para 2-1.

5. Institutions that KDIC has been determined to be eligible for insurance claim payments or such payments have already been made according to Article 31 and Article 34, Para (1).
6. Institutions that are applicable under Article 36-3 Para (1), that have been mandated by KDIC to transfer their operations or client contracts to KDIC or KDIC has decided to make deposit and bond payments, or such payments have already been made.
7. Institutions to which KDIC has decided to provide financial support or has already provided such assistance according to Article 38.
8. Institutions to which KDIC has decided to provide financial support in the form of equity participation or contribution, or has already provided such assistance

according to Article 38-2.

(10) KDIC mandates based on Para (1) applicable institutions must provide relevant reasons, request methods, and the duration of request in writing.

(11) In the case that an applicable institution does not comply with the mandates of KDIC under Para (1), KDIC can immediately assume and carry out damage payment request from the entities and individuals that caused or contributed to the insolvency.

(12) In the case that the insolvent institution performs on the damage payment request in the form of litigation pursuant to Para (1), KDIC can participate in the litigation in an effort to aid the institution. In such cases, Civil Litigation Code Articles 65 through 71 will be applied.

(13) In the case that KDIC files the damage request litigation in subrogation of an insolvent institution pursuant to Para (3), or at the request of the institution pursuant to Para (4), the institution must bear the cost of KDIC's participation.

(14) In the case that an insolvent institution becomes bankrupt, the costs that were not assumed by the institution pursuant to Para (5) will be perceived as an obligatory right of the bankruptcy administering institution.

(15) In the case that KDIC files for damage payment request, or performs such action in subrogation, or deems necessary in litigation participation pursuant to Paras (1) through (4), KDIC may perform investigations on the operations and asset status of the appropriate liquidator entity or bankruptcy administering institution of the relevant insolvent institution.

(16) Paras (1) through (6) apply to insured financial institutions that emerged as result of merger with an insolvent institution or third party acquirement of an insolvent institution.<Newly Inserted on Jan. 21, 2000>

**Article 21 –3 (Request for Production of Documents)**

(1) In the case that KDIC files for damage payment request, or performs such action in subrogation, or deems necessary in litigation participation pursuant to Article 21-2, Paras (1) through (4), KDIC may request the presidents or chiefs of pertinent central administration agencies, local government agencies, and/or public institutions that are selected by Presidential Decree (hereinafter referred to as **"*public institutions*"** in this Article) to provide information and data related to assets of the entities or individuals that caused or contributed to the insolvency.

(2) Public institutions that receive requests from KDIC, pursuant to Para (1), must comply with the request unless it is met with compelling circumstances. <Newly Inserted on Jan. 21, 2000>

## 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 Minister of the Ministry of Finance and Economy upon resolution of the Committee. <Amended by Act No. 5556, Sep. 16, 1998>

**Article 24 (Establishment of Deposit Insurance**

**Fund)**

(1) The Deposit Insurance Fund (hereinafter referred to as the ***"fund"***) shall be established by the KDIC for the receipt of insurance premiums pursuant to [Article 30], payment of insurance money pursuant to s 31 and 32], purchase of deposits and other claims pursuant to [Article 35-2], capital contributions 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 expenditures of the Fund shall consist of insurance money, repayment of the principal and interest 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 interest 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 and transactions between accounts under Para (2) and the KDIC, and the relevant methods 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 Minister of the Ministry of Finance and Economy.

**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 Minister of the Ministry of Finance and Economy. <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 five years for principal and two years for interest.
(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]

## SECTION 6. Supervision

### Article 27 (Supervision)

(1) The Minister of the Ministry of Finance and Economy 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 *the Minister of the Ministry of Finance and Economy* deems it necessary for the protection of depositors, the minister 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 Minister of the Ministry of Finance and Economy 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.

## 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 deposits and/or other claims of 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>

(3) KDIC may investigate the compliance of insurance related acknowledgement of insured financial institutions pursuant to Para (2). <Newly Inserted on Jan. 21, 2000>

**Article 30 (Payment of Insurance Premiums)**

(1) Each insured financial institution shall pay every year to the KDIC the amount 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 Article 98 of the Insurance Business Act) by the ratio as determined by the Presidential Decree not exceeding 0.5 percent (one hundred thousand won where the calculated premium amount is less than one hundred thousand won) 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 of the insurance premium or defer the payment of such insurance premium for a specified 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; or
2. An insured financial institution whose normal business is extremely difficult, and in view of its financial status, it is 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 premiums 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 their deposits and other claims upon their request as prescribed by the Presidential Decree. <Amended by Act No. 5492, Dec. 31, 1997>

(3) As determined by the Presidential Decree, KDIC must make public notification as to the initiation date of insurance claim payment, its duration, payment method, and other pertinent information pursuant to Para (1) and (2). <Amended on Jan. 21, 2000>

(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 independent insured financial institutions in applying Para (1) for one year from the date 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>

(6) If the right of a depositor to make insurance claim based on Para (1) is not exercised within five years from the payment initiation date, the statue of limitation of that right is deemed to be expunged. <Newly Inserted on Jan. 21, 2000>

**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 date of the public announcement for payment of insurance money pursuant to [Article31 (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 in 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 Minister of the Ministry of Finance and Economy, 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; or
   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 two 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 Minister of the Ministry of Finance and Economy. <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 the 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, if 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 the 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 [Article35-2(2)], obtain approval from the Minister of the Ministry of Finance and Economy through the decision of the Committee by determining the Estimate Payment Rate mentioned in [Article35-3], 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 will, 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 the depositors, offset deposits and other claims (excluding deposits and other claims provided to insured financial institutions 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 35-7 (Administrator Affairs)**

In the case that an officer or an employee of KDIC is appointed as an administrator pursuant to Article 14-6, Para 1 of Financial Industry Restructuring Act and/or Article 86-2, Para 5 of Credit Union Act, [Article 21, Para (3)] of the Depositor Protection Act will be applied with respect to the role of such administrator. <Newly Inserted on Jan. 21, 2000>

**Article 35-8 (Liquidator or Bankruptcy Administrator Affairs)**

(3) In the case that either KDIC or a Financial Resolution Institution pursuant to [Article 36-3, Para (1)], is determined to be the largest creditor of a liquidated credit union as per the Presidential Decree, an officer or an employee appointed by the president of KDIC will become the liquidator notwithstanding Article 57 of the Credit Union Act.

(4) In the case that a credit union is bankrupted, the Financial Supervisory Commission may appoint one of the below individuals as the administrator of the bankruptcy procedures, notwithstanding Article 147 of the Bankruptcy Act. Once the appointee has been determined to have the necessary expertise in financial related business and appropriate skills to carry out the role of a bankruptcy trustee by the court, the court must formally appoint that individual. In such instance, if KDIC or a Financial Resolution Institution pursuant to Article 36-3, Para (1) is determined to be the largest creditor of the credit union under the Presidential Decree, the Financial Supervisory Commission shall appoint the individual in Para (2).

3. Financial Expert selected by the Presidential Decree.
4. An officer or an employee of KDIC.

(5) If a general meeting of stockholders does not take place as per Article 533, Para 1 and Article 540, Para 1 of the Commercial Code after an officer or an employee of KDIC has been appointed as the liquidator pursuant to the Financial Industry Restructuring Act, any approval from the Financial Supervisory Commission will be deemed as the approval of a general meeting of the stockholders.

(6) In the case that an officer or an employee of KDIC has been appointed as the liquidator or bankruptcy trustee pursuant to Para (1), Para (2) of the Depositor Protection Act, or Article 15, Para 1 of the Financial Industry Restructuring Act, the appointee's role will be governed by [Article 21, Para (3)] of the Depositor Protection Act.

(7) The officer or the employee who is appointed as the liquidator or the bankruptcy trustee pursuant to Para (1), Para (2), or Article 15, Para 1 of the Financial Industry Restructuring Act, can not request any compensation with respect to the specified role. However, expenses that are incurred in the process of performing that role may be requested. <Newly Inserted on Jan. 21, 2000>

## 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 *the 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 ***the 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 Financial Resolution Institution)**

(1) The KDIC may establish a financial institution for taking over business or contracts of failed financial institutions, or the resolution process (hereinafter referred to as "***Financial Resolution Institution"***) upon approval from the Minister of the Ministry of Finance and Economy as deemed necessary for the protection of the depositors and maintenance of stability of the financial system. <Amended by Act No. 5556, Sep. 16, 1998; Jan. 21, 2000>
(2) A Financial Resolution Institution shall be a corporation.
(3) The KDIC shall prepare the Articles of Incorporation of any Financial 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 Financial 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) Financial Resolution Institutions may use titles such as banks, securities companies, insurance companies, merchant banks, mutual savings and finance companies or credit unions. [Articles 35 through 36 and Articles 37 through 39] shall apply to such institution as is deemed a failed financial institution within the scope related to resolution of failed financial institutions. [This Article Newly Inserted by Act No. 5492, Dec. 31, 1997]

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

(1) A Financial 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 the Ministry of Finance and Economy in appointing the president. <Amended by Act No. 5556, Sep. 16, 1998>
(3) The president shall represent the Financial 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 the Ministry 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), Articles 14 and 15] shall apply *mutatis mutandis* to the Financial Resolution Institution. [This Article Newly Inserted by Act No. 5492, Dec. 31, 1997]

**Article 36-5 (Business Scope of Financial Resolution Institutions)**

(1) Financial 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 Minister of the Ministry of Finance and Economy. <Amended by Act No. 5556, Sep. 16, 1998>
(2) An amount of deposits and other claims paid by a Financial 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 Financial Resolution Institutions in accordance with a decision by the Committee.
(4) The KDIC shall direct and supervise the business affairs of Financial Resolution Institutions as prescribed by the Presidential Decree. [This Article Newly Inserted by Act No. 5492, Dec. 31, 1997]
(5) The Governor of the Financial Supervisory Service, when deemed necessary, may request a Financial Resolution Institution to provide necessary data within a specific parameter, or mandate KDIC to perform an examination of the Financial Resolution Institution. <Newly Inserted on Jan. 21, 2000>

### Article 36-6 (Registration of Establishment and Announcement)

(1) The KDIC shall, when it establishes a Financial Resolution Institution pursuant to [Article36-3], register it with the court having jurisdiction over the location of the Financial Resolution Institution's main office.
(2) The KDIC shall, when it establishes a Financial 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 Financial Resolution Institution)**

(1) The business period of the Financial Resolution Institution shall be up to three years: Provided, That the business period may be extended up to one year upon approval from the Minister of the Ministry of Finance and Economy. <Amended by Act No. 5556, Sep. 16, 1998>
(2) The KDIC shall dissolve a Financial Resolution Institution upon approval from the Minister of the Ministry of Finance and Economy in case of a termination of business period of the Financial Resolution Institution, merger, or assignment or assumption of business between the Financial Resolution Institution and an insured financial institution or the acquisition of a Financial 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 Financial Resolution Institution is likely to damage the interest of depositors, it may dissolve the Financial Resolution Institution upon approval from the Minister of the Ministry of Finance and Economy. <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 Articles288, 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 Financial Resolution Institutions. <Amended by Act No. 5556, Sep. 16, 1998>

(2) In case there is any special provision in this Act with respect to Financial Resolution Institutions, 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 [Article37] 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; Jan. 21, 2000>

**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 a capital contribution or contribute to such failing financial institution or buy securities to be designated by the Minister of the Ministry of Finance and Economy in accordance with a decision by the Committee. <Amended by Act No. 5556, Sep. 16, 1998>

(2) The KDIC, when it is requested by the Financial Supervisory Commission pursuant to Article 12, Para 1 of the Act on Structural Improvement of the Financial Industry, or improvement of insolvent institution's financial structure is deemed necessary in the interest of preserving the protection of the depositors and the stability of the credit system, may make a capital contribution in the failed institution pursuant to the Commission's decision or purchase its equity pursuant to the Presidential Decree. <Amended on Jan. 21,

2000>

**Article 38-3 (Special Debenture Transfer)**

(3) In the case that KDIC and Financial Resolution Institutions (hereinafter referred to as "***agencies***") acquire obligations with specific obligees in the process of acquiring assets pursuant to the Subpara 1 below, agencies will be deemed to have met the confrontation requirements of Article 450 of the Civil Code that deals with the obligations with specific obligees by publicly announcing the acquirement in more than 2 (two) daily newspapers (at least one of the newspapers must have national distribution). However, debtors, guarantors, and other relevant parties may confront the agencies with respect to issues that occurred in relation to the applicable asset transferor prior to the announcement.

1. Assets KDIC acquired in the process of insurance claim payment pursuant to [Article 31 (1)], or fund contribution pursuant to [Article 38 (2)].
2. Assets KDIC acquired from a Financial Resolution Institution.
3. Assets a Financial Resolution Institution acquired in relation to business operations pursuant to [Article 36-5 (1)].

(2) In the case that the agencies make appropriate announcement pursuant to Para (1), they must retain and manage information regarding the acquired debentures, and make it available for review by relevant parties. The criteria and process of reviewing such information shall be set forth by the Financial Supervisory Commission. <Newly Inserted on Jan. 21, 2000>

**Article 39 (Special Case of Continuation of Business)**

Article 9 Para 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.

3. A person who divulges secrets is thereby in violation of [Article 17 (3)].
4. A person who either divulges, publicly announces, and/or uses the differences in weighted insurance premiums in his/her advertisement is thereby in violation of [Article 30 (2)]. <Newly Inserted on Jan. 21, 2000>

**Article 41 (Penal Provisions)**

A person who falls under the Subpara 1 below, shall be punished by an imprisonment for not more than 1 year, or by a fine not exceeding 5 million won.

3. A person who either fails to meet a request for the submission of materials or submits false materials pursuant to [Article 21 (1)] or latter part of [Article 21-2 (8)].
4. A person who refuses, obstructs, or avoids an investigation pursuant to [Article 21 (2)]. <Amended on Jan. 21, 2000>

**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 [Article 20] 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] or [Article 40 (2)] with respect to the business affairs of such insured financial institution, a fine corresponding to each Para of the two Articles shall be also imposed to such institution, in addition to punishment against offender. <Amended by Act No. 5492, Dec. 31, 1997: Jan. 21, 2000>

**Article 44 (Negligence Fine)**

(2) A person who violates the following Paras shall be punished by a negligence fine not exceeding 2 million won. <Amended by Act No. 5556, Sep. 16, 1998; Jan. 21, 2000>>
    3. A person in violation of [Articles 7, Articles 29 (2) and 33 (1)].
    4. A person who refuses, obstructs, or avoids an investigation pursuant to [Article 21 (2)],
(3) The Minister of the Ministry of Finance and Economy 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>
(4) A person who objects to the disposition of a negligence fine pursuant to Para (2) may file an objection with the Minister of the Ministry of Finance and Economy within thirty days from the date of receiving the notice of such disposition. <Amended by Act No. 5556, Sep. 16, 1998>
(5) When a person on whom a negligence fine is imposed pursuant to Para (2) files an objection pursuant to Para (3), the Minister of the Ministry of Finance and Economy 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>
(6) When no objection is filed and no negligence fine is paid within the period mentioned in Para (3), the Minister of the Ministry of Finance and Economy 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 Minister of the Ministry of Finance and Economy 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 the Ministry 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 Article 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 Minister of the Ministry of Finance and Economy 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, Para 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 [Article 2], 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 Union Act before the enforcement of this Act shall be contributions made to the Deposit Insurance Fund under 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 Unions paid to the Credit Unions Stabilization Fund under Article 83-22 of the Credit Union 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 Minister of the Ministry of Finance and Economy 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 Financial Resolution Institutions)**

(1) Financial institutions established with authorization from the Minister of the Ministry of Finance and Economy pursuant to Article 3 (1) of the Merchant Bank Act in order to carry out the resolution business of failed financial institutions at the time of the enforcement of this Act (hereinafter referred to as "***bridge financial institutions***") shall be deemed Financial Resolution Institutions established upon approval by the Minister of the Ministry of Finance and Economy 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 Financial 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 Financial Resolution Institution pursuant to this Act.

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

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

# III. 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 Para 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 Para 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 Para 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 Para 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 Minister of the Ministry of Finance and Economy approved the Articles of Incorporation of the KDIC.

(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, 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)**

In case the 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 in 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 Minister of the Ministry of Finance and Economy 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 subcommittee 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 Articles of Incorporation.
(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 Minister of the Ministry of Finance and Economy 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 ***"agencies"***) 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 Minister of the Ministry of Finance and Economy 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 Minister of the Ministry of Finance and Economy 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 Para 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 Para 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 Para 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 Minister of the Ministry of Finance and Economy 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 difficult 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 institution through the account of that type of insured financial institution 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 Minister of the Ministry of Finance and Economy:

1. Reasons for borrowing;
2. 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. Financial 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 the 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 [Article7 (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) The payment amount has been determined but not yet acted upon the decision;
   (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 depositors in advance 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, at least once, 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. 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 two daily newspapers including one daily newspaper published in the district in which their main offices are located.

**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 [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 [Article33-1] 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 Para 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 filling 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 Financial Resolution Institution to take over the business or contracts of failed financial institution (hereinafter referred to as ***"Financial 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 Financial Resolution Institutions)**

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

**Article 22 (Registration of Establishment of Financial Resolution Institutions)**

(1) The establishment *of a Financial Resolution Institution shall be registered* at the location of its main office within two weeks from the date of approval from the Minister of the Ministry of Finance and Economy.

(2) Matters to be registered for establishment by a Financial 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 Financial 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 Financial Resolution Institutions.

**Article 24 (Applicants for Registration of Financial 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 Financial 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 Minister of the Ministry of Finance and Economy 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 Minister of the Ministry of Finance and Economy 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 Minister of the Ministry of Finance and Economy 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.

**Article 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 that were 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 Para 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 of deposits of respective depositors is twenty million won or less, it should be the amount of the deposits and other claims pursuant to the amendment to [Article 18 (5)]. However, in the case that such aggregate amount exceeds twenty million won, the limit should be twenty million won.
2. In cases where the aggregate amount of deposits of respective depositors exceeds twenty million won, it should be the entire balance of such deposits. However, in case the deposits (maturity benefit amount) and other claims ***(See [Article 2 (4)] of the Act)*** are related to insurance companies and the sum of the two is smaller than the amount of deposits (sum of paid premiums) ***(See [Article 2 (2) (c)] of the Act)***, it should be the amount of the deposits and other claims.

   *** In general, the maturity benefit amount is less than the sum of premiums paid until maturity. Therefore, it is possible for "**deposits and other claims**[1]" to be smaller than "**deposit**[2]" for insurance companies.***

(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 Para 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 credit unions 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.

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

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# IV. Major 1999 Decisions rendered by the Management Committee

| Committee Type | No. of Session | No. of Issues | Issues |
|---|---|---|---|
| Management Committee | 9 | 19 | ○ 1998 (The 3rd Fiscal Year) account settlement<br>○ The 4th FY revised supplementary budget of KDIC<br>○ Application for national liability guarantee |
| Bank Subcommittee | 23 | 30 | ○ Deposit Insurance Fund Bond issuance<br>○ Equity participation in CHB, Peace, Kagnwon, and KFB<br>○ Additional contribution to the five acquirer banks |
| Securities Subcommittee | 3 | 3 | ○ Decision regarding the interest rate to be used in Calculation of insurance benefit payments<br>○ Deposit Insurance Fund Bond issuance |
| Life Insurance Subcommittee | 10 | 11 | ○ Deposit Insurance Fund Bond issuance<br>○ Equity participation in Korea, Kookmin, Taepyungyang, Duwon, Dong-ah, Chosun life insurance companies<br>○ Additional Contribution to the four Acquirer Insurance Companies |
| Casualty Insurance Subcommittee | 4 | 4 | ○ Deposit Insurance Fund Bond Issuance<br>○ Equity Participation in the Seoul Reinsurance Company |
| Merchant Bank Subcommittee | 5 | 6 | ○ Temporary Remand of Loans to Hanareom Merchant Bant and Loan Condition Changes<br>○ Decision to make insurance claim payments to the depositors of the Korea Merchant Bank |
| MSFC Subcommittee | 30 | 31 | ○ Content of financial support and pertinent conditions offered to the acquirer of the failed MSFCs via selective asset transfer<br>○ Financial support for Hanareom MSFC |

| | | | |
|---|---|---|---|
| Credit Union Subcommittee | 34 | 34 | ○ Decision to make deposit insurance benefit payment<br>○ Deposit Insurance Fund Bond issuance<br>○ Deferment of insurance premium remittance |
| TOTAL | 118 | 138 | |